LG Chem

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LG Chem Annual Report 2004

it's beyond

LG Chem Annual Report 2004

LG Chem

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Company Profile

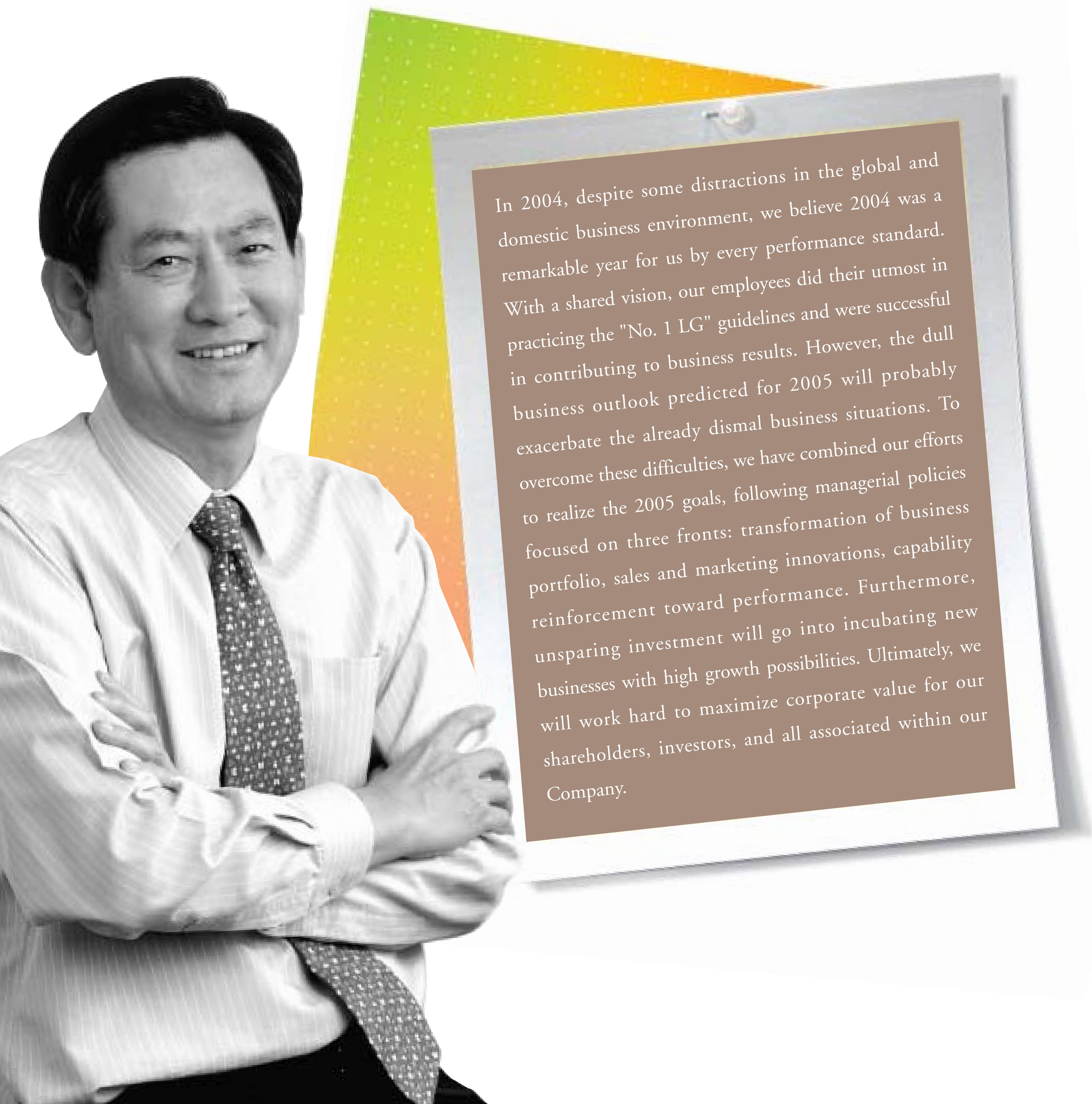
For a More Affluent Future

Since our business inception in 1947 as Korea's first chemical company, LG Chem Ltd. has steadily progressed as a specialist in the chemical industry.

LG Chem operates three mainstay business companies: Chemicals and Polymers, Industrial Materials, and Information and Electronic Materials. To offer customers top-of-the-line products and services worldwide, we strive for ever more effective global management, backed by our production subsidiaries, research centers, and sales channels established in key global locations.

Today, our sights are set on becoming one of the industry's Global Top 5 by 2010. With this shared vision, all of us at LG Chem put our efforts into turning ideas into high value-added chemical products, cutting-edge information and electronic materials, and high-performance industrial materials that can bring more affluence to the lives of people.

Message from the CEO



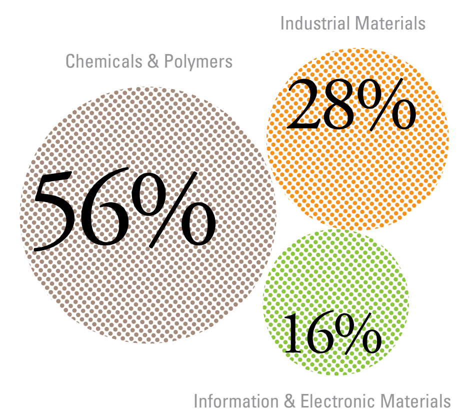
To Our Shareholders, Clients, and Friends

A long period of general recession in Korea, soaring oil prices, uncertainties brewing from the war in Iraq, and continued unrest over the nuclear weapons issue in North Korea were adverse factors affecting businesses in 2004. In response, all of us at LG Chem combined efforts to turn out the best products and technologies possible by adhering to the "No. 1 LG" objectives.

