Leading...

LG Chem Annual Report 2003

LG Chem

LG Chem has led the Korean chemical industry with

cutting-edge technology from constant R&D since founding LG Chemical Ltd. in 1947. The establishment of a holding company structure was completed in March 2003, enabling LG Chem to focus its respective competencies on core strategic business lines. The groundwork has thus been laid for increasing both corporate and shareholder value over the long term.

LG Chem's competitiveness is being strengthened by

offering leading solutions in three mainstay areas: chemicals & polymers, industrial materials and information & electronic materials-a strategic area being cultivated for the future. In 2003, the company continued to innovate and improve the financial structure to achieve a new growth surge. A progressive globalization program is in place to solidify LG Chem's leadership in the global arena. To this end, competitiveness is being improved and aggressive investment is being made to secure an early lead in the Chinese market, which represents huge growth potential.

BUSINESS DOMAIN

Chemicals & Polymers

- PVC & Plasticizers
- Acrylates
- PO
- ABS · PS
- Engineering Plastics
- Specialty Polymers

Industrial Materials

- Building Materials
- Decorative Materials
- Living Materials
- Automotive Materials

Information & Electronic Materials

- Batteries
- Optical Materials
- Imaging Materials
- Printed Circuit Materials

2003 FINANCIAL HIGHLIGHTS

KEY FIGURES

>> SALES	5,672	billion KRW
>> OPERATING INCOME	479	billion KRW
>> NET INCOME	362	billion KRW
>> TOTAL ASSETS	4,762	billion KRW
>> TOTAL LIABILITIES	2,947	billion KRW
>> TOTAL SHAREHOLDER'S EQUITY	1,815	billion KRW
>> EBITDA	751	billion KRW
>> CAPITAL EXPENDITURES	841	billion KRW
>> CAPEX/EBITDA	112	%

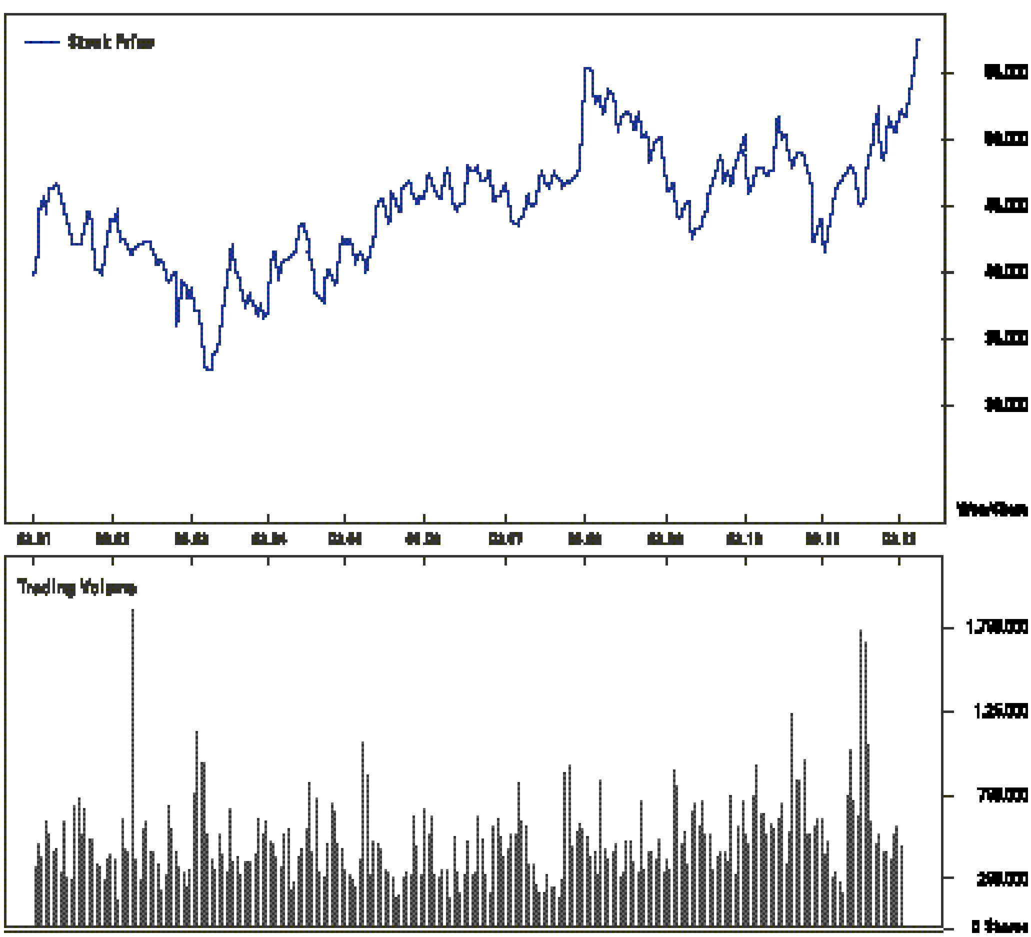
KEY PERFORMANCE INDICATORS

	2003	2002	2001*
Operating Margin	8.5%	9.5%	7.4%
Return on Equity	22.3%	25.3%	14.2%
Net Debt to Equity	95.5%	88.6%	124.2%
Number of Outstanding Common Shares	64,425,064	64,425,064	64,425,064
Earnings Per Share in Won	5,382	5,152	1,913
Year End Stock Price in Won	55,000	40,600	21,750

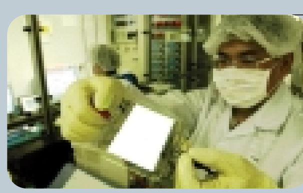
*Operating margin, return on equity, and earnings per share figures exclude Q1 results

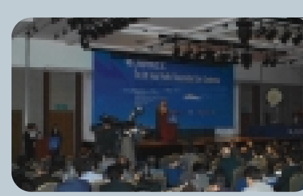
2003 STOCK PRICE PERFORMANCE

Graph charts the closing price and volume at the beginning and middle of each month



2003 OVERVIEW





4.8

MASS-PRODUCTION LINE FOR HIGHEST ENERGY-DENSITY LI-ION BATTERIES

LG Chem completed a new facility to mass-produce cylindrical 2,400mAh lithium-ion batteries-the highest energy-density now available. The development and mass production of this item has allowed the company to technologically outdo its Japanese rivals, the perennial leaders in the world market. At the same time, the company has been able to fend off the Chinese competition, which is working the low end of the market. As such, LG has secured its leadership position in the market for lithium-ion batteries used in notebook PCs.

6.27

LG CHEM-HONAM PETROCHEMICAL CONSORTIUM ACQUIRES HYUNDAI PETROCHEMICAL

The consortium of LG Chem and Honam Petrochemical Corp. completed their takeover of Hyundai Petrochemical in the largest merger ever among Asian petrochemical companies. The move is expected to greatly boost the competitiveness of the Korean petrochemical industry as a whole.

7.2

POLARIZER PRODUCTION IN NANJING

LG Chem established a local subsidiary in the Nanjing Economic Development Zone in China to produce polarizers for TFT-LCDs. This operation will bolster corporate competencies in information & electronic materials, a business segment with strong growth potential.

By 2004, a total of US$15 million will have been invested to build a plant capable of turning out 4 million square meters (14 million finished units) of this polarizing film a year. Initial startup is scheduled for early 2004, and additional investment will be made to complete a full processing line by 2006, accelerating LG Chem's advance into the Chinese market.

7.28

CHINESE PVC CAPACITY EXPANSION BOOSTS LG CHEM TO 6TH IN THE WORLD

Tianjin LG Dagu Chemical Co., an LG Chem subsidiary in China, held a ceremony to dedicate new facilities that have boosted annual PVC production capacity from 240,000 to 340,000 tons. The company also can produce 790,000 tons of PVC a year in Korea, which means total annual output tonnage is 1.13 million, the world's sixth largest PVC operation.

8.8

MID-/LONG-TERM SALES TARGET SET AT W15 TRILLION

LG Chem announced a target of 13% operating profit margin on annual sales of W15 trillion by 2008. Achieving this goal would make LG one of the world's Top Three chemical companies in terms of profitability and among the Top Three Asian chemical makers for sales revenue and shareholder value.

To achieve this target, the company will increase investment in the information & electronic materials segment, increasing its portion in overall business portfolio from the current 8% to 28% by 2008. At the same time, LG Chem will seek out new opportunities in the US and China for petrochemicals and industrial materials.

9.3

CONSTRUCTION MATERIALS SHOWCASE OPENED IN CHINA

LG Chem is taking aim at the Chinese construction materials market by becoming Korea's first to open a showroom for this product segment in China. The company is also aggressively moving into remodeling and interior decoration to get in on the ground floor of a fast-growing business opportunity.

9.18

CORE MATERIALS FOR OLED DEVELOPED

LG Chem has completed development of the hole-injection layer and electron-transporting layer for the organic light emitting diode (OLED), a display technology for the next-generation digital device. Production lines are furnished for these next-generation core materials. The Company expects the mass-production of the hole-transporting layer and emitting layer by 2004. LG intends to capture at least 50% of the world OLED materials market thereafter.

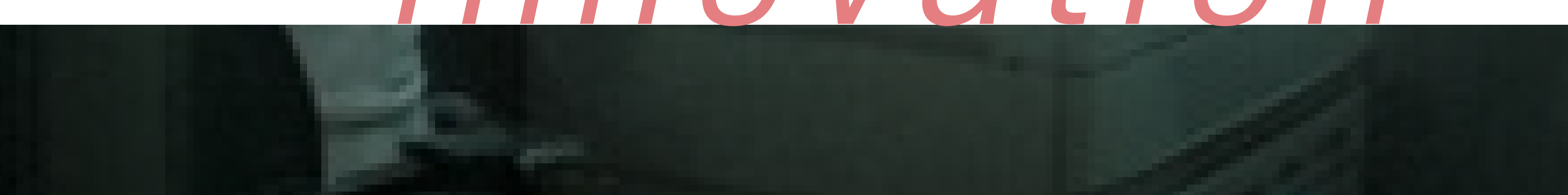
11.5

8TH APRCC HELD IN SEOUL

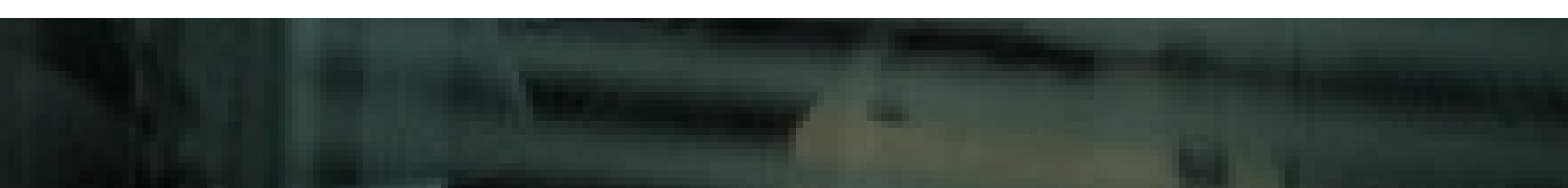
Korea hosted the 2003 Asia-Pacific Responsible Care Conference, attended by over 500 persons from the chemical industry in 12 American, Asian and European countries. Responsible Care (RC) is the voluntary establishment of and adherence to policies within the chemical industry that address safety and environmental issues regarding the development, production, sale, distribution and disposal of chemical products. LG Chem President Ki-ho No, who also serves as Chairman of the Korea Responsible Care Council, is fully committed to the RC program.

2003

continuous
innovation



Chemicals are a special right bestowed on humankind, for they can improve the quality of life, and LG Chem is proud of and obligated to its mission of making life more enjoyable. Improving overall operations involves both technology and product innovations that will ultimately benefit society.
LG Chem is constantly improving the way it does business so that customers can always look forward to a better tomorrow.



To Our Shareholders Clients and Friends

The war in Iraq, SARS outbreak in Asia and contracted consumption in Korea from soaring household debt were all unforeseen factors adversely affecting business in 2003. As a result, the long-awaited Korean economic recovery did not materialize.

In response, everyone at LG Chem focused on crisis management, implementing various emergency measures from early in the year.

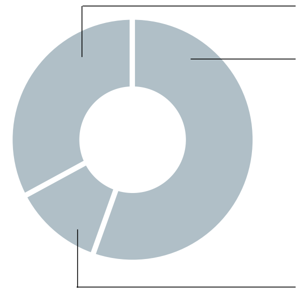
Our collective efforts paid off as sales revenue grew 10.9% year on year to exceed ₩5.67 trillion.

Ordinary income reached ₩482.8 billion last year, slightly higher than the figure for the year before.

Ki-Ho No

President & CEO

> > **2003 SALES BY BUSINESS UNITS**



By unit, Information & Electronic Materials achieved ₩699.1 billion in sales and ₩77.9 billion in ordinary income.
Chemicals & Polymers managed to secure the top share of the Chinese PVC and ABS markets in 2003.

PERFORMING WELL ACROSS THE BOARD

By unit, Information & Electronic Materials achieved ₩699.1 billion in sales and ₩77.9 billion in ordinary income. We have been intently growing this strategic business segment for the future, and our performance last year was remarkable considering the operation first went into the black in 2002.

Our monthly battery production capability, meanwhile, was expanded more than fourfold, from 4.3 million cells to 18 million cells. Last May, we became the world's first to begin mass-producing cylindrical batteries with a 2,400mAh capacity, greatly expanding our customer base.

We have improved our competitiveness in polarizers by introducing unique innovations that minimize light leakage and improve brightness.

Construction of Ochang Techno Park (North Chungcheong Province) is right on schedule, and the dedication is set for the end of March 2004. By the end of 2004, the plant will be capable of producing 12 million rechargeable battery cells a month and 40 million polarizer sets for TFT-LCDs a year.

The Ochang Techno Park will ultimately be developed into a world-class facility that also produces materials for next-generation displays and fuel cells.

Chemicals & Polymers managed to secure the top share of the Chinese PVC and ABS markets in 2003. Annual output at LG Chem's PVC production subsidiary in Tianjin was expanded from 240,000 tons to 340,000 tons last year. Sales of specialty products in the company's ABS portfolio also increased in China, and a local Technical Service Center was established to improve responsiveness to customers' needs.

In Korea, meanwhile, LG Chem and Honam Petrochemical Corp. formed a consortium to take over Hyundai Petrochemical, bolstering competitiveness.

The Industrial Materials Business Unit maintained its domestic market dominance by introducing distinctive new products such as specialty window frames for high-rise buildings, curtain walls, and environment-friendly floor coverings. Overseas, efforts were directed at expanding into high-growth markets such as the US and China, focusing mainly on artificial marble, window frames & doors, and surface materials.

A new plant for doors and window frames started up operation in Tianjin, China in March 2003. We are also building an artificial marble plant in the US state of

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Our R&D people are working more closely with customers and we are continuing to promote technical cooperation among industries. Our consistent goal is to introduce distinctive new products before anyone else does. We are also securing new technology ahead of the competition to establish a platform for future growth.

Georgia to increase our presence in that strategic market.

LOOKING OVERSEAS FOR THE FUTURE

The global economy is steadily improving, but the Korean economy has not shown signs of a turnaround. Therefore, we do not consider overall prospects are very bright in the coming year.

The domestic construction market will continue to be sluggish. Moreover, Korean consumer electronics and automobile makers are accelerating their offshore exodus, and prospects for the Korean market are murkier than ever.

Faced with the challenges at home and abroad, we at LG Chem are determined to secure the fundamental competitiveness for profitability under any economic circumstance. To this end, we aim to achieve the following three objectives in 2004:

First, we will upgrade our product portfolio. The market today is characterized by diverse tastes and high customer expectations. Given these conditions, corporate survival can only be assured by offering products with unrivaled quality and functions.

Our R&D people are working more closely with customers and we are continuing to promote technical cooperation among industries. Our consistent goal is to introduce distinctive new products before anyone else does.

We are also securing new technology ahead of the competition to establish a platform for future growth. At the same time, we are constantly seeking out new business areas with high growth potential.

Our second task in 2004 is to promote a sound globalization program, which today is not a matter of choice but one of necessity. The bulk of our future revenue growth must be secured in strategic overseas markets. In particular, we will focus our resources on developing the China business, with its tremendous growth potential.

Our mid-term annual sales target in China is US$5 billion by 2008. This will be tantamount to establishing a second "home market."

We will achieve this ambitious goal by strengthening our business structure as well as building new production and sales operations in the most important overseas markets. Early in 2004, our new China Regional Headquarters opens in Beijing to play a pivotal role in our complete localization of China operations.

Our mid-term annual sales target in China is US$5 billion by 2008.
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The Chemicals & Polymers Business Unit is entering vinyl chloride monomer/ethylene dichloride (VCM/EDC) and styrene butadiene latex (SBL) production, expanding a vertically integrated system to ensure stable supplies of base materials. At the same time, we will have a sounder foundation for overall operations.

We will also accelerating our globalization effort. Selected Korean employees are being cultivated into regional market specialists, while our overseas operations are hiring more people locally.

Finally, we are promoting innovation company-wide. The company has been greatly transformed in recent years, but our global rivals are also changing fast. LG Chem will not be able to stay in front of them without speeding up the transformation process even more.

Therefore, all LG Chem employees will set their sights even higher for the coming year as we promote a more competitive organizational culture. Constant innovation and improvement will be integral parts of every operation, as we expand the Six Sigma program at all organizational levels and in all organizational units, including sales, R&D and administrative support.

Besides our three core tasks, we are also building a newly integrated risk management system to better cope with today's uncertain business environment.

Our performance goals for the coming year have been set at a record ₩6.27 trillion in sales and ₩690 billion in ordinary income. Our employees are taking on the challenges with renewed determination and enthusiasm, as we remain committed to meeting or exceeding the expectations of you, the shareholders.

I thank you all for your support in 2003 and pledge we will do our best for you in the year ahead. May you and your families enjoy a healthy and happy 2004.

Ki-Ho No
President & CEO

TO BE GLOBAL LEADER

The Vision at LG Chem_ On April 1, 2001, LG Chem was repositioned to focus solely on chemicals, with the spin-off of LG Chem Investment (currently LG Corp & LG Life Sciences) and LG Household & Healthcare. Ki-Ho No was newly appointed to serve as CEO and fundamentally new approaches were adopted. For example, the Corporate Operating Committee (COC) has become the most important decision-making body.

Today, LG Chem is embracing a new vision that defines all operational plans and strategies, and the corporate culture as well. This vision will be the impetus for taking LG Chem to the top of the global ranks.

THE LG CHEM VISION IS:

"To be a global leader, exceeding customer expectations through advanced technologies and innovative solutions, and earning the trust of stakeholders."

To achieve global leadership, the company will:

__ have the best people, who operate according to world standards

__ lead globally in businesses with high future growth potential

__ deliver superior value to diverse domestic and overseas investors

By "advanced technologies and innovative solutions" the company means:

__ continuously innovating to develop and deliver advanced technologies and materials as well as superior solutions

__ delivering value to customers by anticipating their needs and exceeding their expectations

To earn stakeholder trust, LG Chem will

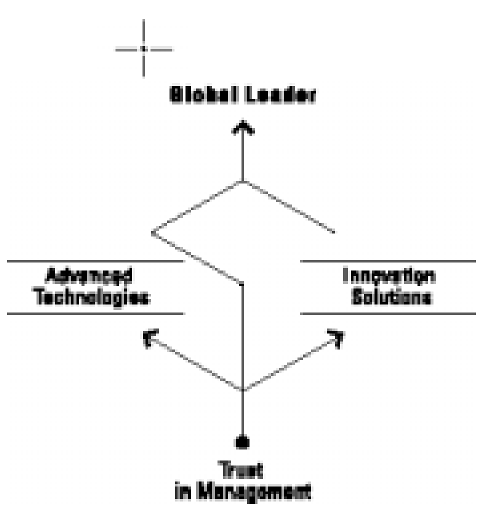
__ operate with credibility and transparency to be the preferred partner for customers, shareholders and employees alike

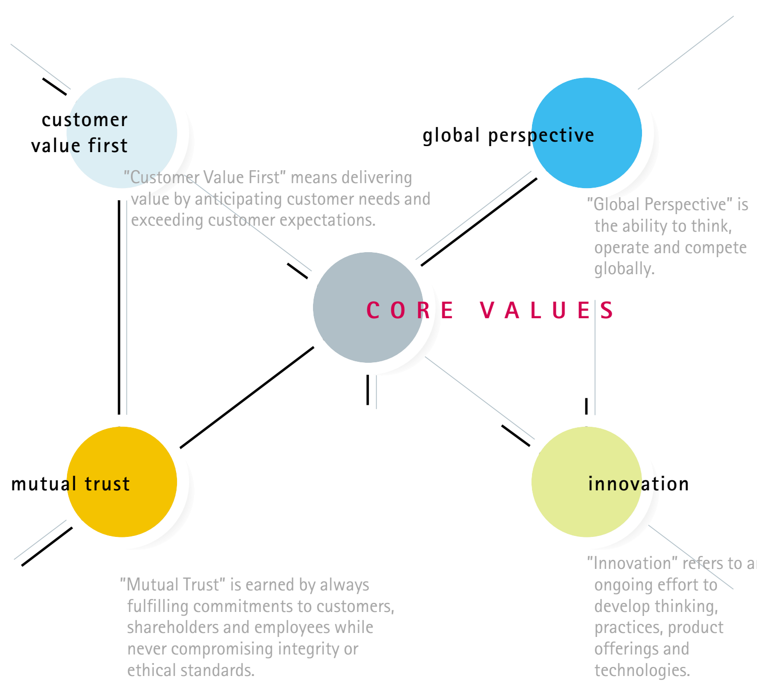
__ respect employees and provide them with an exciting workplace for personal growth and accomplishment

CORE VALUES

LG Chem management believes corporate transformation can be achieved when all employees share the same core values and act accordingly. Therefore, the company's four main values have been defined as Customer Value First, Innovation, Mutual Trust, and Global Perspective.