2004 Review

Our combined efforts have paid off as total sales grew 26% in 2004 to ₩7,127 billion. In the consolidated basis, sales accounted for ₩8,817 billion and net income ₩537 billion, a 28% and a 48% increase, respectively.

2004 sales by business units



Looking into the business results of each company, the Chemicals and Polymers posted a double-digit sales increase of 27% through profit-focused marketing, stabilized procurement of raw materials, enhanced competitiveness in China, and increased sales of value-added products.

The Industrial Materials Company showed slight growth in sales due to domestic recession and the stagnant construction market. To offset the sluggish domestic demand, it is accelerating the development of new-concept and value-added products. In the Information and Electronic Materials, sales jumped to ₩1.2 trillion, representing a 73% increase over the figure in the previous year. Increases in sales of strategic business items, including rechargeable batteries and polarizers, all contributed to attaining remarkable growth.

To seize a strong market position in the emerging business areas, multifaceted efforts were poured into fostering growth-promising businesses involved with PVC, ABS, battery, and polarizer. We solidified the platform for global operation with the establishment of LG Chem China Investment Co., Ltd. as a holding company of Chinese subsidiaries, Nanjing Techno Park, and the LG Chem Industrial Materials Inc. in the United States.

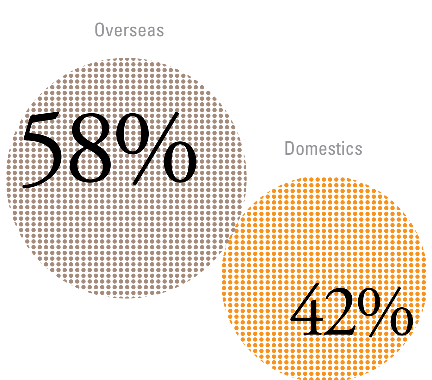
As part of overall reform, the Six Sigma initiatives were expanded not only in production activities but also in non-production activities such as management and marketing. Various innovation activities further improved productivity and cost-cut and energy-saving.

Our combined efforts have paid off as total sales grew 26% in 2004 to ₩7,127 billion. In the consolidated basis, sales accounted for ₩8,817 billion and net income ₩537 billion, a 28% and a 48% increase, respectively.

At LG Chem, we have invited professionals from around the world in order to enrich human resources, while infusing freshness in our corporate culture. We are continuing to carry out long term social outreach programs, including 'Traveling Chemical Laboratory,' 'Chemical Camp,' and 'Frontier Festival in Search of Chemical Knowledge.' These programs have helped to offset the generally unfavorable impression the public has of chemical companies, and have boosted public interest in science and engineering.

We extend our thanks for the support of our shareholders, customers, and employees who make our continued success possible. Certainly, we honor their unwavering trust, which is the prime motive for our growth. In response, we work hard to offer the safest and environmentally-friendly products possible, in step with achieving our vision in becoming one of the globally respected chemical companies.

2004 sales by business area



2005 Outlook and Strategies

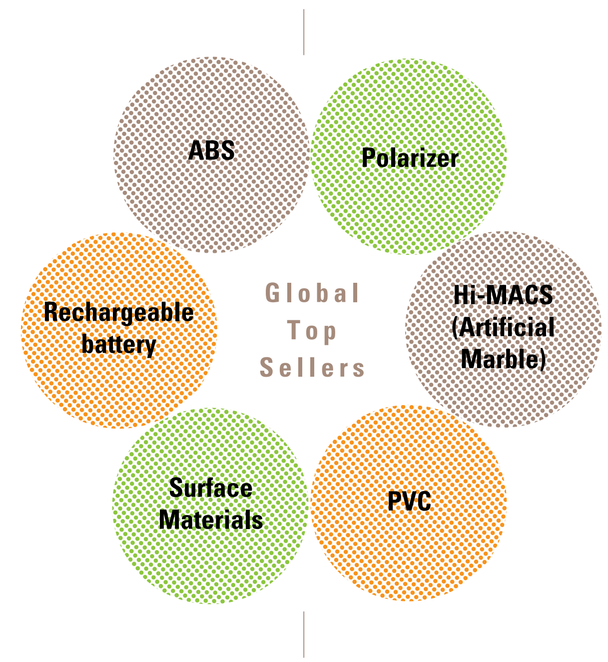
Industry watchers anticipate a gloomy global business environment in 2005. Over time, the world economy showed signs of recovery, but was held back by the rising prices of raw materials, and increasing interest rates. The Korean economy is viewed as unlikely to escape from a long general recession. Steadily lowering exchange rates of Won currency will undermine competitiveness in the global market.

In an effort to cope with unfavorable business conditions, in 2005 LG Chem will set its sales goal at ₩7,485 billion, with the figure accounting for ₩10,415 billion in the consolidated basis. Investment to boost high value-added and high-performance materials and information and electronic materials is budgeted over ₩710 billion.

The Chemicals and Polymers will maintain top position in the Chinese market with PVC and ABS, while tapping into India, Russia, and other emerging markets with high-performance product lines. It is concentrating on developing value-added specialties, including heat-resistant and impact modified PVC.

The Industrial Materials is breaking new ground in the United States, European countries, and China, with the export of an increased volume of artificial marbles, advertisement materials, safety materials, and surface materials. Its R&D energy is concentrated on developing high-performance films and environmentally-friendly construction materials.

The Information and Electronic Materials improves marginal profitability with the development of value-added products. These include the high-capacity battery and high-performance polarizer films. At the same time, it focuses resources on developing new materials for next-generation vehicles and IT-related products. These include mid-to-large-sized batteries for hybrid vehicles, fuel cells, and PDP filters.



In today's competitive environment, competitiveness is all about how a company can secure sustainable competitiveness. At LG Chem, we mark 2005 as a year of building competitiveness with the following three points: acceleration of business restructuring, innovation of performance and marketing standards, and creativity to generate profit resources.

At LG Chem, we constantly examine our practices to ensure transparent management on top of the advanced corporate governance system. Our corporate governance system and decision making address the conditions in which a forward-looking corporate culture can thrive under transparent and ethical management. This also applies to our business partners.

Ultimately, we strive for enriching our corporate value for shareholders and customers with wholehearted commitment.

Ki-Ho No
President and CEO

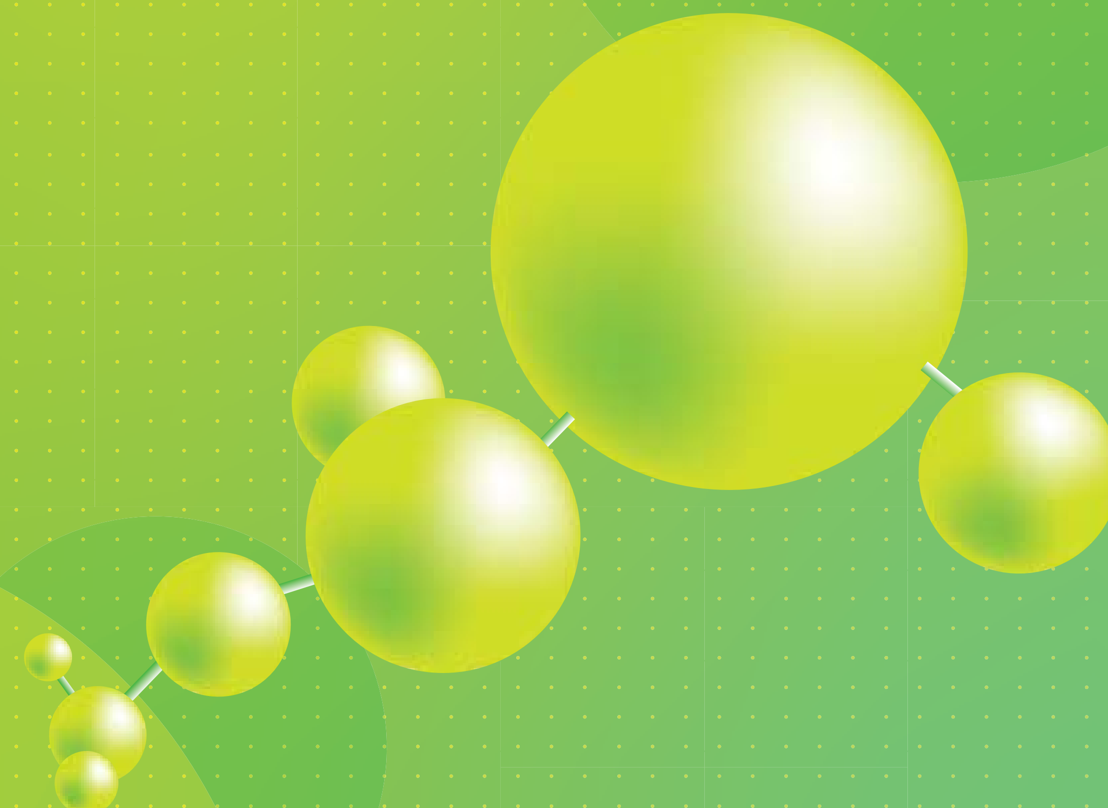
We work hard to offer the most safe and environment-friendly products possible keeping in step in achieving our vision, one of globally reputed chemical companies.

Investment to boost high value-added and high-performance materials and information and electronic materials is budgeted over ₩710 billion.

BEYOND IMAGING

BEYOND YOUR IMAGING, THERE'S OUR HIGH GROWTH.

high



LG Chem touches many parts of people's lives. As one of the world's leading providers of chemicals and polymers, industrial materials, and information and electronic materials, our products become an integral part of contemporary life. See how we deliver more ways to enrich the activities of millions of people.