VISION





NO.1 LG & MID-/LONG-TERM OBJECTIVES

In addition to the established corporate vision, "No.1 LG" has become a new yardstick for measuring performance. This concept refers to building upon a corporate culture of openness and leadership to become one of the world's best through resolute determination and the will to win. The initial goal is to be one of Asia's three foremost chemical companies, while joining the Global Top Three will be the long-term aim.

Factors determining "No.1 LG" status include market-recognized value at the subsidiary level. In other words, value is measured in market prices. Market dominance, the indicator of market leadership for each division, is the way to assess the degree to which "No.1 LG" has been achieved. This "No.1 LG" can be seen as an extension of the corporate vision.

Effort must be exerted simultaneously on three fronts for "No.1 LG" to become a reality.

First, targets for being the best must be set and strategies must be implemented continuously to reach these targets. To make this happen, the company will undertake bold restructuring, acquire other companies, invest aggressively in R&D and provide exceptional compensation packages to employees. Market leading product lines will be sought out and cultivated, and globalization will be steadily pursued, focusing on these market-leading products. The company must also engage in Six Sigma activities to take productivity and efficiency to the next level.

Second, first-rate people are required to cultivate market leading business lines. These are people who are passionate about being the best and who can exhibit the necessary talent to achieve the desired results. In return, they are to receive compensation commensurate with their contributions.

Third, a "No.1" corporate culture must be developed as the platform for a "No.1 LG." This means a "trustworthy corporate culture," where employees resolutely adhere to the basics and principles, and organizational members share information transparently. It has to be an "open corporate culture" that empowers people at all organizational levels to make decisions freely and maintains a constant communication flow centered on the field. The company must also foster a "performance-oriented corporate culture" that offers all employees equal opportunities, thoroughly assesses individual results and offers compensation accordingly.

To be the best in the business, LG Chem aims to achieve an operating profit margin of 12.5% on annual sales of ₩15 trillion by 2008.

OPERATIONAL STRATEGY

LG Chem will expand investment in information and electronic materials as well as new business lines for the future. In 2003, total sales by division broke down as for chemicals & polymers, 55%; industrial materials, 33%; and information & electronic materials, 12%. The projected portfolio in 2008 will be 43% for chemicals & polymers, 29% for industrial materials, 25% for information & electronic materials and 3% for new product lines. This target will be achieved by taking the following steps:

The Chemicals & Polymers Business Unit will pursue a strategy of integration and economy of scale. PVC and ABS sales will be increased by focusing on the vast Chinese market with tremendous potential for further growth.

The Industrial Materials Business Unit will strengthen marketing and R&D capabilities, concentrating heavily on developing distinctive new products and value-added items.

On the other hand, the Information & Electronic Materials Business Unit will strive to be first in the industry to introduce the latest product concepts. To cultivate new business lines, IT materials know-how will be applied more vigorously among business units and alliances will be formed with outside companies.

Importantly, LG Chem will develop six globally competitive product lines into world market leaders-polarizers, ABS, artificial marble, rechargeable batteries, surface materials and PVC. To be "top-tier," a business must rank among the Global Top Three in terms of both market share and profitability.

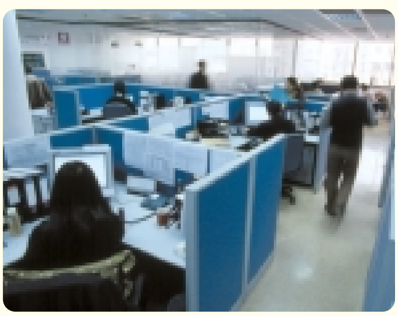
LG Chem's polarizers, ABS and artificial marble lines already rank among the top three in world market share. By 2008, the company aims to hold either the highest or second highest share of the world market for all six product lines mentioned above. Annual sales from these market-leading lines are expected to reach ₩6.1 trillion, or 40% of total sales, by 2008.

MEETING CORPORATE OBLIGATIONS TO SOCIETY

In 2002, LG Chem adopted Responsible Care (RC), a voluntary initiative promoting environmental protection and safety within the global chemical industry. The program addresses all areas of operation and is committed to a continuing effort to improve the responsible management of chemicals. The program results and goals are reported to the public to help educate people on safety within the chemical industry. As a result, the industry image is enhanced.

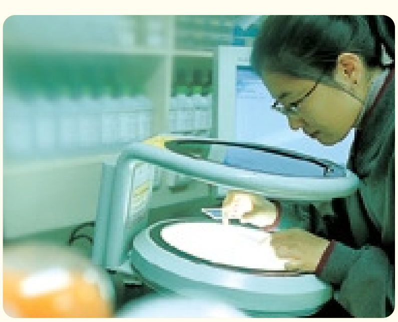
In other words, RC is not only concerned about human health and lives; it is a pledge to customers and society as a whole. LG Chem's involvement in RC marks a change in direction for the company. Addressing environmental protection and safety issues is no longer solely the responsibility of selected organizational units. Rather, all organizational members participate in the effort to improve the company's environmental track record.

Constant Transformation & Innovation to the Top



CORPORATE CULTURE TRANSFORMATION

Transforming the organizational culture is the most important aspect of managerial improvement. Barriers within the organization must be brought down, while communication and decision-making among organizational members needs to be smooth and effective. LG Chem is opening up the organizational structure to ensure communication is constantly centered on where the work is actually performed and flows freely among all organizational levels. No innovation is possible without empowerment, and people are the key to getting things accomplished. People can grow within an open organizational culture, and LG Chem continues to upgrade the organizational culture to cultivate employees and ultimately accomplish managerial innovation.



PRODUCT INNOVATION

LG Chem engages in ongoing innovation activities to offer a full range of world-class products that surpass individual customer requirements and are highly profitable for the company. Here, "world-class" means products that provide customers with value found nowhere else, earn a premium for LG Chem, and enable LG to dominate either globally or within certain target markets.

LG Chem has managed to increase its number of "world-class" products from 28 in 2000 to 45 in 2003, thanks to closely coordinated R&D activities between LG Chem and its customers as well as ongoing innovation internally. "World-class" products now account for 34% of total sales, and the company aims to have 53 items in the "world-class" category, collectively representing 41% of total sales, by 2005.

With customer needs the top priority, LG Chem will be first to come out with distinctive product offerings by innovation to technological capabilities and services. This approach will deliver value far beyond customer expectations.

LG Chem is resolutely pursuing operational innovation and improvement, essential for being competitive in today's globalized and digitalized world.
To become a global leader, the company is innovating technology while raising productivity, lowering costs and creating new value-added products and services.
The corporate goal is to offer customers services that exceed expectations.

PROCESS INNOVATION THROUGH SIX SIGMA

In 1999 the Six Sigma was implemented as part of overall operational reform. In the first phase, the Six Sigma initiatives were practiced in conjunction with the Total Productivity Management (TPM), an innovative effort directed at on-site operations, further enhancing competitiveness and productivity.

Near the end of 2002, the second-phase Six Sigma initiatives were introduced in all work processes across LG Chem to improve transactional Quality (TQ) and R&D activities. In the second-phase implementation, Six Sigma initiatives were more than doubled over the previous year, including 240 Black Belts, 100 Master Green Belts, and 360 Green Belts Projects. These generated nearly ₩140 billion worth in 2003. LG Chem also linked the Six Sigma initiatives with SKILL, a problem-solving method, boosting higher efficiency in R&D and other aspects of the company work processes.

In 2004, LG Chem emphasizes integrating innovation activities and the Six Sigma initiatives into daily work routines for the entire workforce. Initiatives implemented to date include, 213 Black Belts and 15 Master Black Belts, which have demonstrated tangible results. The company intends to add 400 Black Belt projects in 2005. In addition, the company will certify qualified Six Sigma achievers from production operations, while placing highly capable personnel in sales and administrative support.

In 2005, the third year of the second phase of the Six Sigma drive, LG Chem expects all employees to acquire Green Belt certifications, in addition to driving 40 Master Black Belts and 400 Black Belts. A total of 600 Black Belt projects involving 30% of the entire workforce are set to generate W180 billion, which will be added to ₩800 billion in revenue estimated in 2005.

Staying on the Cutting-edge and Realizing Future Ambitions

Jong-Kee Yeo
President & CTO,
President of LG Chem Research Park

Technology convergence is accelerating with each passing day, and competition continues to grow more severe, increasing uncertainty in the market and raising technology barriers. LG Chem first got into information & electronic materials through in-house R&D and now this segment has been cultivated into a mainstay business. To stop research means to go backwards, but we must accelerate our advance. We are developing core technologies that will set us apart and are bolstering our product competitiveness. These core competencies will allow us to also develop new business lines to serve as new growth engines.

To this end, we are first focusing of furthering our capabilities in information & electronic materials to go beyond simply satisfying customers. Our goal is to play a key role in transforming the products our customers use.

We are developing new applications for chemicals & polymers. At the same time sophisticated IT tools such as computer simulations are being used to develop processes that can greatly improve profitability.

Moving to industrial materials, new technologies are being integrated applied to develop new-concept items that boost profitability in the Korean market. We are also seeking out new breakthroughs that will allow us to globalize this product line.

New businesses that will mainly drive future growth include next-generation displays, environmental protection and energy. We will accelerate our progress in these areas in the coming year by stepping up R&D and forming new alliances with global partners.

Constant innovation and strong execution in R&D will fuel our effort to develop truly "world-class" products that rend existing items obsolete.

2003 RESULTS

The 2001 breakup of LG Chemical set LG Chem on a new course, and the company has increased research spending over 20% annually since then. Development of core technologies indicates how the company intends to upgrade product lines and overall business structure. In 2003, rechargeable batteries and polarizers have laid a solid foundation for a thriving information & electronic materials business. New items have been steadily introduced in the chemicals & polymers and industrial materials areas as well. As a result, sales of new items developed in-house have accounted for 30% of total sales.

For example, LG Chem has exclusively developed basic technology to make materials for OLED, a future business with strong potential. The company is now in a position to develop new OLED materials in Korea for the first time, diminishing domestic reliance on imports.

LG Chem introduced the world to the first cylindrical 2,400mAh rechargeable battery, seizing a competitive edge in the global market.

Research in chemicals & polymers have led to multiple applications of new catalysts and processes that elevated the quality and price competitiveness of the company's mainstay products. At the same time, R&D continued to create new specialty products. The company-developed environment-friendly plasticizers produce downstream products that can satisfy increasingly stringent environmental regulations worldwide.

R&D for industrial materials is aimed at introducing new-concept products that can stand out in the highly competitive domestic and international markets. Heatix, a dry air indoor heating system, is garnering favorable attention for its high quality and easy installation. In addition, newly developed finishing materials for the construction and interior design industries reduce or eliminate harmful elements in the indoor environment.

THE ROAD AHEAD

The market is characterized by accelerated new technology development and convergence, and speed is now an essential factor for success. LG Chem is now focused on speeding up progress on the following three levels to be a global leader in an uncertain future:

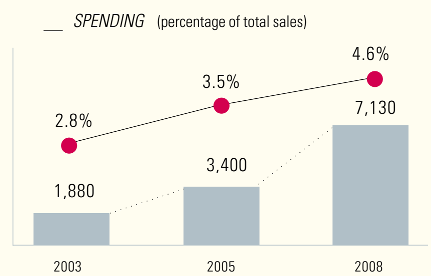
First, technology development will not only allow the company to enter markets with high growth potential but hasten the creation of new emerging markets. For example, LG Chem will devote tremendous efforts to achieve tangible results in future growth engines such as organic microelectronics, environmental protection and energy.

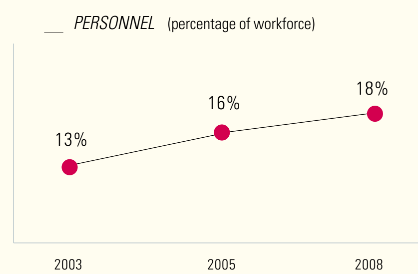
Second, distinctive new products developed with core technologies will let the company be first to break into areas with great growth potential but will soon be hotly contested. To this end, organic synthesis catalysts, processes, adhesives, coatings, computer modeling & simulation, analysis, and other essential technologies owned by the company are being upgraded and applied. At the same time, strategic alliances are being formed for joint research that will quicken development of new high-performance items.

Third, the price and quality competitiveness of items in mature markets will be raised faster than ever before. This is being done by applying new processes and catalysts as well as using IT tools to improve productivity.

These steps will make R&D a robust growth engine allowing the company to achieve its vision for innovation.

>> R&D INVESTMENT





Research Facilities	Key Research & Development Areas	Location
Corporate R&D	• Core Technology Platforms (Catalysis, Process, Analysis, Modeling & Simulation, Adhesive, Coating) • New Business (Semiconductor materials, Organic microelectronics, Optical materials, Functional materials, etc)	Daedeok
Battery Research Institute	High-performance Lithium ion batteries (LiLB, LiPB)	Daedeok
Battery Tech Center	Lithium ion batteries Development & Spec-in	Daedeok, Ochang, Seoul
Information & Electronic Materials Research Institute	Optical materials for displays, PCB materials, Digital Imaging materials, Phosphors, Color photoresists for LCD	Daedeok
Industrial Materials Research Institute	High-performance industrial materials, Decorative materials, Industrial Films	Cheongju, Daedeok
Petrochemical Product & Process Research Institute	Specialty chemicals, Polymers, Acrylates	Yeosu, Naju, Daedeok
Polyolefin Research Institute	Polyolefin resins, metallocene catalyst	Daedeok, Daesan
Performance Polymers Research Institute	High-performance ABS & ASA, functional latex resins	Yeosu, Daedeok
Technology Intelligence Center	Intellectual property, technology intelligence, and IT services	Daedeok
Maryland Satellite Lab	Polymer processing Modeling	Maryland, USA
Compact Power Inc.	Electric vehicle lithium battery module	Colorado, USA

A Commitment to Constant Improvement

Responsible Care®

LG Chem operations are based on value creation for customers and respect for all people; therefore, environmental preservation is a major concern. Every effort is made to minimize the environmental impact of all operations and products so people benefit while nature is preserved. LG Chem has pledged to work constantly at reducing pollution emissions to zero, setting mid-/long-term reduction targets. A five-year plan is also in place for lowering energy consumption, and a company-wide energy conservation drive is in force.

In 2001, LG Chem adopted Responsible Care, a voluntary initiative being promoted to improve the environmental, health, and safety records of the global chemical industry. This program reflects the corporate priority placed on people and nature. A corporate-level RC Committee has been formed to implement programs throughout the organization, expanding upon existing environmental and safety systems.

ENVIRONMENTAL COST & INVESTMENT

LG Chem carefully assesses the costs of environmental protection, providing data to assist overall decision-making, and the data are disclosed to all interested parties. Environmental investment efficiency is assessed and enhanced, while production costs are calculated with precision and the company's environment-friendly image is improved.

In 2003, ₩60.7 billion was invested and spent to clean up production and upgrade pollution prevention facilities. This outlay breaks down as ₩17.8 billion earmarked for air quality, ₩9.7 billion for water quality, ₩4.8 million for solid waste and ₩1.4 billion for other areas such as noise & vibration, and soil.

ENVIRONMENTAL MANAGEMENT

Air Quality Control

Air pollution is being decreased by calculating the effects of new or expanded operations prior to actual installation. At the same time, pollution control systems are inspected regularly and emission levels monitored. Emissions are also being minimized by switching over to cleaner-burning fuels, upgrading processes, and improving the efficiency of air pollution control systems.

Water Quality Control

The company is constantly improving processes and finding ways to increase wastewater reuse. Wastewater and final sewage treatment plant influent is kept within permissible pollutant concentration levels, while it is treated to in-house control standards (at least 50% below the government's permissible effluent levels) prior to final release into the environment.

In 2003, the company generated 5,768 kilotons of wastewater, of which 494 kilotons (8.6%) were reclaimed and 5,274 kilotons were released.

Solid Waste Control

Each LG Chem division must account for the solid waste it generates, while reduction targets are established each year. The company generated 113,774 tons of solid waste in 2003, most of which was sludge from wastewater treatment or waste synthetic resin. Of this total, 87,448 tons (77%) were recycled and the remaining 26,326 tons were treated.

Energy Management

Energy conservation is a priority for ensuring smooth operation regardless of changing energy availability inside and outside Korea. An action plan established in 2000 mandates company energy requirements be lowered 21% by 2005, and all employees are working to accomplish this goal.

Toxic Chemical Control

LG Chem operates a strict control system for storage, use and disposal of toxic substances used in base materials and intermediates. Documents are compiled on toxic substance safety measures, and persons responsible for their handling receive thorough training. A toxic substance management system is also in place to prevent accidents.

The usage of hazardous substances is reduced each year by developing alternatives. For example, the lithium-ion and polymer rechargeable batteries made by LG Chem do not contain heavy metals, and they use environment-friendly polymer electrolytes. The batteries have been very popular with customers.

Soil Quality Control

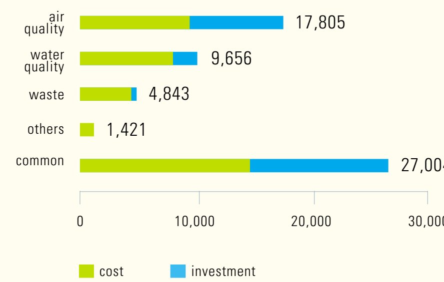
LG Chem uses a complete management system starting from building a soil contaminating facility to closing-down of the facilities in order to prevent soil pollution.

When constructing a soil contaminating facility, we conduct full consultation with concerned departments according to the internal regulations on soil pollution management. We treat the facilities with concrete pavement and water-proof to prevent any leakage from permeating into the ground.

Also, we install them with outflow prevention walls to block the spread of leakage. We regularly check on the facilities and survey soil pollution.

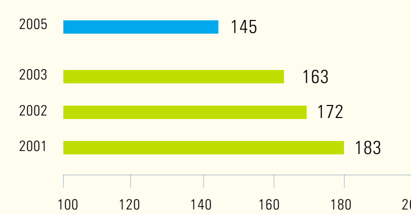
>> **ENVIRONMENTAL COST & INVESTMENT**

(unit: milion won/year)

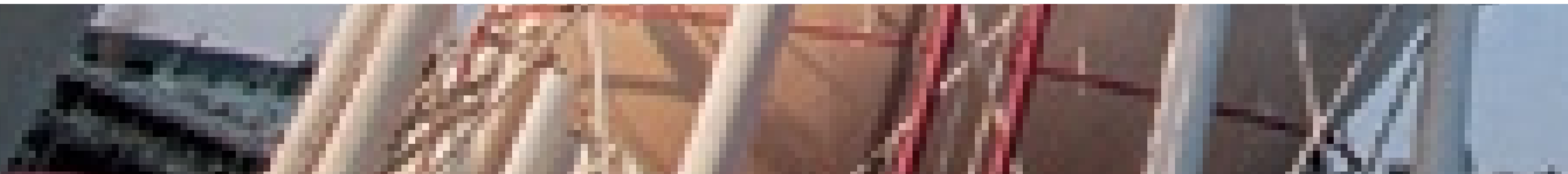


>> **ENERGY CONSUMPTION REDUCTION**

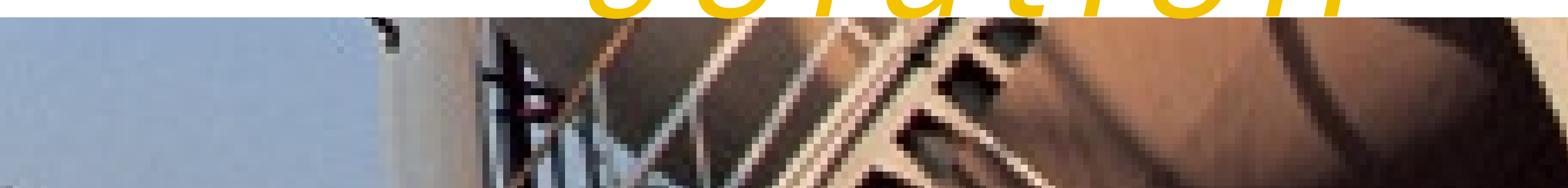
(unit: kgoe/product-ton)



LG Chem offers distinctive, comprehensive solutions that extend beyond production and supply, addressing all customer issues and delivering value exceeding customer expectations. Customers get everything they need at the time and place they need it.