Business Domain

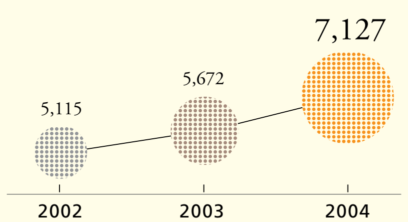
Chemicals & Polymers	Industrial Materials	Information & Electronic Materials
PVC & Plasticizers ABS · PS PO Acrylates Engineering Plastics Specialty Resins	Building Materials Decorative Materials Living Materials Automotive Materials	Batteries Optical Materials Imaging Materials Printed Circuit Materials

KEY FIGURES

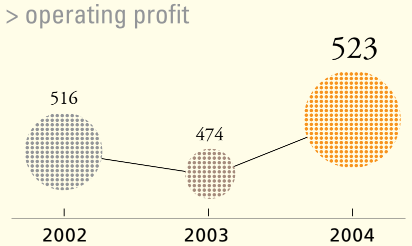
Non - Consolidated

(in billions of won)

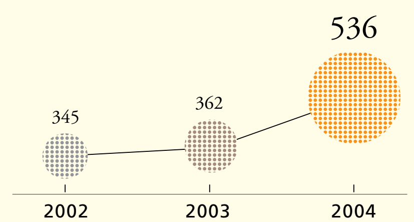
> sales



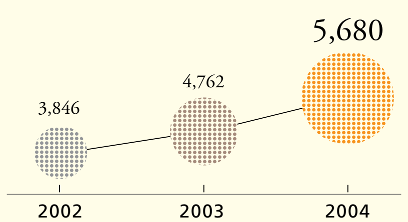
> operating profit



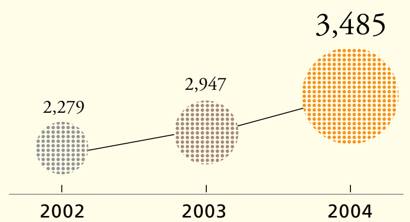
> net income



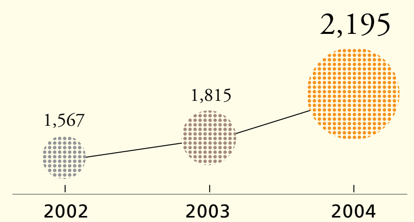
> total assets



> total liabilities

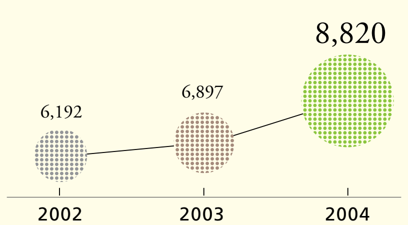


> total shareholder's equity

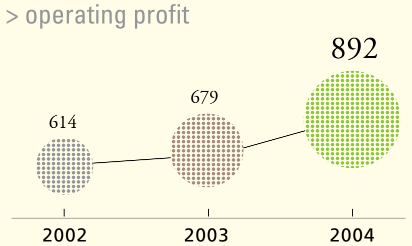


Consolidated

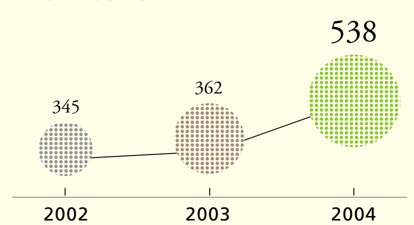
> sales



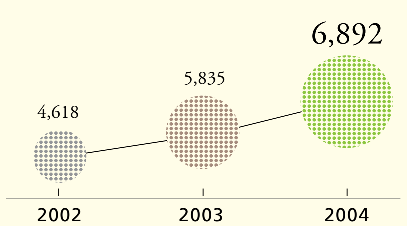
> operating profit



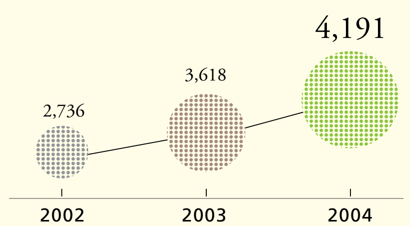
> net income



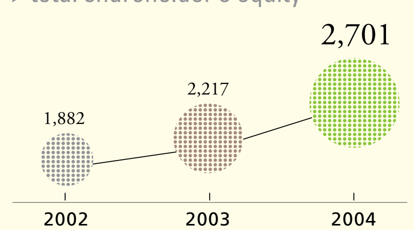
> total assets



> total liabilities



> total shareholder's equity

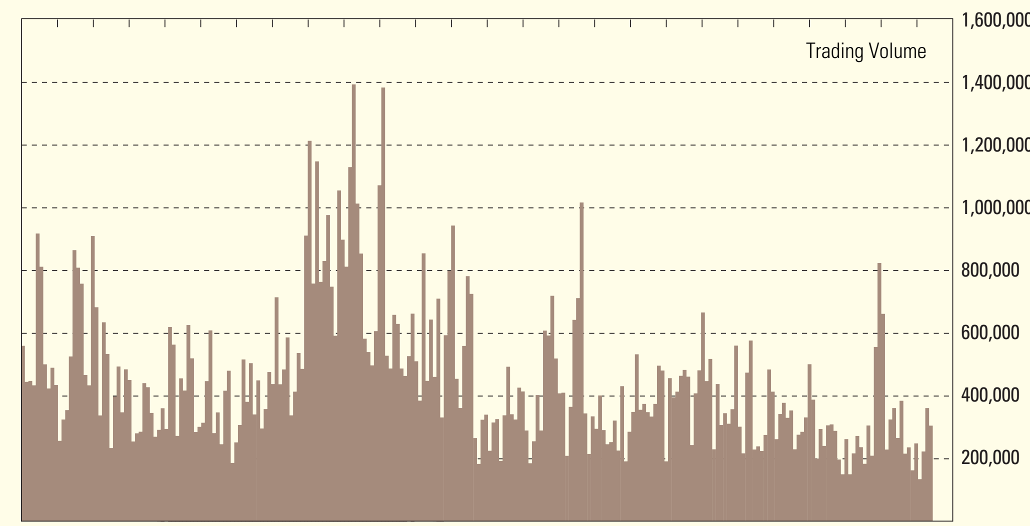


*Some of consolidated figures may be altered in the course of audit.

Key Performance Indicators

	2004	2003	2002
Operating Profit Margin	7.3%	8.4%	10.1%
Return on Equity	26.8%	21.4%	24.7%
Net Debt to Equity	90.2%	94.0%	88.6%
Number of Outstanding Common Shares	64,425,064	64,425,064	64,425,064
Earnings Per Share in Won	7,341	4,951	5,152
Year End Stock Price in Won	41,250	55,000	40,600

2004 Stock Price Performance



Solidifying Groundwork for a Global Leader

0 1 Record-breaking Business Results

Despite many unfavorable business conditions worldwide in 2004, LG Chem achieved record-breaking business results. In the non-consolidated basis, sales wrote ₩7,127 billion, operating income ₩523 billion, and net income ₩536 billion. In particular, sales and operating income in the consolidated basis came to ₩8,817 billion and ₩894 billion, respectively.
This outstanding performance is primarily attributable to the increased sales and income of major subsidiaries and the Chemicals and Polymers Company, and increased export of industrial materials and information and electronic materials, benefiting from an upturn in the global petrochemical market.

0 2 The completion of Ochang Techno Park, a production base of Information & Electronic Materials

The completion of Ochang Techno Park in March 2005, specializing in rechargeable battery, polarizer, and information and electronic materials production, gave us a leading position as a provider of information and electronic materials. With increased investment budget in high-growth businesses, including the organic light emitting diode (OLED) and fuel cell, we tap our potential to the fullest extent.

0 3 Construction of a Battery Plant in Nanjing Techno Park Began

The construction of LG Chem Battery Plant in Nanjing Techno Park, China, began on April 9, 2004. When it is completed, with a projected monthly output of four million cells, Nanjing Techno Park will cover the production of rechargeable batteries, one of the business items the Company has fostered for future growth.

0 4 Active in Social Outreach

LG Chem has carried out a variety of contribution activities in the community. In 2004, social outreach programs, themed on "Chemicals are My Friends," included 'Mobile Chemistry Lab.' for children talented in science, 'Chemistry Camp.' for employees' children, and 'Chemical Frontier Festival' to help boost interest in science and engineering.

0 5 Certificate for Superior After-Sales Service Acquired

With the operation of in-house after-sales service centers and contracted service agencies covering customer services end to end, LG Chem acquired the Certificate for Superior After-sales Service Company, the first received from the Ministry of Commerce, Industry and Energy in the domestic construction materials sector.

0 6 Advantageous Position in the US Automotive Market

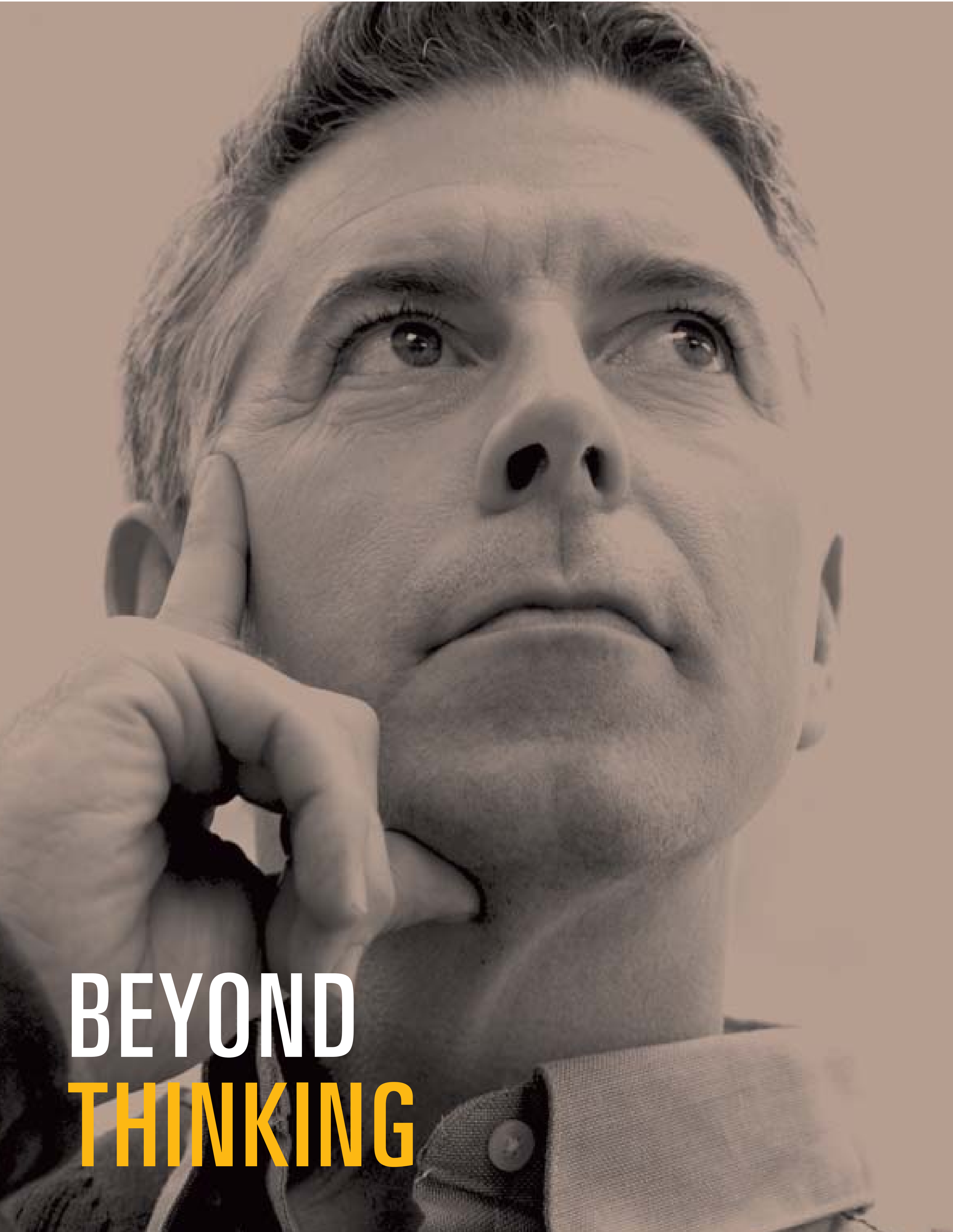
LG Chem has won $4.6 million in orders for technological development of the lithium polymer battery from the United States Advanced Battery Consortium (USABC), an organization formed by the big three automakers in the US. This attests to the Company's technological edge in the field of mid-to-large-sized batteries and places us in an advantageous position for competition with multinationals in the US automotive market.