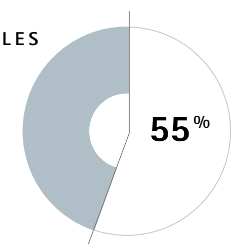
leading solution >



RESTRUCTURING TO PROVIDE GREATER SYNERGY AND UNIQUE SOLUTIONS

Extensive experience and R&D capabilities have earned LG Chem a reputation for excellence as a world market leader. The company supplies PVC, polyethylene, acrylates, plasticizers and alcohols; runs the world's third-largest ABS production operation and boasts superb compounding technology and development know-how for engineering plastics and specialty resins. Importantly, chemical and polymer customers can receive total solutions from LG Chem.
The newly restructured Chemicals & Polymers Business Unit is selectively focusing resources from the global perspective. This approach has boosted global competitiveness and allows the company to offer customers total solutions. This year, new operations will be established in China to firmly establish global presence.

>> PORTION OF TOTAL SALES



We experienced a more difficult business environment in 2003 than during the Asian financial crisis of 1997-8. Yet we prepared for the future, restructuring more in 2003 than in any year since our foundation and laying the groundwork for global leadership.
For example, we acquired Hyundai Petrochemical and solidified out position in the petrochemicals business. Our petrochemicals and performance polymers units were merged to boost the synergy effect. A regional headquarters was also established in China to integrate marketing operations and increase synergy.
The Chemicals & Polymers Business Unit will focus on profitability in 2004. Our future course of action will be aimed at stable, consistent growth.

Churl-Ho Yoo
President
Chemicals & Polymers Company

3,200 billion won

(sales in 2004)

The Chemicals & Polymers Business Unit recorded a 10.5% year-on-year increase in sales in 2003. This growth was not as high as in most years but still considerable given the adverse business conditions at home and abroad.

THE YEAR IN REVIEW

The Korean economy was lackluster in 2003. Factors adding to the adverse conditions were the war in Iraq, SARS in Asia, and continued unrest over the nuclear weapons issue in North Korea. Profitability was further eroded by escalating prices of major feedstock such as ethylene, butadiene, styrene monomer, ethylene dichloride (EDC), and vinyl chloride monomer (VCM), worsening an already dismal business climate from the prior year. However, a gradual increase in demand, economic recovery in the US, and Japan's business stimulus plans provided a favorable turn in the second half. A price increase for PVC and ABS sold in China will add to that favorable stimulus and improve the company's financial position at year's end.

The petrochemical sales in the first quarter performed considerably better than in the previous quarter. The outbreak of the Iraq War had caused oil prices to fall, which depressed prices of petrochemical products and buyers began to consume inventories instead of purchasing new products. Then, the spread of SARS caused demand to plummet and furthered buyers' reluctance to replenish their stocks. Therefore, the second quarter performance was the lowest of the entire year for the Chemicals & Polymers Business Unit at LG Chem.

VCM availability worsened in Asia in the wake of troubles at the VCM Malaysia plant (annual output of 400,000 tons) and higher prices for EDC, driven by natural gas price hikes in North America. PVC, a mainstay product, suffered extremely negative market conditions. However, the situation was overcome after a strategic alliance with Oxychem was formed for long-term EDC supply and a long-term VCM supply agreement was concluded. These efforts, coupled with a turnaround in PVC demand from the second quarter and a wider PVC-EDC spread resulted in major improvement from the third quarter.

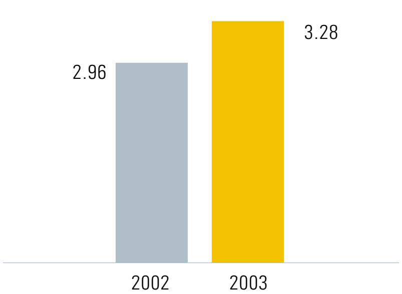
Meanwhile, ABS profitability plunged as prices for ethylene and benzene rose sharply on a weakening styrene monomer market in April. However, the losses were minimized by increased demand after the SARS epidemic subsided and by the company's effort to increase sales prices.

The overall market recovered from the third quarter, once the Iraq War and SARS outbreak were over. General economic recovery in the US and Japan, led by the IT sector and other high-tech industries in the second half, caused a turnaround in the petrochemical industry as well.

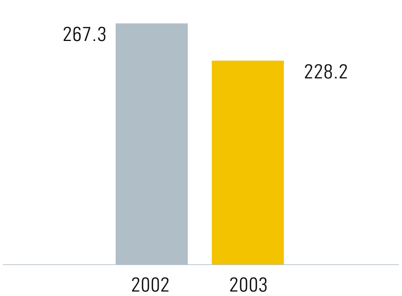
In addition, new investment in petrochemical plants was sluggish with delays in Middle Eastern plant construction, and several outdated production facilities in North America were decommissioned, helping to balance demand with supply. Efforts to raise sales prices and improve the spread also contributed to 10.9% higher sales in 2003 than the figure for the previous year. On the other hand, soaring prices for feedstock have lowered profitability, and operating income totaled only ₩228.2 billion, lower than in 2002.

>> KEY FINANCIALS

SALES (in trillions of won)



OPERATING INCOME (in billions of won)



THE YEAR AHEAD

The world economy is expected to go into full-scale recovery, while the Korean business climate is forecasted to turn around in the second half. The stronger economic activity should invigorate the petrochemical market, and sales of major petrochemical products are likely to keep growing fast in China. As a result, industry watchers say the market in 2004 will outperform that of the previous year.

The global petrochemical industry has entered a growth phase since the end of 2003 as the world economy picks up. Even the Korean economy appears to have bottomed out and is beginning to rebound. Demand is rising on the solid growth in Asia generally, and China and India in particular. On the other hand, growth in supply capacity has tapered off, which is helping to improve the supply-demand balance.

These developments have led analysts to predict an overall price increase for petrochemical products. PVC, a mainstay product for the Chemicals and Polymers Business Unit, and operational problems at the US PVC and VCM plants in general will drive up international prices. Prices for benzene, styrene monomer, and other ABS feedstock will continue to rise. The increasing demand from the electric/electronics, and automobile sectors, and the tight supply situation in China will push ABS prices to rise which in turn will improve profit.

The Chemicals & Polymers Business Unit aims to secure an absolute competitive advantage in China for both PVC and ABS and will continue to localize these two key product lines. In addition, strategic alliances will be formed for major base materials to ensure stable supply, and the product mix will keep improving with the addition of specialty items. The 2004 performance targets are set at ₩3.2 trillion in sales, about the same as that for 2003, but operating income should increase 16% to reach ₩265.3 billion.

ON THE HORIZON

The global business picture is forecast to look up in 2004, with recovery driven by the advanced economies. The petrochemical industry, too, will enter a cyclical upturn, and Chinese demand for petrochemical products will continue its rapid rise. On the other hand, Korean demand is expected to remain slow, as the construction industry falters and Korean makers of automobiles and consumer electronics continue to move operations offshore. These conflicting signs mean uncertainty for LG Chem.

However, the Chemicals & Polymers Business Unit will continue to focus on profitability in 2004 and will pursue the following three courses of action to ensure stable and steady growth:

First, performance is the top priority. The original 2004 operating income target was ₩247.3 billion, with an operating profit margin of 8.2%. Not satisfied, management now will try to achieve a 10% operating profit margin in the coming year by pursuing a solid vision and redefining mid-/long-term strategies to maximize synergy. Business lines will be clearly designated. Those targeted for "No. 1" status will be cultivated as quickly as possible, while those seen as "marginal" will be brought into the black as quickly as possible.

Second, innovation activities will be accelerated in 2003 and carried over to 2004. These include productivity and technology innovation through research on breakthrough technologies and manufacturing processes, which will dramatically cut production costs. At the same time, the company pursues development of new high-performance products, specialty products, and catalysts, which can outperform those of licensors. As for the marketing innovation, marketing skills and strategies will be honed to cope with the ever-changing business environment in the world.

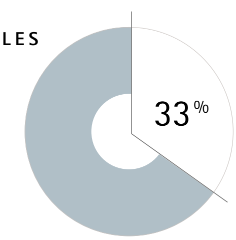
The third task is to engage in a solid globalization program. The Chemicals & Polymers Business Unit has long understood the importance of globalization, and a global value chain has been built that includes overseas production subsidiaries. Excellent human resources are also being recruited overseas to strengthen the global role of the organization.

By taking on these three tasks, the business unit aims to emerge as a leading player in the world petrochemical market.

A YEAR TO BUILD A SOLID BASE FOR GLOBAL GROWTH

Industrial materials production at LG Chem began with Korea's first molded plastic items back in 1947. Today, the product portfolio for the Industrial Materials Business Unit includes sophisticated materials for doors and window frames, flooring, wallpaper and other construction and interior decoration applications, furniture surface finishes, signs, and automobile interiors. Global marketing is now being stepped up, and surface, sign and safety material products are being cultivated for world leadership.

>> PORTION OF TOTAL SALES



The Industrial Materials Business Unit has maintained at least 10% annual sales growth over the past decade, and profitability has remained steady. We have now established a new vision for becoming a major world producer of industrial materials, with sales growing 13% a year on average by 2010 and operating profit margin reaching at least 13%. However, the slumping Korean construction market and domestic consumption in 2003 caused our sales revenue to remain a ₩1.96 trillion, while operating income fell 22% year on year to ₩163 billion. On the other hand, we have continued to increase the amount of value added/high growth items in our product portfolio and to build up the sales base outside Korea. As a result, we have managed to maintain our domestic leadership while expanding steadily on the world stage.

Kyu-Seok Park
President
Industrial Materials Company

No. 1

The Industrial Materials Business Unit has maintained its leading position in the domestic market and now aims to reach the top of the world market for its product category. Overseas sales, including China, grew 22% in 2003 to establish a more stable global presence.

THE YEAR IN REVIEW

The Korean government suppressed excessive speculative investments in the real estate market and tightened building permit requirements in 2003, causing new housing construction to contract 20% year on year. Overall consumer demand and construction activity were both lackluster, creating major difficulties for makers of construction and interior decoration materials. Korean exports of automobiles grew in 2003, but domestic demand was down, causing overall demand to remain about the same.

Although most overseas markets were unsteady, the Chinese market grew rapidly, while the US, European, and Japanese economies began to turn around. At the same time, LG Chem stepped up the globalization and localization of marketing activities, and overseas sales were 22% higher in 2003 than in the previous year.

The Industrial Materials Business Unit focused on developing market leading products to achieve the mid-/long-term vision. R&D continued to come out with highly functional, value added items that complete well globally. An aggressive marketing campaign was also launched, and world-class items increased 14% year on year to represent 33% of total sales. New items made up an additional 41% of total sales as LG Chem continued to cultivate product leadership. The sales organization upgraded its customer relationship management activities and Six Sigma program, lowering production costs and raising productivity for better overall operational results.

Local sales subsidiaries were newly established in the US, Europe and China to improve competitiveness outside Korea. At the same time, the Product Management System was promoted to build a foundation for global growth.

THE YEAR AHEAD

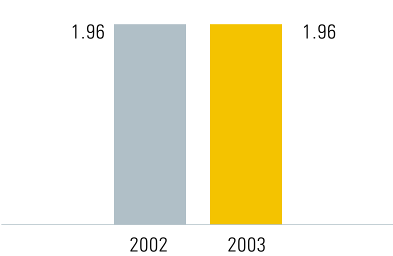
The slowdown in domestic business activity is expected to continue while international raw materials prices are forecast to rise in 2004. As a result, domestic demand will probably contract but then stabilize in the second half so that total demand will surpass that of 2003. The new construction market will be lower, but demand for materials used in remodeling will most likely continue to rise. Increased concern over environmental issues is also expected to steadily drive demand for high performance materials.

LG Chem will export at least 40% of its materials used for surface, advertisement, and safety purposes. The enlivened global economy and LG Chem's improved overseas competencies are expected to result in rapid sales growth. Finally, Korean automobile production is expected to increase 3%, from 3.2 million units in 2002 to 3.3 million in 2003, on the strength of increasing exports.

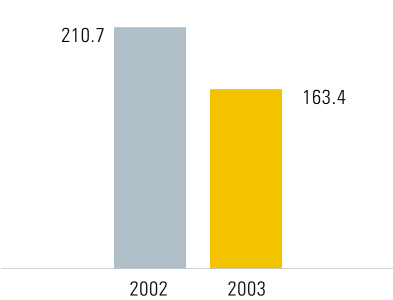
The Industrial Materials Business Unit expects to achieve ₩2.1 trillion in annual sales for an 8% year-on-year rise in 2004. The unit also aims to increase oper-

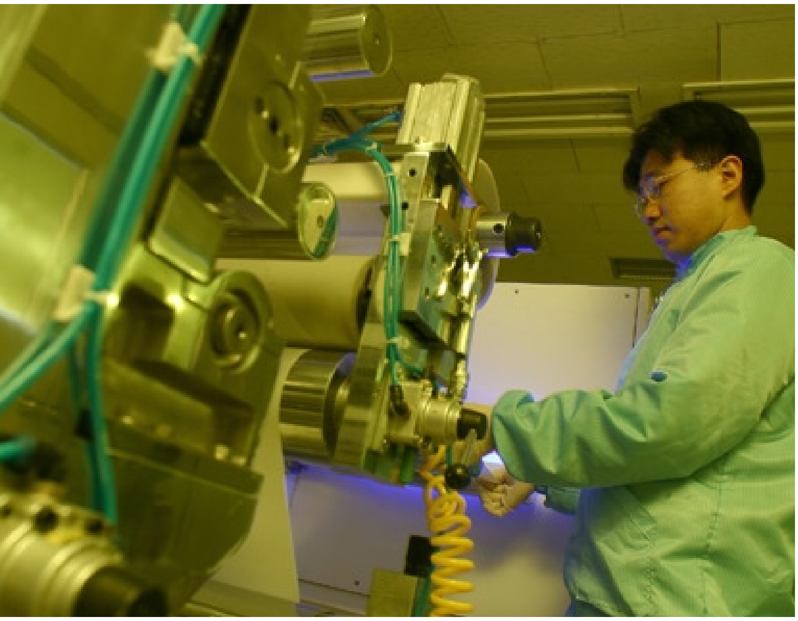
>> KEY FINANCIALS

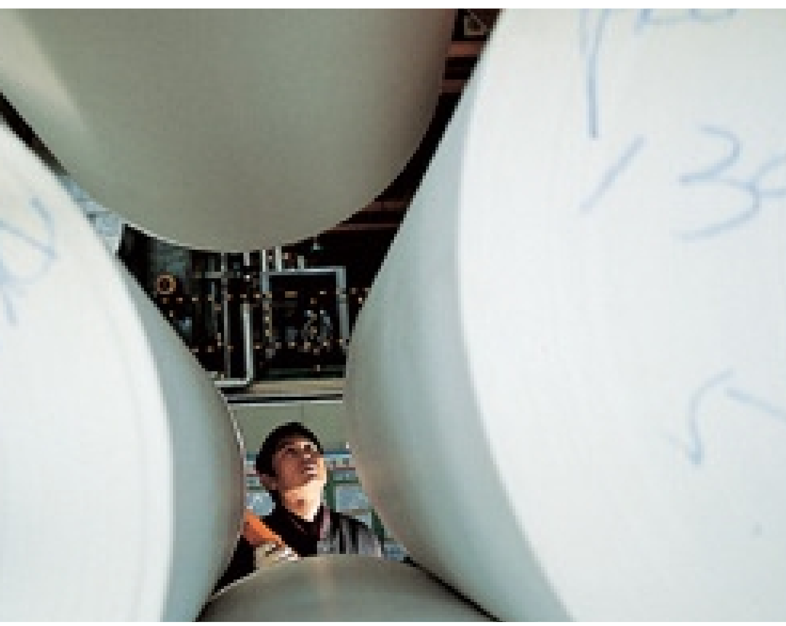
SALES (in trillions of won)



OPERATING INCOME (in billions of won)







ating income 23% and ordinary income 57% from the 2003 figures.

ON THE HORIZON

The innovation activities pursued by the company will be stepped up even more in 2004, and better results will be pursued overseas to compensate for the uncertainty at home. At the same time, new growth areas will be cultivated to prepare the company for the future. Key tasks for 2004 include the following:

First, sales competencies will be improved and world market product leadership continuously pursued to ensure global competitiveness. The groundwork will also be laid to improve overseas performance quickly.

Resources will be focused on cultivating surface materials and advertising sign materials into no. 1 business lines, and R&D capabilities will be further strengthened. New growth areas for the future will be sought out and developed intensively to upgrade the business portfolio, providing a stronger platform for generating profit.

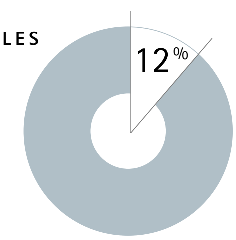
Finally, rising raw material costs are threatening the profit margin. Therefore, LG Chem will secure a production cost advantage by improving overall productivity, engaging in the Six Sigma program, and developing distinctive new products.

These activities will result in a sounder product portfolio and a firmer platform for sustained growth so that LG Chem can quickly emerge as a major global player in industrial materials.

RECORDING HIGH GROWTH BY BEING FIRST TO DEVELOP AND MARKET VALUE-ADDED ITEMS

The Information & Electronic Materials Business Unit has applied world-class technology and new product development capabilities to quickly become a major business for LG Chem. Product lines include lithium-ion batteries, lithium-polymer batteries, polarizers for TFT-LCDs, toner, and materials for printed circuits.

>> PORTION OF TOTAL SALES



We achieved sales of ₩699.1 billion, a 59% jump year on year. Operating income totaled ₩96.2 billion and the operating profit margin was 14%, providing the competitiveness needed to be the best in this product segment. Our strong performance was made possible by an ongoing commitment to innovation, marketing and R&D.

The Ochang Techno Park will go into full operation in 2004, improving our capabilities to supply rechargeable batteries and polarizers. We are also moving aggressively into China and other key new markets to ensure another year of high growth.

Our global operations will be bolstered by new plants in China and Taiwan. We are also building sales networks in China to solidify our position as a global player.

Soon-Yong Hong
President
Information & Electronic Materials Company

59 %

Sales in 2003 totaled W699.1 billion, up 59% from the year before. At the same time, the operating profit margin was an impressive 14%, enabling the Information & Electronic Materials Business Unit to function as a self-sustaining operation. Basic competitiveness has been achieved to reach the top of this business segment.

THE YEAR IN REVIEW

The markets for mobile phones, notebook PCs and flat panel displays grew sharply in 2003. The Information & Electronic Materials Business Unit also increased investment and worked to improve productivity, acquiring sufficient supply capabilities in the process. Customers were highly satisfied with the quality consistency and technological expertise provided. As a result, both sales and profitability improved remarkably during the year.

Meanwhile, the market for the lithium-ion rechargeable batteries is booming. Demand for cylindrical batteries increased an unprecedented 30% year on year, boosted by the accelerated transition from desktop PCs to notebook models. At the same time, demand for prismatic battery surged almost 30% on the rapid growth of replacement demand for mobile phones in Korea as well as new demand in China, India and the US. In the face of such rapid market growth, major players stepped up defensive measures to protect market share, and competition actually intensified.

However, LG Chem stayed ahead of the competition, introducing new cylindrical lithium-ion batteries with the world's highest-energy density in both 2002 and2003. Quality has also been very reliable and yield has improved, earning the trust of customers. The company received more orders than it can even fill, and its market share rose from 5% (8th in the world) in 2002 to 7% (5th in the world) in 2003.

Meanwhile, CRT monitor users are quickly changing over to LCD models and desktop PCs are being replaced by notebooks. These trends drove demand for polarizers in 2003 up 40% from the 2002 level, enabling the company to increase sales.

In addition to external market growth, ongoing internal innovation efforts have lifted LG Chem's productivity and yields to the highest in the industry. The Information & Electronic Materials Business Unit has come out with value-added items ahead of the competition to win customer confidence and recognition for technology leadership.

In terms of volume, LG Chem rose from the world's third largest supplier in 2002 to second largest a year later, with a 19% share of the market.