0 7 Establishment of a China-based Holding Company

The establishment of LG Chem China Investment Co., Ltd. as a holding company in China was established in January 2005. Setting sights on becoming one of the Top 5 in China's chemical industry, the holding company is in charge of setting business strategies and supporting overall management services for China-based subsidiaries and branches.

0 8 Construction of LG Chem Research Park FAB Completed

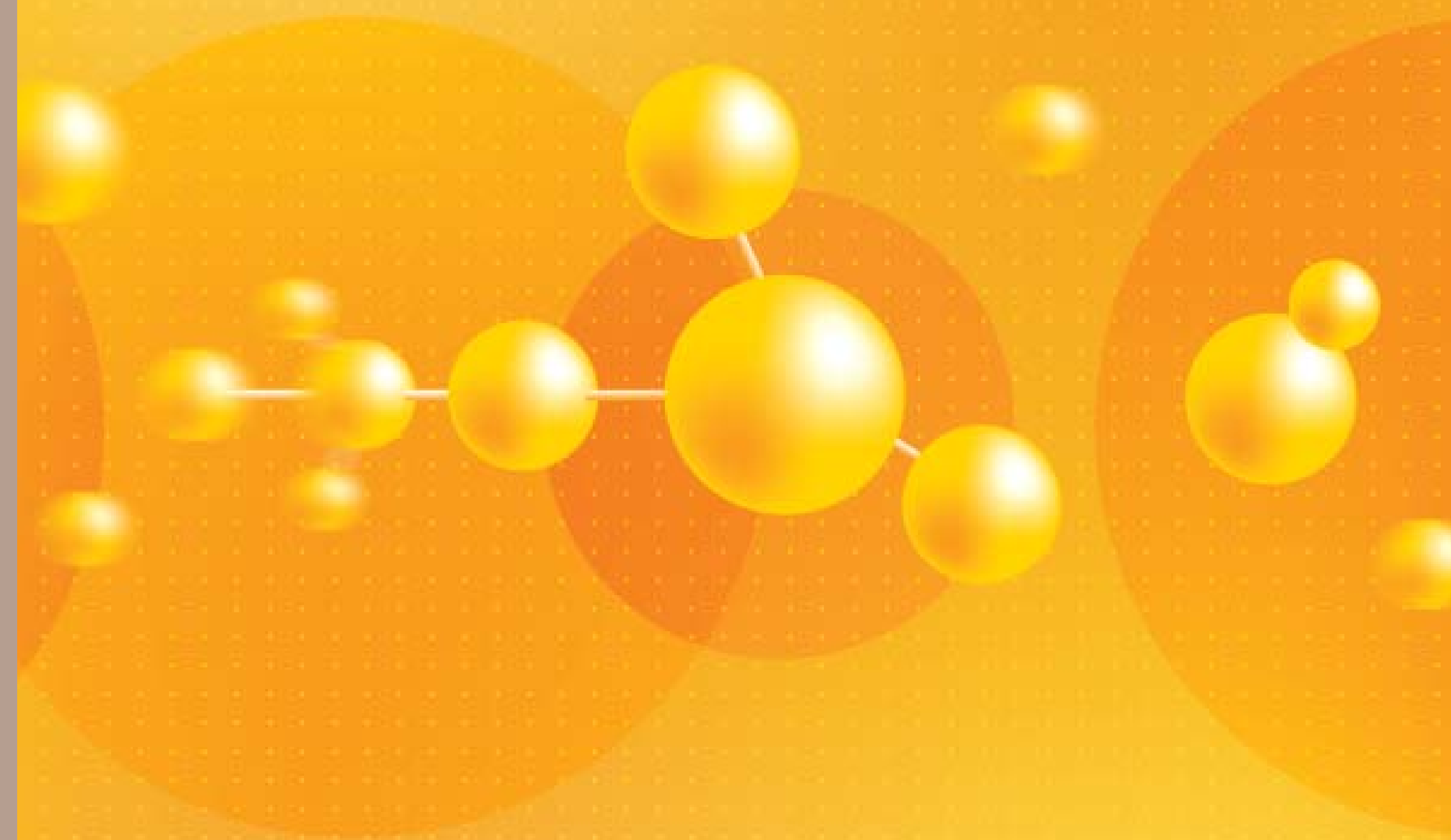
The research FAB is completed within LG Chem Research Park in Daejeon. Equipped with up-to-date facilities and a clean room for research and development of display, infotech, nanotech, and biotech materials, it will empower our core competence in technology and human resources, thus facilitating a firmer R&D foundation to create new businesses.



BEYOND THINKING

BEYOND YOUR THINKING, THERE'S OUR FAST MOVEMENT.

fast



The world changes rapidly. So does the future of a company. At LG Chem, competitiveness is a vital force that energizes us to grow. We are unsparing in our investment in research activities and talented individuals who can lead in their fields. Actually, that's what most of our employees love to do.

Vision & Strategy

In 2001, LG Chem made a restart when LG Group-wide restructuring began with spin off of subsidiaries by specialized business. Accordingly, we reset strategies and value under the new vision: to become one of the industry's Global Top 5 by 2010. Incorporating goals of previous years, this renewed vision is directed to overall management restructuring and honing excellence to a higher level.

Vision

We exceed customer expectations through advancing technologies, innovating solutions, and earning stakeholders' trust, ultimately to become a leader in the global industry.

TRUSTED BY SHAREHOLDERS

Becoming a preferred partner for customers, shareholders, and employees through mutual trust and transparent management

Respecting employees and providing an inspiring workplace to facilitate mutual growth

Advanced Technologies & Innovative Solutions

Continuous innovation to develop and deliver advanced technologies, materials, and superior solutions

Delivering value to customers by anticipating their needs and exceeding their expectations

GLOBAL LEADER

World class in how we do business, with the best talent worldwide

Leading globally in strategic businesses

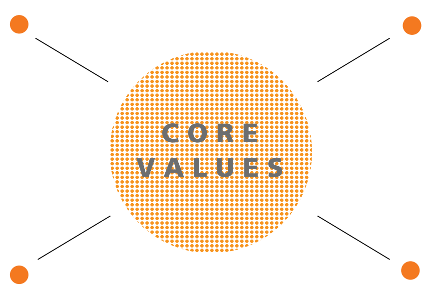
Consistently delivering superior value to a diversified base of domestic and foreign investors

CUSTOMER VALUE FIRST

We deliver value by anticipating customer needs and exceeding customer expectations

INNOVATION

We constantly strive to innovate: advancing our thinking, behaviors, product offerings and technologies



MUTUAL TRUST

We always fulfill our commitments to customers, shareholders and employees, never compromising our integrity and ethical standards

GLOBAL PERSPECTIVE

We think, operate and compete globally

In Pursuit of "No.1 LG"

Currently, the "No. 1 LG" vision has been a guiding principle in our actions. It calls for rekindling our fervor to venture to be the best in the chemical world. In the short term, our vision is set at becoming one of the industry's Top 3 in Asia, and then one of the Global Top 5 by 2010.

Strategies for the "No.1 LG" Vision

Steadily Resetting the "No. 1 LG" Strategies : Strength in R&D, globalization, and innovation practices, such as Six Sigma initiatives, is a powerful vehicle that moves our product quality to the top lines in the global market. Thus, we steadily reset the "No. 1 LG" strategies, which then become common practice in our daily operations.

Cultivating "No.1 Human Resource" : At LG Chem, capable employees are referred to those who think ahead and act with creative minds to reach their goals with inexhaustible passion. With our performance-based incentives and rewards, our employees mobilize resources to perform to their fullest potential in building their career path.

Enriching "No.1 Corporate Culture" : The "No. 1 LG" objectives take firm roots in the ground of a rich corporate culture. Within the culture of trust, openheartedness, and aspiration fueled by performance-based incentives, our employees grow and flourish.

Mid-to-Long-Term Goals and Strategies

In the mid-to-long term, our sales goal is set at ₩15 trillion and operating profit margin 11% by 2008. To achieve these goals, we put greater value in products, reinforce competence in already-established businesses, and seize and capitalize on opportunities from emerging businesses.

Reinforcing Business Capability in Existing Core Businesses

In the Chemicals and Polymers Company, PVC and ABS business will be speeded up in the Chinese market, increase the economy of scale and improve vertical integration. The Industrial Materials Company empowers capability in research, development, and marketing, to create new-concept products packed with high value. The Information and Electronic Materials Company focuses on next-generation technology and products to facilitate global competitiveness in the coming years.

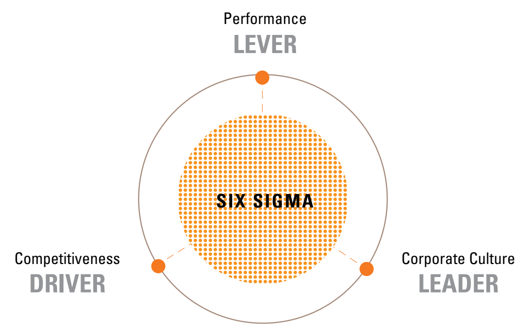
Identifying and Developing New Businesses

Through the convergence of research and technological resources old and new, we select new business items demonstrating high growth possibilities, such as flexible display and clean energy. We pour our all-out energies into developing the selected business items, turning them into high value-added products or solutions, and commercializing them ahead of others in the market.