THE YEAR AHEAD

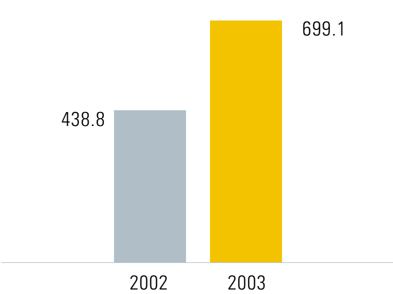
The Information & Electronic Materials Business Unit is focusing resources and competencies on the battery and polarizer lines to stay in step with global economic recovery and market growth. The goal is to achieve the top share of this market.

Industry watchers say the changeover from desktop to notebook PCs will continue to accelerate in 2004, driving battery demand still further. The market for mobile phones, too, will grow significantly, led by surging sales in the US. Economic growth in India and China will boost demand for mobile phones as well. The greatest growth is expected in mobile phone models with built-in cameras or MP3 players.

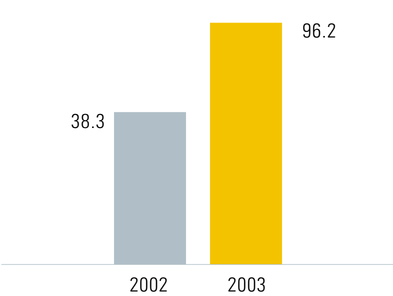
The Information & Electronic Materials Business Unit is meeting the increased demand by introducing batteries with higher capacities. The unit's leading market position will be further strengthened to join the ranks of the world's Top Three. Existing production lines will be expanded in 2004, and efforts will be focused on securing new customers and strengthening R&D capabilities.

>> **KEY FINANCIALS**

SALES (in billions of won)



OPERATING INCOME (in billions of won)



Consumers are forecast to accelerate their adoption of desktop LCD monitors, while the LCD market is expected to keep growing, which means polarizer demand should grow steadily. Moreover, the Taiwanese TFT-LCD makers are following their Korean counterparts in making heavy investments into 5th-generation production facilities and accelerating their relocation of module assembly plants in China.

The Information & Electronic Materials Business Unit will speed up its installation of finishing process lines in China and Taiwan to bolster its customer-oriented business approach.

LG Chem will develop new products to accommodate the rapidly growing market for high-performance LCDs for monitors and TVs, and production of these items will increase. This will enable the company to strengthen its market dominance and market share in 2004.

Color toner will make up a greater portion of toner sales in 2004 as market demand changes. The company will speed up product development to increase market share in the US, China and Southeast Asia. The portfolio for printed circuit material will continue to switch over to value-added items such as resin coated copper foil(RCC) and flexible polyimide copper clad laminate(2CCL) to secure a more stable profit base.

Sales in 2004 are set to reach ₩1.28 trillion, a whopping 83% year-on-year increase. The operating income target is ₩127.6 billion, which would make LG Chem a truly global player.

ON THE HORIZON

The Information & Electronic Materials Business Unit is responding to rapidly growing markets by stablizing the operation of the expanded facilities at Ochang, Korea and Nanjing, China. Global marketing will be strengthened by hiring and training more marketing specialists and establishing local marketing networks overseas.

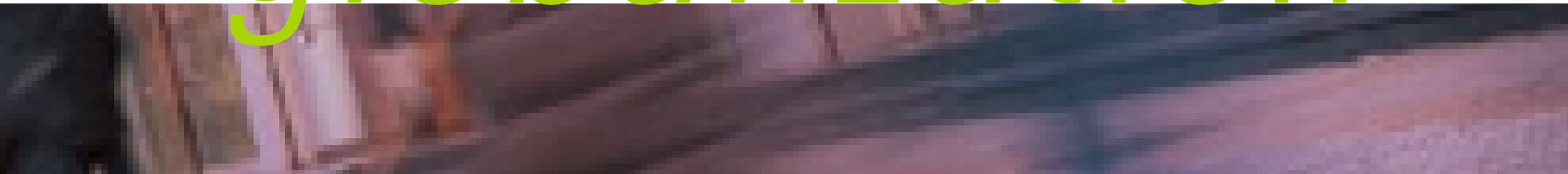
LG Chem will emerge as a "top-tier" player in batteries in 2004 and solidify its number-two ranking in the polarizer film business.

The business unit will work on developing next-generation business lines such as plasma display panel (PDP) filters, projection TV screens, OLED, and color filter photoresist. These areas will grow fast with the surge in flat panel displays and soon become important growth engines for the business unit as a whole.

Innovations and restructuring will continue so that the Information & Electronic Materials Business Unit can reach its ambitious goals.

Chemicals represent the future of human society, for advanced chemical technology is moving the world. LG Chem aims to be a major player in the chemical industry and is bolstering global operations in China, India, Europe, and North America. The company is committed to improving the future prospects for all people by following a globalization strategy that encompasses technology, production, marketing, R&D, local hiring and culture.

progressive
globalization >



"Solid globalization" has been designated one of the main tasks for LG Chem in 2004. Most of the company's future growth must occur outside Korea, so globalization of operations is a must. Therefore, the company is securing operational bases and developing new customers ahead of the rivals in every market where it enjoys a competitive edge.

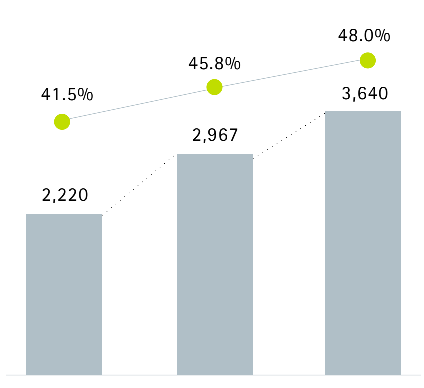
LG Chem is focused immediately on developing six product lines into "No. 1" businesses's — batteries, polarizers, PVC, ABS, artificial marble and surface materials. At the same time, the global network is being expanded with the establishment of new production subsidiaries, research centers and branch offices around the world. Production capacity has been expanded steadily in China, which has tremendous growth potential.

At the end of 2003, the company's overseas network consisted of 10 manufacturing subsidiaries, 5 marketing subsidiaries, 1 research facility and 8 branches in China, India, Vietnam, North America, and Europe. Overseas sales, which include export and overseas subsidiary performance, exceeded ₩2.5 trillion in 2003.

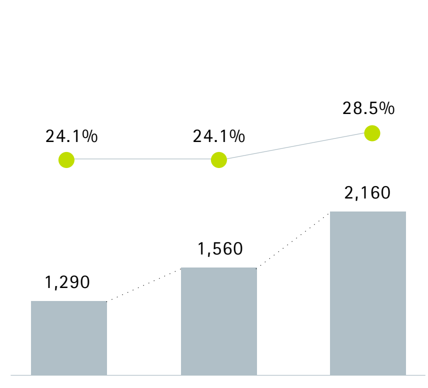
>> **BUSINESS PROSPECTS**

* Includes exports from Korea and items produced overseas.

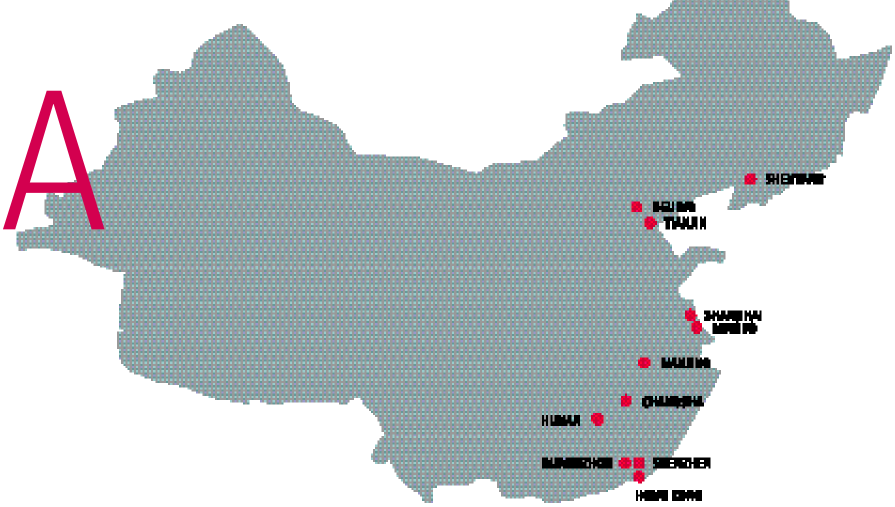
INTERNATIONAL SALES (unit: USD million)



SALES IN CHINA (unit: USD million)



CHINA



Jong-Pal Kim
President
LG Chem China

CHINA STRATEGY

China's growth potential has the world's attention and is the focal point of LG Chem's globalization strategy. LG realized back in the early 1990s that the China synthetic resin market could grow tremendously, and studies were carried out on the feasibility of entering this market via direct investment.

The company focused on three points for success in China:

First, the proper products had to be selected after careful analysis of the business environment, to include customers, LG Chem's capabilities and those of competing companies.

Next, the right joint venture partners had to be found and long-term trust built up.

Finally, locations had to be selected to reducing logistics costs while approaching cities with large numbers of consumers.

Once these considerations were taken into account, LG Chem established local production subsidiaries and steadily expanded its presence in China, while localization efforts have been ongoing. China is where LG Chem must prevail and will be the hub of overseas operations for the company.

Chemicals & Polymers: PVC, ABS

PVC production subsidiary LG Dagu was established in Tianjin in 1995, and the following year an ABS joint venture plant was set up in Ningbao, Zhejiang Province. Investments such as these in petrochemical operations have enabled LG Chem to make major inroads into China. The company had exported PVC and ABS to major world markets from the late 1980s, building up a strong brand image. This recognition has resulted in the company's having to steadily increase local production in China. LG Chem has never been able to meet the demand for its PVC and ABS fully, even after charging a 10-20% premium over competing products.

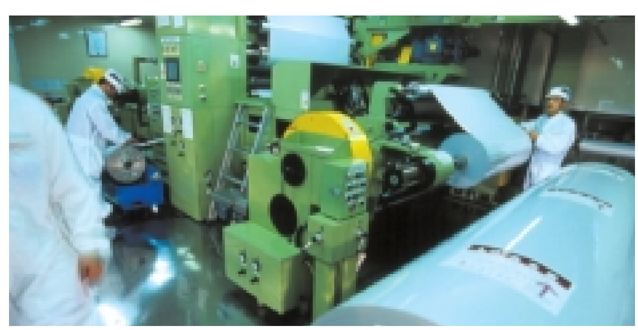
Currently, at least 50% of all the PVC and ABS sold by LG Chem outside Korea is purchased in China, and the sales volume continues to increase. Noteworthy results have already been achieved for PVC and ABS, and the company is expanding production capacity and the number of "world-class" product offerings is growing rapidly.

Expansion of output at Chinese subsidiaries is being steadily increased to secure competitiveness for major products. Annual PVC capacity stood at 340,000 tons at the end of 2003 and will be increased to 550,000 tons in 2006 and then 1.1 million tons by 2008. ABS production in China, which totaled 300,000 tons a year as of December 31, 2003, will be half a million tons in 2005.

Industrial Materials: Construction Materials

The Tianjin subsidiary produces PVC flooring and tile for use in Chinese construction. Sales in 2003 reached US$24.1 million, and operating income was over US$3.9 million, but annual sales is expected to rise to US$100 million by 2005. Production capacity at the PVC processing plant at Tianjin is being expanded in stages, and plans call for the construction of a second plant in the Huadong area.

LG Chem also opened a unique display room for industrial materials in Shanghai in September 2003. This facility will facilitate the company's advance into the Chinese construction, remodeling, and interior decoration markets. The company expects annual sales in China by the Industrial Materials Business Unit to rise from the current ₩80 billion to ₩250 billion in 2005 and on to ₩700 billion by 2008.



Information & Electronic Materials: Polarizers, Rechargeable Batteries

Information and electronic materials will be the main growth engine backbone of LG Chem's China operations in the future. After years of preparation, this operation took its first steps overseas in 2003. China is fast emerging as an IT industry hub, prompting LG Chem to accelerate its advance into this market and bolster its competitiveness there.

Construction began on a polarizer plant in Nanjing in 2003, and it will go into full operation in the first half of 2004. The facility will also be used to produce rechargeable batteries. The Chinese market for rechargeable batteries is currently 32 million cells a month, or 29% of world demand, and is estimated to be growing some 38% a year. LG Chem will be capable of producing 4 million cells a month in China by the end of 2004 and will increase monthly output to 12 million cells the following year. Thus, company officials expect this single item to earn ₩127.6 billion in operating income on sales of more than ₩1.28 trillion in China during the coming year. The company will continue to elevate the sales volume and profitability of its battery and polarizer operations to become of the Top Three players in China.

Increasing sales is important, but expanding infrastructure and the organization is, too. Therefore, the China Regional Headquarters was established at the beginning of 2004 to ensure operations are smoothly run. The China HQ will work closely with the Seoul Head Office to formulate and implement strategies, manage risk, offer shared services, and train and manage personnel. Operation of the China HQ will also be an opportunity to gain know-how and experience prior to establishment of a holding company in China in 2006. At that point, localization of Chinese operations will be complete.

By 2008, LG Chem has a target to record ₩15 trillion in annual sales, of which US$5 billion will be achieved by the China operations. The plan is to grow into one of China's five largest chemical companies in terms of both profitability and scale.

LG Chem will take full advantage of its early presence in China to boost competitiveness and accelerate entry into new business areas, making China a "second home market."

NON-CHINA

NON-CHINA STRATEGY

LG Chem will continue to make inroads into China while at the same time pursuing diversification by investing resources and competencies in the American, European, and Indian markets. The company has established the first subsidiary for producing HI-MACS brand artificial marble. The US-based operation is scheduled to start up in 2005. A new research subsidiary will also focus on developing mid-/large-sized batteries with the target to commercialize a large lithium-polymer battery for hybrid electric vehicles (HEVs) by 2005.

Meanwhile, a company-wide study of the Brazilian market is being readied for the second half of 2004. LG Chem has so far been unable to pursue offshore operations in earnest in Europe, but plans are in the works for Eastern Europe. A Russian market survey will first be carried out in the first half before establishing an overall strategy for Europe. Rising international oil prices will benefit the Russian economy and is expected to spark a boom in demand for industrial materials there.

A strategy is also in place for expanding operations in India in 2004. Polystyrene and expandable polystyrene production capacity at LG Polymers India is being increased and additional funds will be invested in ABS and EP compound production.

The overall LG Chem organization is being brought up to global standards. People will be intensively trained in the necessary business skills and foreign languages to be effective in the global marketplace.

LG CHEM OVERSEAS SUBSIDIARIES

	affiliates	Establishment	Location	Products
manufacturing	Tianjin LG-Dagu Chemical Co., Ltd.	Dec. '95	Tianjin, China	PVC
	Ningbo LG-Yongxing Chemical Co., Ltd.	Mar. '97	Ningbo, China	ABS
	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Jul. '02	Guangzhou, China	EP compound
	Tianjin LG New Building Materials Co., Ltd.	Dec. '96	Tianjin, China	PVC tile, high-gloss sheet
	Tianjin LG Window & Door Co., Ltd.	May '02	Tianjin, China	Window frames
	LG Chemical (Hunan) Phosphor Materials Co., Ltd.	Feb. '03	Changsha, China	Phosphors (reprocessing)
	LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	Jul. '03	Nanjing, China	Polarizers / batteries
	LG Polymers India Pvt. Ltd.	Dec. '96	Visakhapatnam, India	PS (HI, GP), EPS
	LG VINA Chemical Joint Venture Co., Ltd.	Jun. '95	Ho Chi Minh, Vietnam	DOP
	LG Chem Industrial Materials	Oct. '03	Georgia country, GA. USA	Hi-Macs (Artificial marble)
marketing	LG Chem Trading Co., Ltd. (LGT)	Sept.'02	Shanghai, China	Industrial, information & electronic materials
	LG Chem America Inc.	May '85	Englewood Cliffs, NJ, USA	Chemicals & Polymers, industrial materials, information & electronic materials
	LG Chem Hong Kong Ltd.	Nov. '96	Hong Kong, China	Chemicals & Polymers
	LG Chem. Europe Sarl	May '02	Geneva, Switzerland	Hi-Macs (Artificial marble)
	LG solid Sources LLC	Nov. '02	Phoenix, AZ, USA	Hi-Macs (Artificial marble)

WORLD-LEADING PRODUCT: POWERFUL HIGH-ENERGY DENSITY LITHIUM-ION BATTERIES

LG Chem is cultivating information & electronic materials as a major next-generation business line. Rechargeable batteries are included in this category, and the company's global vision is to be one of the world's Top Three rechargeable battery makers by 2005. This is truly an ambitious goal considering the company has only been in this business for seven years, but LG Chem has the technology to make this happen.

The Information & Electronic Materials Business Unit applied base chemical know-how to product Korea's first cylindrical lithium-ion batteries (1,800mAh) in 1999. Within two years, LG Chem had caught up with the competition by coming out with 2,000 and 2,200mAh. The company completed a 2,400mAh cylindrical lithium-ion battery in 2002 and started up the world's first mass-production of this powerful high-energy density battery in April 2003.

A third production facility for cylindrical batteries is being built at the Ochang Techno Park to expand monthly output to 9 million cells. Total production will then be doubled to 18 million cells a month by 2005, giving LG a 15% share of the world market and ranking it among the world's Top Three.

LG Chem's ambitions do not stop with rechargeable batteries. The capacity of cylindrical rechargeable batteries is limited, but LG now wants to take the global lead in next-generation products such as mid-/large-sized lithium-ion polymer batteries. Large-sized rechargeable batteries represent an untapped market with limitless growth potential as electric vehicles (EVs) and hybrid electric vehicles (HEVs) become increasingly popular.

LG Chem opened CPI, a battery research center, in Colorado, USA in March 2002. The development of next-generation lithium-ion polymer automotive batteries is almost complete, and the first mass-production facility for this product line was finished at the end of 2003. The electric vehicle with lithium-ion polymer batteries made by LG Chem won an EV race in record time at the Grand Canyon (USA) in 2002. Importantly, lithium-ion polymer batteries take up only one-third the space their nickel-hydrogen counterparts require. Battery bulkiness has been the biggest obstacle in EV commercialization, and lithium-ion polymer batteries have effectively solved that problem. LG Chem is on track to lead this important product segment.

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Heungduk-gu, Cheongju,
Chungcheongbuk-do, Korea
Tel. 82-43-261-7114
Fax. 82-43-261-7135

Ulsan Plant
388,Mangyang-ri, Ulju-gun,
Ulsan, Korea
Tel. 82-52-231-4114
Fax. 82-52-231-4003

Iksan Plant
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Jeollabuk-do, Korea
Tel. 82-63-830-8114
Fax. 82-63-830-4118

Naju Plant
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Jeollanam-do, Korea
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Ulju-gun, Ulsan, Korea
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Industry Zone, Zhenhai, Ningbo,
Zhejiang, China
Tel. 86-574-8626-7428

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Changsha, Hunan
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LG VINA Chemical Joint venture co., Ltd.
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Minato-ku, Tokyo, Japan
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Global Network

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Tel. 1-562-483-8090

LGCAI Detroit Branch
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1435 Southfield,
MI 48075, U.S.A.
Tel. 1-248-358-0400

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Swisse
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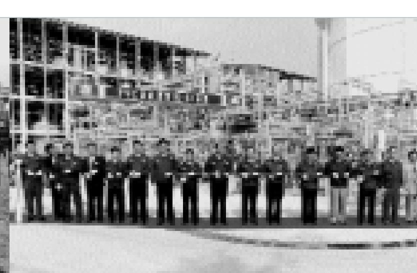
Shenyang Office
Rm. 703, Gaodeng International Building,
Zhongshan Road 355,
Shenhe DistrictShengyang, China

LG Solid Source LLC
8009 West Olive Peoria,
Phoenix, AZ, 85345, U.S.A.
Tel. 1-623-776-7373

Jan.	1947	Lucky Chemical Industrial Corp. founded.
Nov.	1951	Headquarters moved to Bujin-dong, Busan. (First molded plastic products produced in Korea.)
Jun.	1954	Plant completed in Yeonji District, Busan. (Plastic processing facilities expanded.)
Mar.	1959	Lucky Fats & Oils Industries Co. founded.
Aug.	1962	Lucky Vinyl Ltd. founded.
Jan.	1966	Company name changed to Lucky Chemical Industries Co., Ltd.
Oct.	1969	Company goes public.
Feb.	1974	Company renamed Lucky Ltd.
Nov.	1976	Paste resin plant completed in Yeocheon.
Aug.	1978	Plastics processing plant completed in Ulsan.
Dec.	1979	Lucky Central R&D Center opened in Daedeok.
Sept.	1980	Toothpaste plant completed in Cheongju.
Feb.	1986	Plant for environmentally safe agrochemical base materials completed at Onsan.
Feb.	1989	Lucky-Allied Plastics Corp. established as a joint venture.
Jun.	1989	Korea's first gamma-interferon developed.
Jan.	1990	Plastics processing joint venture established in Malaysia.
Dec.	1990	Lucky MMA established as a joint venture.
Jan.	1991	World's first 4-th generation cephalosporin antibiotics developed.
Mar.	1991	Overseas joint venture established to produce DOP plasticizer and process PVC.
Nov.	1991	Lucky Materials and Lucky Pharmaceuticals merged with Lucky Ltd.
Jul.	1992	Plastic processing joint venture established in Hungary.
Oct.	1992	PA plant completed in Yeocheon.
Nov.	1992	Sorbitol plant completed in Thailand.
Feb.	1993	Yutropin, Korea's first growth hormone, completed and put on market.
Apr.	1993	World's first HCFC-resistant resin developed and put on market.
Jun.	1993	PVC processing joint venture established in Indonesia.
Oct.	1994	First Phase of LG Chemical Research Park completed.
Feb.	1995	Company name changed to LG Chemical Ltd.
Apr.	1995	First Phase of pharmaceutical plant completed at Iksan.
Nov.	1996	Hindustan Polymer Ltd. Acquired in India.
Apr.	1997	Acrylate, EDC/CA, and VCM II plants completed.
May	1997	Quinalone antibiotics technology exported to SmithKline Beecham Pharmaceuticals of the UK.
Nov.	1997	Toothpaste plant completed in Beijing, China.
Nov.	1997	Plasticizer plant completed in Vietnam.
Dec.	1997	LG Chemical Ltd. selected as one of Asia's Best Companies by *Euromoney* magazine.
May	1998	PVC, disperse dye, PVC flooring and sorbitol plants completed in China.
Jul.	1998	ABS plant completed in Ningbao, China.



Oct. 1998	Joint venture contract signed for polycarbonate business.
Feb. 1999	Two million shares of global depository receipts issued.
Mar. 1999	LG VINA cosmetics plant completed in Vietnam.
Sept. 1999	ground broken for LG-Dow polycarbonate plant at Yeocheon.
Oct. 1999	Lithium-ion battery, phosphor, and copper clad laminate plants completed in Cheongju.
Oct. 1999	Color filter photoresist for LCDs commercialized.
Mar. 2000	Total Interior Coordination business begun.
May 2000	Website opened for interior decoration (www.interiorLG.com).
Jul. 2000	Korea's first phosphor for PDPs developed.
Oct. 2000	Overcoat photoresist for LCDs developed.
Oct. 2000	Color filter photoresist plant for LCDs completed in Cheongju.
Oct. 2000	ABS plant in China expanded (90,000 MT).
Nov. 2000	Hyundai Petrochemical PVC operation acquired.
Mar. 2001	Battery R&D center established in US.
Apr. 2001	LG Chemical Ltd. broken up into LG Chem, LG Chem Investment, and LG Household & Health Care.
May 2001	Powder coatings business sold off.
Jun. 2001	Thermal conductive plastic developed.
Aug. 2001	Dyestuff business spun off.
Oct. 2001	PVC plant in China expanded (90,000 MT).
Nov. 2001	Information & Electronic Materials R&D Center completed.
Dec. 2001	Polarizers for TFT-LCDs won Industrial Technology Innovation Grand Prize.
Feb. 2002	Polarizer plant expanded.
Apr. 2002	Epoxy business sold off (to Bakelite of Germany).
Apr. 2002	Cheongju rechargeable battery plant output doubled with W100B investment.
Apr. 2002	Swiss HI-MACS subsidiary established.
Jul. 2002	ERP system goes on line.
Aug. 2002	EP compound plant completed in Guangzhou, China.
Aug. 2002	Door & window frame plant completed in Tianjin, China.
Aug. 2002	Trading subsidiary established in Shanghai, China.
Sept. 2002	New UV stabilizer process developed.
Dec. 2002	Ground broken for information & electronic materials complex in Ochang.
Dec. 2002	ABS plant expansion project completed (to 150,000 MT/yr).
Mar. 2003	Artificial marble business launched in US market.
Jun. 2003	LG Chem/Honam Petrochemical consortium acquires equity in Hyundai Petrochemical.
Jul. 2003	Contract signed to establish a polarizer plant in Nanjing, China.
Jul. 2003	PVC plant expansion project completed (to 100,000 MT/yr).
Nov. 2003	SM output at Yeosu plant expanded to 500,000 tons/year.


BOARD OF DIRECTORS

1. Ki-Ho No
CEO of LG Chem

2. Yu-Sig Kang
Vice Chairman of LG Corp.

3. Suk-Jeh Cho
Vice Executive President
CFO of LG Chem

4. Ho-Soo Oh
Senior Advisor
of The Korea Securities Dealers Association
of Investus Global Corp

5. Ho-Koon Park
Endowed Chair Researcher
Korea Institute of Science and Technology

6. Kon-Sik Kim
Professor of Law
Seoul National University

7. Young-Moo Lee
Professor
School of Chemical Engineering,
College of Engineering,
Hanyang University

EXECUTIVES

Ki-Ho No
President & CEO of LG Chem

Jong-kee Yeo
President & CTO
President of LG Chem Research Park

Churl-Ho Yoo
President
Chemicals & Polymers Company

Kyu-Seok Park
President
Industrial Materials Company

Soon-Yong Hong
President
Information & Electronic Materials Company

Jong-Pal Kim
President
LG Chem China

Suk-Jeh Cho
Executive Vice President
CFO

FINANCIAL STATEMENTS

INTRODUCTION

LG Chem was established in 1947 and has led the development of the Korean petrochemical industry for more than 60 years. A holding company structure was completed in March 2003, turning LG Chem into a subsidiary that concentrates solely on mainstay business lines. The groundwork has been laid to boost value for both the company and the shareholders.

The company consists of the Chemicals & Polymers, Industrial Materials, and Information & Electronic Materials Business Units, the last of which is being developed intensively as a high-growth area for the future. LG Chem is investing aggressively to secure an early lead and bolster competitiveness in the high-growth Chinese market. At the same time, the groundwork is being laid for LG Chem to assume global leadership.

The company also continues to develop technology and R&D capabilities as well as to innovate company-wide, relying on advanced technology, vertical solutions and cutting-edge products to bolster its position in the global chemical industry.

2003 OVERVIEW

Over the years, we at LG Chem have solidified our financial foundation through the pursuit of new revenue sources and our practice of sound business management. Despite the sluggish Korean economy, in 2003 the Company posted a double-digit sales increase of 11%. Price increases of major petrochemical products, an increase in exports and outstanding employee performance, all contributed to sales growth. However, soaring prices of some feedstock and lackluster domestic demand resulted in a 7% decline in operating income from the previous year.

The Chemicals & Polymers Business Unit registered an 11% sales increase on the strength of increases in exports and product prices. This is significant considering squeezed consumer spending and dormant domestic construction industry. Aggressive global marketing by the Industrial Materials Business Unit offset a domestic downturn, maintaining sales at the prior year's level. The 59% sales increase enjoyed by our Information & Electronic Materials Business Unit is due, in large part, to the growing global demand for mobile handsets and expansion of the company's in-house battery production.

Operating income from petrochemicals rose 11% on the strength of sales price increases and growth in overseas demand including China. However, operating income from performance polymers dropped 48% year on year due to soaring feedstock prices and declining demand on acrylonitrile, butadiene, and styrene (ABS).

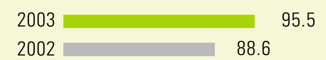
A slumping construction industry caused industrial materials consumption to slow in Korea. The sales price for value-added items such as artificial marble fell, weakening the product mix, and bringing operating income down 22% from the year before. By contrast, the portion of value-added items in the Information & Electronic Materials segment rose and productivity was improved, driving operating income up 151% year on year.

Ongoing R&D investment resulted in the development of core materials for organic light emitting diode as well as the capability to produce various new devices. LG Chem developed an environment-friendly, economical production process for polycarbonate. Resources have also been directed heavily into new areas with high growth potential such as environmental protection and optical electronics.

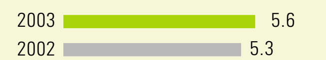
The mid-term investment strategy calls for the establishment of a global R&D network and technical service centers in China and Europe. An expansion of the Tokyo Information and Technology Center (TITC) is planned. The Company will increase production capacity at China subsidiary for PVC and ABS, core materials in the petrochemical industry. These efforts, combined with continued expansion of domestic battery and polarizer production, will provide steady profit growth. The continued investment to R&D will reach ₩700 billion by 2008, representing 4.5% of estimated total sales. LG Chem has worked steadily to improve its financial structure by generating new revenue, but borrowings increased ₩420 billion in 2003 with the additional ₩300 billion investment for acquiring Hyundai Petrochemical. As a result, the debt-to-equity ratio rose 2%, from 164% at the end of 2002 to 166% a year later.

>> **DEBT TO EQUITY RATIO** (unit: %)

>> **NET DEBT TO EQUITY RATIO**



>> **INTEREST COVERAGE RATIO**



>> **RETURN ON ASSETS**

>> **RETURN ON EQUITY**

FINANCIAL STRUCTURE

Liabilities

Total liabilities exceeded ₩1.7 trillion as of December 31, 2003, up ₩418 billion over 2002. The acquisition of Hyundai Petrochemical was a major factor impacting liabilities. The breakdown of debt is as follows: long-term borrowings represents 80% and short-term 20% at year's end, a near reversal of the prior year's trend of 41% in long-term debt and 59% in short-term. The surge in long-term borrowing was the result of a rollover of ₩680 billion in loans that reached maturity in 2003. The debt-to-equity ratio of 166% represents a 2% increase, showing no improvement from 164% in 2002.

As of 2003, Korean currency borrowings totaled ₩1.421 trillion, or 83% of total borrowings. The ₩1.421 trillion figure breaks down to ₩1.1 trillion in corporate bonds and ₩321 billion in regular loans. Foreign currency borrowings are ₩203.6 billion in floating rate notes and ₩85.3 billion combined to ₩288.9 billion, or 17% of total borrowings.

The Company's ongoing initiatives to generate greater revenues, advanced accounts receivable collection system, selective investment decisions, debt retirement, and inventory reductions are expected to lower that figure to around 148% by 2004.

Major Financial Indicators

	Dec. 31, 2002	Dec. 31, 2003
Debt to equity ratio	163.9%	165.9%
Net debt to equity ratio	88.6%	95.5%
Interest coverage ratio	5.3%	5.6%
Return on assets	9.0%	8.4%
Return on equity	24.7%	22.3%

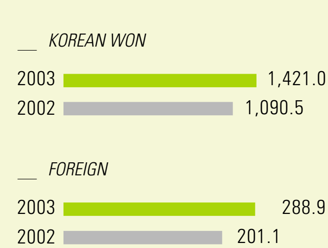
Debt by Currency

in billions of won

	Dec. 31, 2002	Dec. 31, 2003	Change
Korean won	1,090.5	1,421.0	330.5
Foreign	201.1	288.9	87.8
Total	1,291.6	1,709.9	418.3

>> **DEBT BY CURRENCY**

(unit: in billions of won)

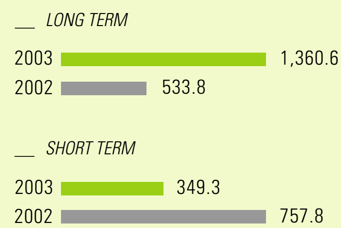


Debt by Maturity

in billions of won

	Dec. 31, 2002	Dec. 31, 2003	Change
Long term	533.8 (41%)	1,360.6 (80%)	826.8
Short term	757.8 (59%)	349.3 (20%)	(408.5)

> > **DEBT BY MATURITY**
(unit: in billions of won)



Equity

Common stock ownership at the end of 2002 was as follows: LG Chem Investment and other majority shareholders held 30.03%, foreign shareholders 33.98%, and Korean individual and institutional investors 35.99%. The breakdown as of 2003 was 34.03% by LG Corp., 29.67% by foreign shareholders, and 36.30% by Korean individual and institutional investors.

Korean trade regulations stipulated LG Corp. secure at least 30% of the total outstanding shares by March 31, 2003 to maintain holding company status. The holding company conditions were satisfied as of the end of 2003, with LG Corp. owning a 34.03% (common stock) equity stake in LG Chem.

> > **SHAREHOLDER COMPOSITION**
(common stock as of December 31, 2002)

> > **SHAREHOLDER COMPOSITION**
(common stock as of December 31, 2003)

Funding Strategy

LG Chem's basic funding strategy is based on hedging liquidity risk and enhancing profitability through a mix of short- and long-term instruments at floating and fixed rates in a variety of currencies.

- Debt term: The short-term corporate paper portion of debt is between 80% and 90% of net operating capital. Long-term debt maturities are staggered to ensure liquidity.
- Interest: The fixed-rate portion of debt is decided by an analysis of the tradeoff between current fixed and floating rates. About 80% is fixed for Won currency debt, while between 20% and 40% of foreign currency debt is held at floating rates.
- Currency: The foreign currency-denominated portion of debt is set at a level that facilitates both cash flow and natural hedging. For LG Chem, the current level is US$241 million, and an additional US$205 million is hedged by currency swap transaction.

Cost of Capital in billions of won

	2003 Results	2003 Target	Difference
Interest paid	97.5	97.2	(0.3)
Interest rate	6.11%	5.47%	(0.64%)

Debt by Currency in billions of won

	Dec. 31, 2003	Dec. 31, 2004 (est.)	Change
Korean won	1,421.0	1,454.6	33.6
Foreign	288.9	226.8	(62.1)
Total	1,709.9	1,681.4	(28.5)

*Figures reflect the acquisition of Hyundai Petrochemical.

Dividends and Dividend Policy

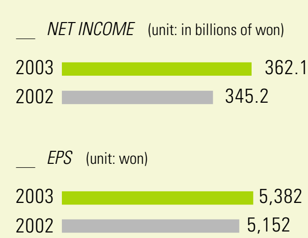
LG Chem bases the dividend rate on net income and the amount of earnings available for distribution. The company paid out a divided of 15% the face value (₩5,000) for common stock and 16% for preferred stock over the three-year period between 1999 and 2001. Improved operational performance in 2002 allowed the company to double the payout to 30% the face value of common stock and 31% the face value of preferred stock. In 2003, LG Chem will increase the divided rate another 5% to 35% the face value of common stock and 36% the face value of preferred stock. Backed by a consistent revenue stream and a solid financial structure, the company intends to increase the dividend payout ratio still more in the future as part of an ongoing commitment to enhancing shareholders' value.

Dividend Summary in millions of won, EPS in won

	2001	2002	2003
Net income	132,469	345,277	362,108
EPS	1,949	5,152	5,382
Earnings avail. for distrib.	55,245	110,037	128,116
Total dividends	55,235	110,029	128,106
Dividends to net income	41.70%	31.90%	35.40%
Dividend payout, common	15%	30%	35%
Dividend payout, preferred	16%	31%	36%
Dividend yield ratio	3.45%	3.69%	3.18%

* Figures for 2001 do not include Q1 income. The dividend payout is based on the percentage of face value.

>> **DIVIDEND SUMMARY**



ACQUISITION OF HYUNDAI PETROCHEMICAL

I. Acquisition of Hyundai Petrochemical

On June 27, 2003, LG Chem and Honam Petrochemical Corp. each invested ₩300 billion in a 50:50 takeover of Hyundai Petrochemical. The total value of the acquisition is ₩1.827 trillion, which includes the ₩600 billion in paid-in capital and ₩1.227 trillion in borrowings.

II. Synergy Effect of Acquisition

The Hyundai Petrochemical acquisition ensures a stable supply of raw materials (ethylene, styrene monomer, butadiene, etc.) for PVC and ABS, allowing LG Chem to bolster the vertical integration of these two key business lines. The high degree of synergy generated from the takeover is expected to strengthen styrene monomer, butadiene and LDPE operations and improve LG Chem's market position. Moreover, the petrochemical industry has shown signs of recovery since the end of 2002, and LG Chem can look forward to significant benefits from the petrochemical cycle upswing.

III. Division of Operations

The Korean Fair Trade Commission (FTC) allowed LG Chem and Honam Petrochemical Corp. to acquire Hyundai Petrochemical under the following conditions: "LG Chem and Honam Petrochemical Corp. must divide up ownership of the Hyundai Petrochemical LDPE, HDPE and PP facilities, marketing and operational control within 18 months from the date of acquiring the Hyundai Petrochemical shares.

Marketing,however, must be separated within 6 months of the stock acquisition, and the details must be approved by the FTC in advance."

Therefore, LG Chem and Honam Petrochemical took over control of their respective portions of the Hyundai Petrochemical HDPE, LD/LLDPE, and PP marketing operations on October 1, 2003. Negotiations are now under way to assess the value and complete the division process by December 2004.

IV. 2003 Performance & Gains on Equity Valuation

Looking into the performance of Hyundai Petrochemical in 2003 since the acquisition (June 27, 2003) by LG Chem and Honam Petrochemical Corp., sales were ₩2.38 trillion, operating income ₩313.2 billion (a 13.2%), ordinary income ₩190.1 billion, and extraordinary gains ₩350.9 billion. Net income came to ₩541 billion. As a result, the debt-to-equity ratio has improved from 265% at the end of 2002, prior to the acquisition, to 66% at the end of 2003, after the acquisition. LG Chem entered the ordinary income of ₩75.9 billion Hyundai Petrochemical fetched since the acquisition as a gain of on equity method of accounting for 2003.

Hyundai Petrochemical Financials for 2003

Balance Sheet

in billions of won

	2002	2003
Assets	3,031.3	3,012.3
Liabilities	2,198.8	1,192.8
Paid-in capital	831.4	1,819.5
Shareholders' equity	216.6	373.3
(Surplus income)	614.8	1,446.2
Debt-to-equity ratio	265%	66%

Income Statement

in billions of won

	2002	2003
Sales revenue	1,961.8	2,381.1
Operating income	203.2	313.2
Ordinary income	95.4	190.1
Net income	101.0	541.0*

*Includes 350.9 in debt written off.

HI-MACS IN US

LG Chem established a subsidiary in Georgia, USA in October 2003 to produce artificial marble, which will be sold under the HI-MACS brand. The US currently represents 60% of world demand for this item.

MMA, the primary raw material for artificial marble, is readily available in Georgia, as are favorable conditions for transportation and industrial facilities. The state government has also provided excellent incentives. Half the total investment of US$31 million will be raised through local borrowing. The production is slated for the middle of 2005.

Artificial marble is a luxurious surface material widely used for desktops, kitchen countertops, and floors. LG Chem produces artificial marbles that are easily fabricated, highly resistant to stains, and extremely similar to real marble.

Demand for high quality surface materials is growing steadily, and future prospects for artificial marble are bright. The global market is expected to reach ₩1.3 trillion (over US$1 billion) a year by 2008. LG Chem will continue to strengthen its global competitiveness and expand its global marketing channels. The company held 12% of the global artificial marble market in 2003 and aims to secure a 17-18% market share, the world's second largest, by 2005. At the same time, overseas sales will represent about 70% of total sales.

• Base material suppliers
  LG CAI: import, local marketing & sales
  LGSS: HI-MACS sales subsidiary
  Plant: HI-MACS (est. 2003)

OCHANG TECHNO PARK COMPLETION, LAYING THE GROUNDWORK FOR GLOBAL OPERATIONS

Ground was broken for the Ochang Techno Park on a 330,000m^2 site in Korea'sNorth Chungcheong Province on December 3, 2002, and the completed facility was dedicated on March 26, 2004. By the end of 2003, more than ₩300 billion had been invested in this production complex for information & electronic materials, a business segment being intensively developed by LG Chem. Full startup began in early 2004.

The Ochang Techno Park carries the high-tech image of a semiconductor or advanced electronics plant. All aspects-technology, products and environmental protection — are at the top of the industry. The new facility will join the LG Chem plant at Cheongju to drive the company's information and electronic materials business. As of March 2004, the complex consisted of a rechargeable battery plant, an optical materials (polarizers for TFT-LCDs, screens for rear projection TVs, and filters for PDP modules) plant, and the Ace Center, a support facility for overall operations.

The Ochang Techno Park will ensure the Information & Electronic Materials Business Unit can provide stable supplies to customers. An additional ₩200 billion will be invested in the Ochang Techno Park to expand rechargeable battery output to 15 million cells a month and polarizer production to 45 million sets a year by 2005. Annual sales from the Ochang Techno Park are expected to reach ₩1.3 trillion by 2006.

All LG Chem employees are committed to maximizing efficiency at operations old and new, inside and outside Korea, to exceed the 2003 performance in the coming year.

RISK MANAGEMENT

Financial Risk Management

In the course of doing business, LG Chem is exposed to both liquidity and market risks from fluctuating foreign exchange and interest rates. The company's financial risk team is tasked with addressing these financial risks.

Foreign Exchange Risk

Exports will surpass imports in 2004, generating an estimated US$900 million in surplus foreign currency.

- A set amount of foreign-denominated borrowings is maintained as a natural hedge against this foreign currency surplus.
- Part of the surplus foreign currency is hedged as futures exchange, helping to stabilize future cash flow.
- As for short-tem exposure, exchange risk is minimized by matching inflow and outflow as closely as possible.

Interest Rate Management

- According to the company's basic policy, facilities capital is raised by long-term borrowings while working capital comes from short-term loans.
- An optimal balance is maintained between borrowings with fixed interest rates and those with variable interest rates. The company strives to minimize interest expenses within parameters that do not compromise financial structure stability.

Liquidity Risk

- Loan maturities are staggered in consideration of future operating cash flow to prevent possible liquidity risk as borrowings come due. The company also aims to keep short-term borrowings at 80-90% of net working capital.

Capital Expenditure

LG Chem continues to invest intensively in strategic business areas for the future such as rechargeable batteries and other information & electronic materials, value-added industrial materials such as artificial marble, and specialty petrochemicals.

in billions of won

	2003	2004	Change
Total investment	841.4	621.0	(220.4)
Petrochemicals	33.7	76.0	42.3
Performance polymers	66.7	49.0	(17.7)
Industrial materials	56.0	96.0	40.0
Information & electronic materials	298.0	340.0	42.0
Common Investment	387.0	60.0	(327.0)

Fifty-five percent (₩340 billion) of the 2004 investment budget (₩621 billion) will be appropriated for information & electronic materials, a key business area for future growth. Overseas equity investments will reach ₩66 billion for LG Chem Information & Electronic Material in Nanjing, China. While ₩136.5 billion has been earmarked for expanding battery output and ₩66.1 billion has been allotted for increasing the production of optical materials such as polarizers in Korea.
Outside Korea, a total of ₩28.5 billion will be invested in new facilities for industrial materials. These include the artificial marble plant in Georgia and new production lines for LG New Building Materials and LG Window & Door in Tianjin, China.

2004 OUTLOOK

Prospects for the Korean market will be unclear again in 2004, but the company expects total sales to reach just under ₩6.27 trillion, a 10.5% year-on-year increase driven by growth in battery and polarizer sales. Steady economic recovery should boost sales of value-added, specialty items, and operating income is expected to be 23% higher in 2004 to reach ₩591.5 billion.
A robust petrochemical market in the coming year should fuel improvements in chemicals & polymers. At the same time, the newly acquired Hyundai Petrochemical operation will strengthen overall vertical integration, provide supplies of raw materials and boost cost competitiveness. The domestic construction industry is forecast to remain sluggish in 2004, but the Industrial Materials Business Unit will take advantage of outstanding R&D and marketing capabilities to increase the portion of value-added items sales. Efforts will also be focused on expanding business in the strategically important US and Chinese markets. The Information & Electronic Materials Business Unit will continue to increase both sales, stabilizing the new production lines quickly. The customer base will be expanded to solidify overall operations, and the portion of battery and polarizer operations conducted overseas will continue to increase as well.

REPORT OF INDEPENDENT AUDITORS

> To the Board of Directors and Shareholders of LG Chem, Ltd.

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. (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 Chem, Ltd. 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 18 to the non-consolidated financial statements, the Company sells its products to, and purchases certain materials from, related companies, including LG Petrochemical Co., Ltd. During the years ended December 31, 2003 and 2002, total sales to related companies amounted to ₩1,350,948 million and ₩913,351 million, respectively, and total purchases from related companies amounted to ₩1,496,191 million and ₩1,125,435 million, respectively. As of December 31, 2003 and 2002, the related accounts receivable amounted to ₩121,963 million and ₩91,011 million, respectively, and the related accounts payable amounted to ₩337,380 million and ₩154,747 million, respectively.

Further, the Company has guaranteed the payment of various obligations of affiliated companies. The outstanding balances of such guarantees as of December 31, 2003 and 2002 amounted to approximately ₩234,447 million (related outstanding bank borrowings: ₩132,814 million) and ₩227,106 million (related outstanding bank borrowings: ₩128,485 million), respectively. As of December 31, 2002, short-term financial instruments of ₩5,522 million are deposited in connection with the borrowings of related parties.

As discussed in Note 8 to the non-consolidated financial statements, in accordance with the resolution of the Board of Directors on April 24, 2002, the Company disposed of its investments in LG Investments and Securities Co., Ltd. of 5,265,650 shares (price per share of ₩19,000) for ₩100,047 million and recognized a gain on disposal of investments amounting to ₩37,669 million on April 25, 2002. In addition, the Company acquired 6,320,000 common shares of LG Petrochemical Co., Ltd. in the amount of ₩94,990 million (price per share of ₩15,030).

Further, as discussed in Note 8 to the non-consolidated financial statements, in accordance with the resolution of the Board of Directors on December 22, 2003, the Company acquired 5,274,085 shares (50% of total shares) of LG Dow Polycarbonate, Ltd. Amounting to ₩19,277 million (price per share of ₩3,655) from LG Corp. on December 30, 2003.

As discussed in Note 21 to the non-consolidated financial statements, on May 8, 2002, the Company disposed of its epoxy polymers segment to Bakelite Korea, a subsidiary of Bakelite Co., Ltd. at ₩22,402 million and realized a gain on the disposal of the segment amounting to ₩3,807 million.

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As discussed in Note 8 to the non-consolidated financial statements, on June 25, 2003, the Fair Trade Commission approved the joint acquisition of Hyundai Petrochemical Co., Ltd. ("HPCL") by a consortium comprised of the Company and Honam Petrochemical Corp. The Fair Trade Commission stipulates that the Company and Honam Petrochemical Corp. should take over the LDPE, HDPE, and PP businesses of HPCL separately, within one and a half years after stock acquisition. However, marketing functions should be separately taken over within six months after the acquisition. The Company completed the payment of ₩300,000 million (37,325,680 shares, average purchase cost per share: ₩8,037) on June 26, 2003 for the acquisition of 50 % of the shares of HPCL.

As discussed in Note 2 to the non-consolidated financial statements, the Company implemented on ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during the period of fluctuating prices, thereby reflecting a more realistic picture of the Company's financial position. The change increased inventory and net income by ₩2,710 million and by ₩4,993 million, respectively, as of and for the year ended December 31, 2002.

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

Seoul, Korea
February 6, 2004

Samil Accounting Corporation

This report is effective as of February 6, 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.

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

		2003		2002
ASSETS				
Current assets				
Cash and cash equivalents	₩	257,086	₩	143,761
Short-term financial instruments (Note 3)		330		5,789
Held-to-maturity securities (Note 7)		1,765		-
Trade accounts and				
notes receivable, net (Notes 2, 4, 5 and 18)		392,879		339,750
Other accounts receivable, net (Notes 2, 5 and 18)		64,336		54,815
Inventories (Note 2 and 6)		378,990		332,045
Accrued income, net		112		743
Advance payments		1,472		3,573
Prepaid expenses		10,284		8,596
Other current asset		1,625		2,275
Total current assets		1,108,879		891,347
Property, plant and equipment, net (Note 2 and 9)		2,461,637		2,259,795
Long-term financial instruments (Note 3)		48		256
Investment securities (Note 7)		51,270		40,719
Equity-method investments (Note 8)		897,236		439,104
Long-term guarantee deposits (Note 4)		29,915		16,184
Long-term prepaid expenses		21,436		21,715
Long-term trade accounts				
and notes receivable, net (Note 5)		1,444		2,223
Other investments		30,751		37,647
Intangible assets (Note 2)		159,132		137,152
Total assets	₩	4,761,748	₩	3,846,142

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

	2003		2002	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term borrowings (Note 10)	₩	86,878	₩	59,361
Current maturities of long-term debt (Note 10)		261,629		703,388
Trade accounts and notes payable (Notes 2 and 18)		612,627		405,196
Other accounts payable (Note 2 and 18)		377,482		345,853
Withholdings		49,212		36,278
Accrued expenses (Note 2)		13,122		15,860
Income tax payable (Note 15)		47,156		95,088
Other current liabilities		10,924		2,003
Total current liabilities		1,459,030		1,663,027
Long-term debt (Note 11)		1,339,134		521,325
Accrued severance benefits, net		71,655		63,514
Deferred income tax liabilities (Note 15)		63,502		23,905
Derivative instruement transaction credit (Note 12)		10,081		-
Other long-term liabilities		3,744		7,156
Total liabilities	₩	2,947,146	₩	2,278,927

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

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

		2003		2002
Commitments and contingencies (Note 12)				
Shareholder's equity (Note 1)				
Common stock	₩	322,125	₩	322,125
Preferred stock		43,306		43,306
		365,431		365,431
Capital surplus (Note 13)				
Paid-in capital in excess of par value		532,002		532,002
Gain on disposal of treasury stock		318		-
Asset revaluation surplus		206,770		206,770
		739,090		738,772
Retained earnings (Note 13)				
Legal reserve		16,526		5,524
Other reserves		284,750		71,690
Unappropriated retained earnings		362,116		334,140
		663,392		411,354
Capital adjustments				
Gain on valuation of investment securities (Note 8)		56,980		52,136
Tresury Stock (Note 14)		(5,593)		(438)
Loss on disposal of treasury stock		-		(40)
Loss on valuation of derivative instruments (Note 12)		(4,698)		-
		46,689		51,658
Total shareholders' equity		1,814,602		1,567,215
Total liabilities and shareholders' equity	₩	4,761,748	₩	3,846,142

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

Non-Consolidated Income Statements

Years Ended December 31, 2003 and 2002

in millions of Korean Won, except per share amounts

		2003		2002
SALES (Notes 18, 19 and 20)	₩	5,672,466	₩	5,114,624
COST OF SALES (Note 18)		4,514,158		3,995,472
Gross profit		1,158,308		1,119,152
SELLING AND ADMINISTRATIVE EXPENSES		678,880		602,765
Operating income		479,428		516,387
NON-OPERATING INCOME				
Interest income		8,900		9,320
Foreign exchange gains		23,392		29,222
Gain on foreign currency translation		8,070		9,224
Gain on disposal of investments		143		37,673
Gain on valuation of investments using the equity method of accounting (Note 8)		145,083		42,291
Gain on disposal of property, plant and equipment		1,426		3,633
Reversal of bad debt allowance		4,959		-
Gains on valuation of derivatives instrument		799		-
Others		15,366		19,128
		208,138		150,491
NON-OPERATING EXPENSES				
Interest expenses		86,017		96,823
Foreign exchange losses		25,538		26,841
Loss on foreign currency translation		6,747		3,420
Loss on inventory valuation		5,769		5,889
Loss on disposal of trade accounts receivable		10,372		10,238
Loss on disposal of property, plant and equipment		18,174		19,923
Impairment loss on investments		11,180		-
Impairment loss on intangible assets (Note 2)		12,882		4,185
Loss on valuation of derivative instrument (Note 12)		4,720		-
Donations		4,483		2,956
Others		18,864		17,547
		204,746		187,822
Income before income taxes		482,820		479,056
Income tax expense (Note 15)		120,712		133,779
Net income	₩	362,108	₩	345,277
PER SHARE DATA (IN WON)				
Earnings per share (Note 16)	₩	5,382	₩	5,152
Ordinary income per share (Note 16)	₩	5,382	₩	5,152

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

Non-Consolidated Statements of Appropriations of Retained Earnings

Years Ended December 31, 2003 and 2002

(Date of appropriations: March 17, 2004 and March 8, 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-over from prior years	₩	8	₩	(2,273)
Changes in retained earnings resulting from the use of the equity method on investments		-		(8,864)
Net income		362,108		345,277
		362,116		334,140
APPROPRIATION OF RETAINED EARINGS				
Legal reserve		12,810		11,003
Dividend		128,106		110,029
Reserve for technology development		221,190		213,060
Loss on disposal of treasury stock		-		40
		362,106		334,132
UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO THE SUBSEQUENT YEAR	₩	10	₩	8

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

in millions of Korean Won

		2003		2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	₩	362,108	₩	345,277
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		271,929		251,221
Provision for severance benefits		48,238		46,630
Gain on foreign currency translation, net		(942)		(7,127)
Loss on disposal of trade accounts receivable		10,372		10,238
Loss on Inventory valuation		5,769		5,889
Impairment loss on investments		11,180		-
Loss on disposal of property, plant and equipment, net		16,748		16,290
Impairment loss on intangible asset		12,882		4,185
Gain on disposal of investments, net		(139)		(37,673)
Gain on valuation of investments using the equity method of accounting		(145,083)		(42,291)
Loss on valuation of derivative instrument, net		3,921		-
Reversal of bad debt allowance		(4,959)		-
Others, net		38,094		24,708
		630,118		617,347
CHANGES IN OPERATING ASSETS AND LIABILITIES				
Increase in trade accounts and notes receivable		(77,528)		(48,586)
Increase in inventories		(44,091)		(77,642)
Increase in other accounts receivable		(10,872)		(26,379)
Decrease (increase) in accrued income		631		(1,012)
Decrease (increase) in advance payments		2,100		(511)
(Increase) decrease in prepaid expenses		(1,688)		2,923
Decrease (increase) in other current asset		480		(1,487)
Decrease in long-term trade accounts and notes receivable		-		561
Increase in trade accounts and notes payable		166,828		99,783
Increase in other accounts payable		58,639		29,251
(Decrease) increase in accrued expenses		(2,739)		3,582
(Decrease) increase in income taxes payable		(47,932)		70,886
Increase in other current liabilities		22,398		15,163
Accrued severance benefits transferred from affiliated company		919		1,677
Increase in deferred income tax liabilities		39,597		18,124
Payment of severance benefits		(52,104)		(31,462)
Decrease (increase) in other assets		9,170		(2,264)
		63,808		52,607
Net cash provided by operating activities	₩	693,926	₩	669,954

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

in millions of Korean Won

		2003		2002
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of property, plant and epuipment	₩	6,246	₩	69,901
Disposal (acquisition) of short-term financial instruments		5,136		(909)
Disposal (acquisition) of long-term financial instruments, net		(122)		51
Acquisition of long-term guarantee deposits, net		(13,730)		(1,482)
Acquisition (disposal) of other investment, net		13,001		(3,355)
Acquisition of property, plant and equipment		(502,487)		(281,636)
Dividend income		33,163		20,539
Acquisition (disposal) of investment securities, net		(22,229)		74,971
Acquisition of equity method securities		(331,549)		(123,513)
Acquisition of intangible assets		(39,167)		(30,398)
Others		292		(110)
Net cash used in investing activities		(851,446)		(275,941)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (repayment of) short-term borrowings		16,797		(239,856)
Repayment of current maturities of long-term debt		(705,405)		(237,854)
Repayment of debentures		-		(60,000)
Proceeds from debentures		964,209		241,734
Proceeds from long-term debt, net		113,503		11,244
Acquisition of treasury stock, net		(4,837)		(300)
Payment of dividends		(110,009)		(55,228)
Others		(3,413)		31
Net cash provided by (used in) financing activities		270,845		(340,229)
Net increase in cash and cash equivalents		113,325		53,784
CASH AND CASH EQUIVALENTS				
Beginning of year		143,761		89,977
End of year (Note 22)	₩	257,086	₩	143,761

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

1. THE COMPANY

The Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, performance polymers, industrial and building materials, and information and electronic materials. The Company has its manufacturing facilities in Yeosoo, Chungju, Ulsan, Naju, Onsan, Iksan and Daesan.

As of December 31, 2003 and 2002, the Company has an outstanding capital stock of ₩365,431 million including preferred stock of ₩43,306 million. The Company was listed on the Korean Stock Exchange on April 25, 2001.

As of December 31, 2003 and 2002, the Company is authorized to issue 292,000,000 shares of common stock at ₩5,000 per share. The Company has issued 64,425,064 common shares and 8,661,251 preferred shares. Preferred stock is non-participating and has no voting rights. The holders of preferred stock are entitled to a non-cumulative preferred dividend at a rate of one percentage point over the common stock dividend.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language, in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying 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 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.

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 became effective for the Company on January 1, 2003, and the Company has adopted these statements in its financial statements as of and for the year ended December 31, 2003.

(1) SKFAS No. 4, *Revenue Recognition*

In accordance with SKFAS No. 4, the Company has changed its accounting policy for raw materials provided to subcontractors for processing, which were previously recognized as sales upon leaving the warehouse, and recognized as purchases when the processed materials were returned. Effective from January 1, 2003, only the outsourcing fees related to the processing are recognized as manufacturing costs. The effect of this application of SKFAS No. 4 resulted to a decrease in both sales and cost of sales for the year ended December 31, 2003 by ₩346,523 million. The non-consolidated financial statements as of and for the year ended December 31, 2002 were restated to reflect the changes in revenue recognition, and the sales and cost of sales for the year ended December 31, 2002 both decreased by ₩318,437 million. This change had no effect on previously reported net income or retained earnings.

(2) SKFAS No. 6, *Subsequent Events*

In accordance with SKFAS No. 6, the Company has changed its accounting policy for subsequent events. Accordingly, the financial statements as of

December 31, 2002, which are presented for comparative purposes have been restated to reflect retained earnings before dividends amounting to ₩110,029 million which was approved by the Board of Directors subsequent to the balance sheet date.

(3) SKFAS No. 8, *Securities*

In accordance with SKFAS No. 8, the Company reclassified the investments in equity securities or debt securities into trading securities, available-for-sale securities and held-to-maturity securities, in its 2002 non-consolidated financial statements. These reclassification has no effect on previous reported net income or shareholders equity.

Accounting Estimates

The preparation of the non-consolidated 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.

Revenue Recognition

Revenues from sales of finished products and merchandise are recognized when most of the risks and benefits associated with the possession of goods are substantially transferred to the buyer.

Asset-Backed Securities

In accordance with the Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade accounts receivable and ₩30,369 million of long-term guarantee deposits outstanding as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively (Note 4). As of December 31, 2003 and 2002, 2nd beneficiary certificates acquired from the trust companies, which are worth ₩15,291 million and ₩28,621 million, respectively, are included in trade accounts receivable.

The Company recognizes interest and issuance expenses as losses on disposal of trade accounts receivable and losses on disposal of investments, respectively.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated realizable value of the receivables.

Inventories

Inventories are stated at the lower of cost or market value, with cost being determined by the moving-average method except for materials in-transit for which cost is determined by the specific identification method. If the net realizable value of inventory is less than its cost, the carrying amount is reduced to the net realizable value. For the years ended December 31, 2003 and 2002, the Company recognized ₩5,769 million and ₩5,889 million of loss on inventory valuation, respectively.

Securities

In accordance with SKFAS No. 8, *Securities*, investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities depending on the acquisition and holding purpose (investments in business entities over which the Company exercise significant control or influence over the operating and financial policies of such entities are classified as equity-method investments). Trading securities are classified as current assets, and available-for-sale securities and held-to-maturity securities are classified as long-term investments, except for those securities that mature or are certain to be disposed of within one year, which are classified as part of current assets.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the weighted-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 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 charged to capital adjustments, the accumulated amount of which shall be charged to 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 the adjusted cost of debt securities after the amortization of discounts or premiums.

Equity-Method Investments

In the non-consolidated financial statements of the Company, investments in business entities, over which the Company exercises significant control or influence over the operating and financial policies of such entities, are recorded using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the changes in the Company's proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the net book value of the investee. Unrealized profit arising from intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized profit arising from sales by the Company to equity- method companies is fully eliminated. The Company's proportionate unrealized profit arising from sales by equity-method investees to the Company or sales between equity-method investees is also eliminated.

The Company discontinues the equity method of accounting for investments, when the Company's share in the accumulated losses of the investee equals the costs of the investments, and until the subsequent cumulated proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

The difference between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee is amortized over the relevant period, not to exceed twenty years, using the straight-line method and the amortization is charged to current operations.

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean Won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rate for income statements. Any resulting translation gain or loss is accounted for as overseas operation translation debit or credit in capital adjustments.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Useful Lives
Buildings and structures	25 – 50 years
Machinery and equipment	6 – 12 years
Vehicles	6 years
Tools	6 years
Furniture and fixtures	6 years

The Company capitalizes interest expense, incurred on debt used to fund the purchase or construction of property, plant and equipment, as part of the cost of major assets.

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

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired 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.

For the years ended December 31, 2003 and 2002, the Company realized a loss on the disposal of fixed assets amounting to ₩18,174 million and ₩19,923 million, respectively.

Intangible Assets

Intangible assets as of December 31, 2003 and 2002 are as follows:

in millions of Korean Won

		2003		2002
Intellectual property rights	₩	9,697	₩	13,852
Exclusive facility use rights		299		364
Development costs		141,790		114,915
Others		7,346		8,021
	₩	159,132	₩	137,152

Intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization of these intangibles is computed using the straight-line method over a period of five to twenty five years.

Research costs are charged to operations as incurred. Costs incurred for new products or technologies, which can be clearly defined and measured, and which have probable future economic benefits, are accounted for as development costs. Other development costs are recognized in the period incurred as normal development expenses. For the years ended December 31, 2003 and 2002, the Company recorded ₩28,128 million and ₩34,440 million of development costs as current expenses, respectively.

Capitalized development costs are amortized over their economic lives not to exceed twenty years using the straight-line method. The Company performs periodic assessments of the recoverability of development costs. Unrecoverable costs are charged to operations in the period that they are first identified.

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

in millions of Korean Won

		2003		2002
Beginning balance	₩	114,915	₩	61,729
Increase		48,690		66,333
Amortization		(12,057)		(8,962)
Disposal		(1,501)		
Impairment loss		(8,257)		(4,185)
Ending balance	₩	141,790	₩	114,915

For the years ended December 31, 2003 and 2002, expenses that may have future economic benefits, but can not be accounted for as assets due to the uncertainty in the realization of such future benefits, are as follows:

in millions of Korean Won

		2003		2002
Employee education expenses	₩	13,598	₩	12,508
Advertising expenses		35,619		54,698
	₩	49,217	₩	67,206

Revaluation of Receivables

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

Premiums or Discounts on Debentures

The Company accounts for the difference between the face amount and issued amount of debentures as an addition to or deduction from debentures.

Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

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 date. Resulting translation gains and losses are recognized in current operations.

Monetary assets and liabilities denominated in foreign currency, excluding items referred to in Notes 10 and 11, as of December 31 2003 and 2002 comprise the following:

	Foreign Currency (In Thousands)				In millions of Korean Won	
		2003		2002	2003	2002
Cash and cash equivalents	USD	3,426	USD	9,369	₩ 7,579	₩ 11,246
	EUR	1,068				
	GBP	181				
	JPY	126,445				
Trade accounts and notes receivable	USD	74,108	USD	71,446	127,659	109,010
	SGD	20	SGD	261		
	EUR	324	EUR	1,120		
	GBP	86	GBP	114		
	JPY	3,570,583	JPY	2,116,578		
Other accounts receivable	USD	978	USD	113	1,179	135
	EUR	11				
Other investments	USD	1,083	USD	5,082	1,297	6,101
Trade accounts and notes payable	USD	82,185	USD	77,209	146,009	120,618
	EUR	408	EUR	394		
	JPY	4,303,645	JPY	2,703,171		
	NOK		NOK	221		
Other accounts payable	USD	19,906	USD	13,705	26,276	43,411
	JPY	230,665	JPY	2,631,980		
	EUR	100				
Accrued expenses	USD	958		-	1,201	-
	JPY	5,562				

Accrued Severance Benefits

Employees and directors with one or more years of service 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 which would be payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

Accrued severance benefits are funded at approximately 58.6 % and 62.3 % as of December 31, 2003 and 2002, respectively, through group severance insurance plans and are presented as a deduction from accrued severance benefits.

The contributions to the National Pension Fund made under the National Pension Act in Korea and the group severance insurance deposit, are deducted from accrued severance benefit liabilities. Contributed amounts are refunded from the National Pension Fund and the insurance companies to employees upon their retirement.

Income Taxes

Income tax expense comprises taxes payable for the period and the changes in deferred tax assets and liabilities for the period.

Current income taxes payable comprise corporate income tax and tax surcharges payable for the current period. Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the tax and financial reporting bases of assets and liabilities at the balance sheet date based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Impairment Loss

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets for which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

Derivative Financial Instruments

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized in current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows risk, which are recorded as a capital adjustment.

Restatement and Reclassification of Prior Year Financial Statement Presentation

As described above, the Company has restated its 2002 financial statements to reflect SKFAS No. 4, 6 and 8 and has also reclassified certain amounts to conform to the current year presentation. These restatements and reclassifications had no effect on previously reported net income or shareholders' equity.

The Company implemented an ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during periods of fluctuating prices, thereby reflecting a more realistic picture of the Company's financial position. In compliance with financial accounting standards generally accepted in the Republic of Korea, the financial statements as of and for the year ended December 31, 2002 have been restated for the change in accounting method, which resulted in the increase in ordinary income and net income by ₩4,993 million.

The effects of the change in the inventory valuation method as of December 31, 2002 are summarized as follows :

in millions of Korean Won, except per share amounts

	Before Change	After Change
Ordinary income	₩ 474,063	₩ 479,056
Net income	340,284	345,277
Ordinary income per share (in won)	5,110	5,152
Earnings per share (in won)	5,110	5,152

3. RESTRICTED BANK DEPOSITS

As of December 31, 2002, short-term financial instruments of ₩5,522 million (equivalent to USD 4,600 thousand) are deposited in connection with the borrowings of related parties (Note 18). Furthermore, as of December 31, 2003 and 2002 long-term financial instruments of ₩48 million and ₩46 million are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

4. ASSET-BACKED SECURITIZATION

In accordance with Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade accounts receivable and ₩30,369 million of long-term guarantee deposits outstanding as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively.

Through the asset-backed securitization of trade receivables and guarantee deposits, the Company acquired beneficiary certificates and subordinated notes. The senior-tranche securities has the priority claim rights of the principal and interests and operating expenses of the Special Purpose Companies. The beneficiary certificates and subordinated notes held by the Company has the claim right of any remaining portion after the payment of the priority claim rights mentioned above. The maturity dates of these securities are November 28 and 29, 2004, respectively.

The Company has the obligation to collect the trade accounts receivable transferred and pay of the Special Purpose Company's expenses, such as interest and operating expenses as described above.

As of December 31, 2003 and 2002, trade accounts receivable transferred to LG 1st and 2nd Special Purpose Companies amounted to ₩158,291 million and ₩171,612 million, respectively.

5. RECEIVABLES

Receivables and allowance for doubtful accounts as of December 31, 2003 and 2002 comprise the following:

in millions of Korean Won

		2003		2002
Trade accounts and notes receivable	₩	437,340	₩	367,712
Less : Allowance for doubtful accounts		(44,300)		(27,245)
Present value adjustment		(161)		(717)
	₩	392,879	₩	339,750
Other accounts receivable	₩	66,560	₩	56,273
Less : Allowance for doubtful accounts		(2,224)		(1,458)
	₩	64,336	₩	54,815
Long-term trade accounts and notes receivable	₩	1,831	₩	3,414
Less : Present value adjustment		(387)		(1,191)
	₩	1,444	₩	2,223

6. INVENTORIES

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

in millions of Korean Won

		2003		2002
Merchandise	₩	21,844	₩	15,101
Finished products		180,853		166,966
Work-in-process		45,914		31,675
Raw materials		102,617		78,771
Supplies		15,999		16,567
Materials in-transit		11,763		22,965
	₩	378,990	₩	332,045

As of December 31, 2003 and 2002, inventories are insured against fire and other casualty losses up to ₩337,686 million and ₩308,856 million, respectively.

7. INVESTMENTS

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

in millions of Korean Won

	Classification	Reference		2003		2002
Bonds	Held-to-maturity	(1)	₩	1,765	₩	1,765
	Less : Current Portion			(1,765)		(-)
				-		1,765
Stocks	Available-for-sale	(2)		51,270		38,954
			₩	51,270	₩	40,719

(1) Bond classified as held-to-maturity as of December 31, 2003 and 2002 is the subordinated note received from the asset-backed securitization.

(2) Stocks classified as available-for-sale as of December 31, 2003 and 2002 comprise the following:

in millions of Korean Won

	Ownership Percentage		Acquisition Cost		Book Value		Fair Value or Net Asset Value (*6)	
	2003	2002	2003	2002	2003	2002	2003	2002
Government bonds			₩ 7	₩ 1	₩ 7	₩ 1	₩ 7	₩ 1
Wuxi LG Chemical Co., Ltd. (*1)	-	25.00	-	275	-	275	-	-
N&L Marble	10.00	10.00	169	169	169	169	141	138
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	627	491
TECWIN	19.90	19.90	139	139	139	139	889	591
Chemizen. Com Ltd.	3.33	3.33	300	300	300	300	54	167
LG Mozel Ltd.	9.75	9.75	195	195	195	195	300	-
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	2,298	2,298	2,109	3,601
Compact Power Inc. (*2)	61.00	61.00	1,325	3,732	1,325	3,732	467	1,325
LG Chem Europe Sarl (*2)	100.00	100.00	5,635	1,568	2,321	1,568	2,126	228
Tianjin LG Window & Doors (*3)	-	100.00	-	9,820	-	9,820	-	9,820
LG Holdings (H.K.)	18.18	18.18	22,011	13,401	22,011	13,401	21,739	13,063
LG Chemical (Guanzhou) (*2)	100.00	100.00	7,041	5,278	7,041	5,278	5,793	5,278
LG Chemical Trading (*2)	100.00	100.00	3,503	1,202	3,503	1,202	1,723	1,202
LG Chemical (Hunan) Phosphor (*4)	100.00	-	1,793	-	1,793	-	2,181	-
LG Chemical I&E Materials (*4)	100.00	-	6,069	-	6,069	-	6,193	-
Australia EDC Corp. (*5)	100.00	-	3,120	-	-	-	-	-
LG Environment Strategy Institute	6.00	-	9	-	9	-	12	-
LG Chem Industrial Materials (*4)	100.00	-	3,514	-	3,514	-	3,593	-
			₩ 57,704	₩ 38,954	₩ 51,270	₩ 38,954	₩ 47,954	₩ 35,905

(*1) Disposed in the first quarter of 2003.

(*2) Since the total assets of the investees are less than ₩7,000 million and the impact of applying equity method is not significant on the valuation of the investments, the equity method of accounting was not applied.

(*3) Since the total assets are over ₩7,000 million, these investments were reclassified as equity method securities from the current year. This investee was established in 2002 therefore the equity method was not applied during that year.

(*4) Since the investees were established in 2003, the equity method of accounting was not applied.

(*5) The investee was established and liquidated in 2003.

(*6) Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the income statement in case there is an indication that an investment may be impaired.

8. EQUITY-METHOD INVESTMENTS

Equity-method investments as of December 31, 2003 and 2002 comprise the following:

in millions of Korean Won

	Ownership Percentage		Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2003	2002	2003	2002	2003	2002	2003	2002
LG Sports Ltd.	20.00	20.00	₩ 1,200	₩ 1,200	₩ 989	₩ 989	₩ 961	₩ 977
LG Petrochemical Co., Ltd.	40.00	40.00	153,790	153,790	242,512	226,265	226,102	205,188
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	47,817	35,249	47,787	35,249
Tianjin LG New Building Materials Co., Ltd.	90.37	90.37	12,399	12,399	10,097	8,652	10,164	8,548
Tianjin LG Window & Doors (*1)	100.00	-	9,820	-	8,236	-	8,462	-
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	73,347	63,638	90,292	77,509	90,318	77,509
LG India Holdings., Ltd.	100.00	100.00	31,466	31,467	49,215	41,276	49,236	41,287
LG Chem Hong Kong Ltd.	100.00	100.00	254	254	5,087	4,803	5,305	4,804
LG Vina Chem Co., Ltd.	40.00	40.00	1,194	1,194	1,968	1,041	1,968	1,041
LG Chemical America Inc.	100.00	100.00	9,596	9,596	-	-	2,210	1,084
P.T. Sinar LG Plastics Ind.	97.61	97.17	21,131	16,172	-	-	-	-
LG Lucoat Powder Coatings Ltd.(*2)	28.33	28.33	2,207	2,207	2,340	2,328	2,320	2,301
M. Dohmen Holding S.A. (*3)	49.00	49.00	43,203	43,203	41,116	40,992	25,453	23,372
Hyundai Petrochemical Co., Ltd (*4)	50.00	-	302,563	-	378,290	-	909,952	-
LG Dow Polycarbonate (*5)	50.00	-	19,277	-	19,277	-	17,273	-
			₩ 698,945	₩ 352,618	₩ 897,236	₩ 439,104	₩ 1,397,511	₩ 401,290

In accordance with the resolution of the Board of Directors on April 24, 2002, the Company disposed of its investments in LG Investments and Securities Co., Ltd. of 5,265,650 shares (price per share of ₩19,000) for ₩100,047 million and recognized a gain on disposal of investment amounting to ₩37,669 million on April 25, 2002. In addition, the Company acquired 6,320,000 common shares of LG Petrochemical Co., Ltd. in the amount of ₩94,990 million (price per share of ₩15,030).

(*1) The Company reclassified this investment from investment securities to equity-method investments during the current year.

(*2) LG Ferro Powder Coatings Ltd. changed its name to LG Lucoat Powder Coatings Ltd. in 2002.

(*3) M. Dohmen GmbH., formerly an investee of the Company, exchanged its shares with its subsidiary, M. Dohmen S.A., in 2002. As a result of the exchange, the shares of M. Dohmen S.A. were acquired by the Company. In addition, M Dohmen Holdings S.A. also became a consolidated controlling company of M. Dohmen GmbH. and its other subsidiaries.

(*4) On June 25, 2003, the Fair Trade Commission approved the joint acquisition of Hyundai Petrochemical Co., Ltd. ("HPC") by a consortium comprised of the Company and Honam Petrochemical Corp. The Fair Trade Commission stipulates that the Company and Honam Petrochemical Corp. should take over the LDPE, HDPE, and PP businesses of HPC separately, within one and a half years after stock acquisition. However, marketing functions should be separately taken over within six months after the acquisition. The Company completed the payment of ₩300,000 million (37,325,680 shares, average purchase cost per share: ₩8,037) on June 26, 2003 for the acquisition of 50% of the shares of HPC.

(*5) In accordance with the resolution of the Board of Directors on December 22, 2003, the Company acquired 5,274,085 shares (50% of total shares) of LG Dow Polycarbonate, Ltd. Amounting to ₩19,277 million (price per share of ₩3,655) from LG Corp. on December 30, 2003.

Changes in equity-method investments for the year ended December 31, 2003 and 2002 are as follows:

in millions of Korean Won

	2003					
	As of January 1, 2003	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2003
LG Sports Ltd.	₩ 989	₩ -	₩ -	₩ -	₩ -	₩ 989
LG Petrochemical Co., Ltd.	226,265	-	(22,600)	38,890	(43)	242,512
Tianjin LG Dagu Chemical Co., Ltd.	35,249	-	-	12,578	(10)	47,817
Tianjin LG New Building Materials Co., Ltd.	8,652	-	-	1,454	(9)	10,097
Tianjin LG Window & Doors	-	9,820	-	(1,341)	(243)	8,236
Ningbo LG Yongxing Chemical Co., Ltd.	77,509	9,709	(10,563)	14,241	(604)	90,292
LG India Holdings., Ltd.	41,276	-	-	5,680	2,259	49,215
LG Chem Hong Kong Ltd.	4,803	-	-	292	(8)	5,087
LG Vina Chemical Co., Ltd.	1,041	-	-	927	-	1,968
LG Chemical America Inc. (*1)	-	-	-	-	-	-
P.T. Sinar LG Plastics Ind. (*1)(*2)	-	-	-	-	-	-
LG Lucoat Powder Coatings Ltd.	2,328	-	-	41	(29)	2,340
M. Dohmen S.A.	40,992	-	-	(3,427)	3,551	41,116
Hyundai Petrochemical Co., Ltd.	-	302,563	-	75,748	(21)	378,290
LG Dow Ploycarbonate	-	19,277	-	-	-	19,277
	₩ 439,104	₩ 341,369	₩ (33,163)	₩ 145,083	₩ 4,843	₩ 897,236

(*1) The Company discontinued using the equity method of accounting and the investments in these affiliates are stated at ₩0, since the affiliates' net asset value is negative. The accumulated unrecognized loss incurred after the discontinuation of the application of the equity method of accounting is ₩387 million.

(*2) The Company converted ₩4,959 million of its receivables to the equity of P.T. Sinar LG Plastics, and then wrote off this investment in 2003. The investee is under liquidation pursuant to the resolution of its shareholders on December 24, 2003.

in millions of Korean Won

	2002						
	As of January 1, 2002	Acquisition (Disposal)	Dividends	Retained Earnings (*2)	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2002
LG Sports Ltd.	₩ 1,001	₩ -	₩ -	₩ -	₩ (13)	₩ -	₩ 989
LG Petrochemical Co., Ltd.	126,597	94,990	(8,820)	(1,216)	23,759	(9,045)	226,265
Tianjin LG Dagu Chemical Co., Ltd.	37,728	-	-	-	1,144	(3,623)	35,249
Tianjin LG New Building Materials Co., Ltd.	8,632	-	-	-	864	(843)	8,652
Ningbo LG Yongxing Chemical Co., Ltd.	67,998	17,131	(11,719)	-	11,322	(7,223)	77,509
LG India Holdings., Ltd.	37,203	-	-	-	7,248	(3,175)	41,276
LG Chem Hong Kong Ltd.	4,248	-	-	-	992	(438)	4,803
LG Vina Chem Co., Ltd.	362	-	-	-	744	(64)	1,041
LG Chemical America Inc. (*1)	-	-	-	-	-	-	-
P.T. Sinar LG Plastics Ind.	-	11,393	-	(11,393)	-	-	-
LG Lucoat Powder Coatings Ltd.	2,420	(122)	-	-	30	-	2,328
M. Dohmen S.A.	43,203	-	-	-	(3,799)	1,588	40,992
	₩ 329,392	₩ 123,392	₩ (20,539)	₩ (12,609)	₩ 42,291	₩ (22,823)	₩ 439,104

(*1) The Company discontinued using the equity method of accounting and the investment is stated at ₩0, since the affiliate's net asset value is negative.

(*2) Changes in retained earnings represent the cumulative effect of the change in inventory valuation method (LG Petrochemical) and accumulated unrecognized loss incurred after the discontinuation of the application of the equity method of accounting offset against capital increase. (P.T. Sinar LG Plastics)

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

in millions of Korean Won

	2003				2002			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
LG Sports Ltd.	₩ 12	₩ -	₩ 2	₩ 10	₩ 14	₩ -	₩ 2	₩ 12
LG Petrochemical Co., Ltd.	23,869	-	2,583	21,286	68	25,740	1,939	23,869
Tianjin LG New Building Materials Co., Ltd.	146	-	21	125	167	-	21	146
LG Lucoat powder Coatings Ltd.	27	-	7	20	30	3	6	27
M. Dohmen S.A.	17,620	-	1,958	15,662	-	19,578	1,958	17,620
Hyundai Petrochemical Co., Ltd	-	(374,985)(*)	(12,499)	(362,486)	-	-	-	-
LG Dow Polycarbonate	-	2,004	-	2,004	-	-	-	-
	₩ 41,674	₩ (372,981)	₩ (7,928)	₩ (323,379)	₩ 279	₩ 45,321	₩ 3,926	₩ 41,674

(*) It accounts for the difference between the purchase price and the underlying proportionate fair value of the investee.

The unrealized gains (losses) incurred from transactions entered into with equity method investees and eliminated as of December 31, 2003 and 2002, are as follows:

in millions of Korean Won

	2003			2002		
	Inventory	Others	Total	Inventory	Others	Total
LG Petrochemical Co., Ltd.	₩ 4,285	₩ -	₩ 4,285	₩ 2,722	₩ -	₩ 2,722
LG Chem Hong Kong Ltd.	218	-	218	1	-	1
Tianjin LG New Building Materials Co., Ltd.	192	-	192	42	-	42
Tianjin LG Window & Doors	226	-	226	-	-	-
LG India Holdings., Ltd.	21	-	21	11	-	11
LG Chemical America Inc.	2,597	-	2,597	1,397	-	1,397
Hyundai Petrochemical Co., Ltd.	174	-	174	-	-	-
	₩ 7,713	₩ -	₩ 7,713	₩ 4,173	₩	₩ 4,173

Changes in gain on valuation of investment securities accounted for as capital adjustment for the years ended December 31, 2003 and 2002 are as follows:

in millions of Korean Won

	2003	2002
Beginning Balance	₩ 52,136	₩ 91,039
Increase	5,782	1,588
Decrease	(938)	(40,491)
Ending Balance	₩ 56,980	₩ 52,136

9. PROPERTY, PLANT AND EQUIPMENT

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

in millions of Korean Won

		2003		2002
Buildings	₩	582,450	₩	557,996
Structures		237,795		232,543
Machinery and equipment		2,692,080		2,624,053
Vehicles		19,532		19,473
Tools and furniture		459,704		414,787
		3,991,561		3,848,852
Accumulated depreciation		(2,333,602)		(2,154,161)
		1,657,959		1,694,691
Land		311,486		309,487
Construction in-progress		413,091		231,022
Machinery in-transit		79,101		24,595
	₩	2,461,637	₩	2,259,795

For the years ended December 31, 2003 and 2002, capitalized interest expense amount to ₩8,520 million and ₩11,913 million, respectively.

As of December 31, 2003 and 2002, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩8,008,275 millon and ₩7,836,850 million, respectively. In addition, as of December 31, 2003 and 2002, the Company has business interruption insurance policies.

The Company's certain property, plant and equipment as of December 31, 2003 and 2002 have been pledged as collateral for certain bank loans, up to a maximum of ₩382,212 million and ₩376,042 million, respectively (Notes 10 and 11).

As of December 31, 2003 and 2002, the fair value of land as assessed by the Korean Government amount to ₩422,202 million and ₩401,104 million, respectively.

10. SHORT-TERM BORROWINGS AND CURRENT MATURITIES OF LONG-TERM DEBTS

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

	Annual Interest Rate (%)		In millions of Won (In thousands of Foreign Currency)			
	2003	2002		2003		2002
Short-term borrowings :						
General term loans	JIBOR+1.3	1.6-5.8	₩	19,516		58,665
Commercial paper	4.7-5.1	-		65,000		-
Bank overdrafts	-	-		2,362		564
Borrowings from related parties	-	-		-		132
			(JPY	1,743,140)	(USD	110)
					(JPY	855,450)
			₩	86,878	₩	59,361
Current maturities of long-term debt :						
Debentures	Libor+0.6-6.0	Libor+0.6-0.9		247,912		680,000
Won currency loans	3.0-9.1	3.0-9.1		431		5,682
Foreign currency loans	Libor+0.4-1.7	1.1-3.5		14,120		19,724
			(USD	11,261)	(USD	16,228)
			(EU	146)	(EU	292)
			(SF	428)	(SF	428)
Less : Discount on debentures issued				(834)		(2,018)
				261,629		703,388
			₩	348,507	₩	762,749

See Note 9 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

	Reference		2003		2002
Debentures	(1)	₩	1,205,914	₩	488,562
Loans	(2)		133,220		32,763
		₩	1,339,134	₩	521,325

(1) Debentures as of December 31, 2003 and 2002, are as follows:

	Annual Interest Rate (%)		In millions of Korean Won (In thousands of foreign currency)			
	2003	2002		2003		2002
Public offered debentures, payable through 2008	4.0-6.0	5.0-9.0	₩	1,000,000	₩	940,000
Private offered debentures, payable through 2006	CD+0.7	5.1-16.9		100,000		90,000
Foreign debentures, payable through 2006 (*)	Libor+0.6-0.9	Libor+0.6		371,318		144,048
			(USD	310,000)	(USD	120,000)
				1,471,318		1,174,048
Less : Current maturities				(247,912)		(680,000)
Discount on debentures issued				(17,492)		(5,486)
			₩	1,205,914	₩	488,562

(*) The Company issued floating rate notes (FRN) on June 21, 2002 with maturities on December 21, 2004, June 21, 2005 and December 21, 2005. The Company also issued Term notes on April 17, June 25 and December 23, 2003 with maturities on April 17, 2006, on June 25, 2005 and on December 23, 2006, respectively.

(2) Loans as of December 31, 2003 and 2002 comprise the following:

	Annual Interest Rate (%)		In millions of Korean Won (In thousands of foreign currency)			
	2003	2002		2003		2002
Won currency loans						
Energy fund loans	5.0-7.0	5.0-7.0	₩	619	₩	1,360
General term loans	-	8.4		-		2,927
Housing loans	3.0-9.1	3.0-9.5		3,479		3,622
Loans for technology improvement		8.4		-		1,909
				4,098		9,818
Less : Current maturities				(431)		(5,682)
				3,667		4,136
Foreign currency loans						
General term loans	Libor+0.4-1.7	Libor+0.4-1.7	₩	143,673	₩	45,796
Others	-	Libor+0.7		-		1,334
Payment by installment	-	Libor+1.5		-		1,221
				143,673		48,351
			(USD	108,823)	(USD	29,639)
			(EU	146)	(EU	438)
			(SF	643)	(SF	1,071)
			(JPY	1,115,210)	(JPY	1,115,210)
Less : Current maturities				(14,120)		(19,724)
				129,553		28,627
			₩	133,220	₩	32,763

See Note 9 for collateral arrangements on the above borrowings.

The annual maturities of long-term debt, excluding discounts and premiums on debentures, as of December 31, 2003 are as follows:

in millions of Korean Won

Year		Debentures		Won currency Loans		Foreign currency Loans		Total
2005	₩	335,714	₩	164	₩	81,641	₩	417,519
2006		667,692		100		47,912		715,704
2007		-		-		-		-
2008 and thereafter		220,000		3,403		-		223,403
	₩	1,223,406	₩	3,667	₩	129,553	₩	1,356,626

12. COMMITMENTS AND CONTINGENCIES

As of December 31, 2003 the Company provides a joint guarantee for obligations existing prior to the spin-off, which are assumed by LG Corp. (formerly, LG Chem Investment Ltd.) and LG Household & Health Care Ltd. as of April 1, 2001 and provides financial guarantee to customers.

As of December 31, 2003 and 2002 the Company receives guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

In the normal course of business, the Company has provided as collateral for creditors and guarantors, two blank promissory notes as of December 31, 2003 and a number of blank promissory notes and promissory notes with an aggregate face value of ₩2,602 million as of December 31, 2002, respectively.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2003 and 2002 amounted to ₩234,447 million and ₩227,106 million, respectively (Note 18).

As of December 31, 2003 and 2002, the Company is contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩137,992 million (including LG International Corp. agent sales) and ₩158,553 million (including LG international Corp. agent sales), respectively.Further, the Company is contingently liable for trade receivables transferred to LG 1st and 2nd Special Purpose Companies amounting to ₩158,291 million and ₩171,612 million, respectively, as of December 31, 2003 and 2002 (Note 4).

As of December 31, 2003 the Company has entered into contracts with several financial institutions to open import letters of credit up to ₩115,000 million and USD 111 million.

As of December 31, 2003 and 2002, the Company has been named as a defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions against the Company outstanding as of December 31, 2003 and 2002, in the aggregate, will not have a material adverse impact on the Company's operations or financial position.

The Company has entered into various multi-year technical assistance and license agreements with several foreign companies for the manufacture of certain product lines. In connection with these agreements, the Company is obligated to pay fees and royalties.

As of December 31, 2003, the Company has entered into a long-term purchase contract and provided USD 4,750 thousand as guarantee for the contract execution.

The Company has entered into interest rate swap, currency swap, forward exchange contracts and options for hedging against fluctuations in foreign exchange rate and interest rate. Outstanding contracts and options include interest rate swap of ₩100,000 million, currency swap of USD 205,000 thousand and currency forward and option of USD 55,000 thousand as of December 31, 2003, and currency forward pertaining to buying contracts of USD 5,000 thousand as of December 31, 2002.

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 AND RETAINED EARNINGS

Paid-in Capital in Excess of Par Value

At the time of spin-off, the Company recorded ₩532,002 million as paid-in capital in excess of par value.

Legal Reserve

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

Other Reserves

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earnings appropriated for reserves for technology development as deductions in its income tax return. These reserves are not available for the payment of dividends until used for the specified purpose or reversed.

14. TREASURY STOCK

Changes in treasury stock for the years ended December 31, 2003 and 2002 are as follows:

in millions of Korean Won

	2003					
	Common Stock			Preferred Stock		
	Number of shares		Amount	Number of shares		Amount
January 1, 2003	18,394	₩	418	3,657	₩	20
Increase	180,007		7,879	-		-
Decrease	71,908		2,724	-		-
December 31, 2003	126,493	₩	5,573	3,657	₩	20

in millions of Korean Won

	2002					
	Common Stock			Preferred Stock		
	Number of shares		Amount	Number of shares		Amount
January 1, 2002	12,200	₩	158	3,657	₩	20
Increase	23,000		965	-		-
Decrease	(16,806)		(705)	-		-
December 31, 2002	18,394	₩	418	3,657	₩	20

15. INCOME TAXES

Income taxes for the years ended December 31, 2003 and 2002, comprise the following:

in millions of Korean Won

		2003		2002
Current income taxes under the tax law	₩	81,115	₩	119,733
Changes in deferred income tax assets (liabilities) (*)		39,597		14,046
Income taxes	₩	120,712	₩	133,779

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

in millions of Korean Won

	Accumulated Temporary Differences				Deferred Income Tax Assets (Liabilities)			
		2003		2002		2003		2002
Beginning balance	₩	80,489	₩	33,195(*)	₩	(23,905)	₩	(9,859)
Ending balance	₩	234,230	₩	80,489		(63,502)		(23,905)
					₩	(39,597)	₩	(14,046)

(*) The effect of the accounting change of ₩12,609 million and additional tax payment of ₩1,121 million on temporary differences was included.

Current income taxes under the tax law are calculated as follows:

in millions of Korean Won

		2003		2002
Income before income taxes	₩	482,820	₩	479,056
Additions to pretax income		194,647		152,284
Deductions from pretax income		(311,188)		(214,909)
Taxable income	₩	366,279	₩	416,431

Changes in temporary differences for the year ended December 31, 2003 and 2002, are as follows:

in millions of Korean Won

	2003							
	Beginning Balance		Increase		Decrease		Ending Balance	
Accrued severance benefits	₩	112,668	₩	19,451	₩	112,668	₩	19,451
Severance insurance plans		(112,668)		(18,806)		(112,668)		(18,806)
Allowance for doubtful accounts		36,408		44,585		32,723		48,270
Accrued income		(614)		(614)		(614)		(614)
Research and development costs		(50,101)		-		(10,693)		(39,408)
Present value discount		1,583		-		1,362		221
Depreciation		28,495		13,507		6,701		35,301
Gain on valuation of investments using the equity method of accounting		24,558		(170,827)		-		(146,269)
Gain on foreign currency translation		8,020		-		4,117		3,903
Reserves for technology development		(140,000)		(50,000)		-		(190,000)
Others		11,162		71,417		28,858		53,721
	₩	(80,489)	₩	(91,287)	₩	62,454	₩	(234,230)

in millions of Korean Won

	2002							
	Beginning Balance		Increase		Decrease		Ending Balance	
Accrued severance benefits	₩	113,525	₩	(857)	₩	-	₩	112,668
Severance insurance plans		(112,668)		-		-		(112,668)
Allowance for doubtful accounts		23,895		34,191		21,678		36,408
Accrued income		(734)		(304)		(424)		(614)
Research and development costs		(59,932)		-		(9,831)		(50,101)
Present value discount account		1,583		-		-		1,583
Depreciation		16,648		13,987		2,140		28,495
Gain on valuation of investments using the equity method of accounting		21,092		3,466		-		24,558
Gain on foreign currency translation		12,179		-		4,159		8,020
Reserves for technology development		(50,000)		(90,000)		-		(140,000)
Others		1,217		7,780		(2,165)		11,162
	₩	(33,195)	₩	(31,737)	₩	15,557	₩	(80,489)

(*) The accumulated effect of accounting change of ₩12,609 million and additional tax payment ₩1,121 million on temporary difference was included.

The statutory income tax rate, including resident tax subcharges, applicable to the Company for the years ended December 31, 2003 and 2002 was 29.7%. The 27.5% statutory income tax rate will be applied on temporary differences which will be realized for the fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003. However, as a result of tax reconciliation, tax credits and other items, the effective tax rate of the Company for the years ended December 31, 2003 and 2002 are 25.0 % and 27.8 %, respectively.

16. EARNINGS PER SHARE

Basic ordinary income per share and earnings per share for the years ended December 31, 2003 and 2002 are computed as follows:

in millions of Korean Won, except per share amounts

		2003		2002
Net income	₩	362,108	₩	345,277
Preferred stock dividends		(15,584)		(13,419)
Net income and ordinary income available for common stock (A)		346,524		331,858
Weighted average number of shares of outstanding common stock (B) (*)		64,383,536		64,408,528
Basic earnings per share and ordinary income per share (A/B)	₩	5,382	₩	5,152

(*) Treasury stock is deducted from outstanding common stock.

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

17. DIVIDENDS

Details of dividends for the years ended December 31, 2003 and 2002, are as follows:

		2003		2002
Shares issued and outstanding (par value per share: ₩ 5,000)				
Common stock		64,298,571 Shares		64,406,670 Shares
Preferred stock		8,657,594 Shares		8,657,594 Shares
Dividend per share (in Won)				
Common stock : cash	₩	1,750 (35%)	₩	1,500 (30%)
Preferred stock : cash	₩	1,800 (36%)	₩	1,550 (31%)
Dividend amount (in Millions)				
Common stock	₩	112,522	₩	96,610
Preferred stock		15,584		13,419
	₩	128,106	₩	110,029

18. 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 and the related account balances as of December 31, 2003 and 2002, are summarized as follows:

in millions of Korean Won

	2003	2002
Sales	₩ 1,350,948	₩ 913,351
Purchases	1,496,191	1,125,435
Receivables	121,963	91,011
Payables	337,380	154,747

The Company has guaranteed the repayment of various obligations of subsidiaries. The outstanding balance of such guarantees as of December 31, 2003 and 2002 amounted to approximately ₩234,447 million (related outstanding bank borrowings: ₩132,814 million) and ₩227,106 million (related outstanding bank borrowings: ₩128,485 million), respectively.

The details of guarantees provided are as follows:

in millions of Korean Won

Guarantee	2003				
	Guarantee Amount		Financial Institution	Loan Outstanding Amount	
Tianjin LG Dagu Chemical Co., Ltd.	₩	14,374	Fudong Bank	₩	14,374
		21,560	ABC		21,560
		4, 791	ICBC		4,791
Tianjin LG New Building Materials Co., Ltd.		1,437	KEB		1,198
		5,390	ICBC		3,593
		5,390	CHB		5,390
		5,510	KDB		5,510
		7,668	Woori Bank		7,668
Tianjin LG Window & Doors		4,783	Woori Bank		4,783
		4,791	ABC		3,593
		2,396	SCB		2,396
LG Chem (Guangzhou)		6,947	ICBC		6,817
		3,534	Citibank		1,797
LG Chemical America Inc.		22,758	Woori Bank		-
		8,385	Bank One		-
		5,989	BOA		-
LG Solid Source		5,989	Bank one		2,276
LG Chem HongKong Ltd.		41,923	BOA		14,381
		23,956	HSBC		25,379
LG India Holdings., Ltd.		5,390	BOA		-
		15,893	SCB		5,324
		6,581	CHB		-
LG Chem Europe Sarl		4,506	CL Bank		1,117
		4,506	SG		867
	₩	234,447		₩	132,814

in millions of Korean Won

Guarantee	2002				
	Guarantee Amount		Financial Institution	Loan Outstanding Amount	
Tianjin LG Dagu Chemical Co., Ltd.	₩	14,405	EXIM Bank	₩	9,603
		14,502	Fudong Bank		14,502
		12,004	ABC		12,004
		4,802	ICBC		4,802
Tianjin LG New Building Materials Co., Ltd.		1,440	KEB		1,200
		2,175	ICBC		2,175
		6,002	CHB		6,002
		5,522	KDB		5,522
		8,846	Woori Bank		8,846
Tianjin LG Window & Doors		4,786	Woori Bank		1,305
		4,802	ABC		2,401
LG Chem (Guangzhou)		6,962	ICBC		-
LG Vina Chem Co., Ltd.		6,842	KDB		1,513
LG Chemical America Inc.		22,808	Woori Bank		-
		8,403	Bank One		-
		12,004	KDB		-
		6,002	BOA		-
LG Chem HongKong Ltd.		36,012	BOA		24,234
		18,006	HSBC		18,006
LG India Holdings., Ltd.		5,402	BOA		739
		15,605	SCB		14,342
		6,002	CHB		-
LG Chem Europe Sarl		3,772	CL Bank		1,289
	₩	227,106		₩	128,485

Pursuant to the resolution of the Board of Directors on January 30, 2004, the Company will purchase ₩100,000 million of commercial papers issued by LG Card Co., Ltd. The commercial papers will be converted into subordinate convertible bonds of LG Card Co., Ltd. after the completion of the debt-to equity swap of the creditors of LG Card Co., Ltd.

19. OPERATING RESULTS OF THE FINAL INTERIM PERIOD

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

in millions of Korean Won, except per share amounts

	2003 (unaudited)		2002 (unaudited)	
Sales	₩	1,517,038	₩	1,348,231
Operating income	₩	118,029	₩	70,085
Net income	₩	88,679	₩	40,393
Earnings per share	₩	1,292	₩	499

20. SEGMENT INFORMATION

The Company defines its segments by the nature of its products and services.

(1) Industry Segment Information

Industry Segments

Industry	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizers and others	LG International Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Performance Polymers	ABS/PS, EPS, MBS, SBL, EP and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. and others
Industrial & Building Materials	HiSash, UBR, Wall coverings, Living materials, Building materials and others	Hyundai Motors Co., Ltd. Daewoo Motor Co., Ltd. Distributors and wholesalers
Information & Electronic Materials	Battery, Fluorescent materials, Polarized light board and others	LG Electronics Inc. Hynix Semiconductor Inc. LG Philips LCD, and others

Financial information on industry segments for the years ended December 31, 2003 and 2002, are as follows:

in millions of Korean Won

	2003					
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
Sales						
External sales	₩ 1,562,072	₩ 1,410,031	₩ 1,957,144	₩ 698,883	₩ 44,336	₩ 5,672,466
Inter-segment sales	220,219	45,340	2,831	219	41,744	310,353
	₩ 1,782,291	₩ 1,455,371	₩ 1,959,975	₩ 699,102	₩ 86,080	₩ 5,982,819
Operating income	₩ 163,902	₩ 58,410	₩ 155,297	₩ 96,237	₩ 5,582	₩ 479,428
Fixed assets						
Tangible and intangible assets	₩ 703,966	₩ 590,399	₩ 640,920	₩ 651,945	₩ 33,539	₩ 2,620,769
Depreciation and amortization	₩ 104,120	₩ 58,707	₩ 69,931	₩ 34,694	₩ 4,477	₩ 271,929

in millions of Korean Won

	2002					
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
Sales						
External sales	₩ 1,423,777	₩ 1,231,197	₩ 1,963,775	₩ 438,561	₩ 57,314	₩ 5,114,624
Inter-segment sales	222,031	43,630	240	275	37,909	304,085
	₩ 1,645,808	₩ 1,274,827	₩ 1,964,015	₩ 438,836	₩ 95,223	₩ 5,418,709
Operating income	₩ 148,263	₩ 114,156	₩ 210,313	₩ 37,978	₩ 5,677	₩ 516,387
Fixed assets						
Tangible and intangible assets	₩ 640,866	₩ 438,073	₩ 488,062	₩ 377,669	₩ 452,277	₩ 2,396,947
Depreciation and amortization	₩ 99,033	₩ 48,668	₩ 60,472	₩ 28,901	₩ 14,147	₩ 251,221

(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2003 and 2002, are as follows:

in millions of Korean Won

	Domestic (*)	China	North America	South America	South East Asia	Western Europe	Others	Total
2003	3,880,719	1,042,957	226,215	30,454	111,144	152,944	228,033	5,672,466
2002	3,354,605	935,192	223,429	48,430	176,265	153,010	223,693	5,114,624

(*) Domestic sales include the exports made based on local letters of credit.

21. DISCONTINUED OPERATION

On May 8, 2002, the Company disposed of its epoxy polymers segment to Bakelite Korea, a subsidiary of Bakelite Co., Ltd., at ₩22,402 million and realized a gain on the disposal of the segment amounting to ₩3,807 million.

The gain on disposal of the epoxy polymers segment is as follows:

in miillions of Korean Won

Book value	Inventories	₩	3,632
	Trade accounts and notes receivable		3,184
	Property, plant and equipment		11,779
			18,595
Sales price			22,402
Gain on disposal		₩	3,807

The financial results of the discontinued operation is as follows:

in miillions of Korean Won

		2001		2002.1.1 ~ 2002.5.8
Sales	₩	55,449	₩	20,971
Cost of sales		48,122		17,661
Gross profit		7,327		3,310
Selling & administration expenses		4,372		2,590
Operating income	₩	2,955	₩	720

22. SUPPLEMENTAL CASH FLOW INFORMATION

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

in millions of Korean Won

		2003		2002
Transfer to current portion of long term trade receivables	₩	-	₩	420
Transfer to property, plant and equipment		201,890		260,492
Transfer to machinery and equipment		44,698		72,494
Transfer to development costs		8,402		7,950
Gain on valuation of investment using the equity method of accounting (capital adjustment)		4,844		22,824
Transfer to current maturities of long-term debts		14,551		25,405
Transfer to current maturities of debentures		247,912		680,000
Gains on Valuation of Derivatives (capital adjustment)		4,698		-

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