Adding Greater Value in Product Lines

LG Chem tries to deliver what customers truly look for in the market before others. To this end, the Chemicals and Polymers Company revolutionizes production processes and develops new value-added products. The Industrial Materials Company presents one-of-a-kind products with unique and differenciated design and function through utilizing new materials. The Information and Electronic Materials Company concentrates on inventing breakthroughs that can set it apart from competitors.

Innovation



> “The Six Sigma initiatives have been expanded across the Company to strengthen sustainable competitiveness.”

In 1999, LG Chem adopted Six Sigma for securing product leadership. Since then, the Six Sigma initiatives have been expanded across the Company to strengthen sustainable competitiveness. The Six Sigma initiatives mobilized in everyday performance have driven us toward becoming the world's leading chemical company.

Competitiveness Driver

In the first phase, the Six Sigma initiatives were practiced in conjunction with Total Productivity Management (TPM), an innovation tool applied to improve on-site operations. These efforts enhanced competitiveness and productivity. The second phase Six Sigma initiatives followed near the end of 2002 were started with more emphasis on R&D, sales, and customer services that brought great improvement in product quality, business process, and customer satisfaction.

Performance Lever

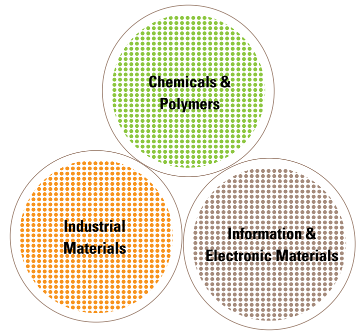
In 2004, one-quarter of our office workers joined various Six Sigma projects and generated nearly ₩187 billion worth. Notably, Six Sigma projects carried out in R&D, sales, and management areas have more than doubled over the previous year, showing that 70% of total projects were involved with non-manufacturing areas. In 2005, the Six Sigma initiatives will be reinforced by Tear Down for Redesign (TDR), another tool of innovation that employs total redesign for old ways of thinking and acting. The Company aims to generate more than 40% of operating profit from innovation results.

Corporate Culture Leader

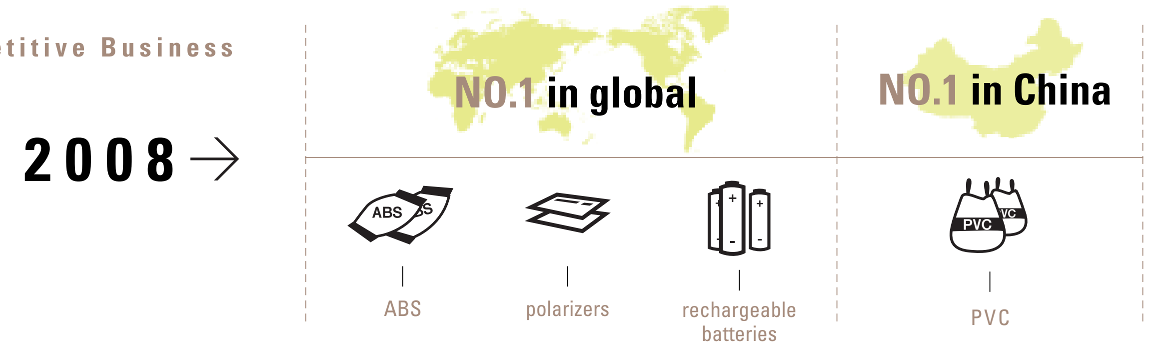
The Six Sigma initiatives and innovation activities became a part of daily work routines, dramatically improving both corporate culture and employee performance. In 2004, three-quarters of our office workers acquired Green Belt (GB) certificate and 350 employees achieved Black Belt and Master Black Belt certificate. By 2005 the entire workforce will acquire the GB certificate and 350 employees the Black Belt and Master Black Belt certificates.

Sustainable Growth

Business Structure



High-Competitive Business



LG Chem pursues stable and sustainable growth, hoping to thrive no matter what the business climate may bring. The Company empowers its growth engine through converging corporate resources, constantly modifying its business portfolio, and focusing more on competitive and lucrative products, while cultivating human resources for global leadership.

Constant Modifying Business Portfolio

Our business portfolio has steadily been modified through selection and concentration of projects. We pour our all-out energy into identifying more growth-promising, highly competitive, and profitable businesses, while refocusing on those already established as lucrative. By 2008, the portion of businesses with a high competitive edge will be increased to 39% from the present 31%, with sales taking up 10% of the Company's total sales. Currently, the Chemicals and Polymers, Industrial Materials, and Information and Electronic Materials Companies gear up together in an effort to transform our business portfolio to be more future-oriented, hitech, and lucrative, thus to secure sustainable growth in the future.

Cultivating High-Competitive Businesses

At LG Chem, we have intensified investment, competitiveness, and market leadership in the four business areas, such as rechargable batteries, polarizers, PVC, and ABS, all of which have high competitiveness in the global market. As a result, sales of rechargable batteries and polarizers in the global market ranked fourth and second, respectively. The competitiveness of these businesses will be further enhanced to place sales in the first rank by 2008. The target for sales of ABS is to achieve the first rank in the global market by 2006, and for PVC to reach the first rank in the Chinese market by 2008. To achieve these goals, new China-based plants will be built for VCM and EDC, each a major feedstock of PVC. At the same time, the Company plans to expand PVC and ABS production facilities while looking for new production sites to form the second LG Chem’s Chinese manufacturing base.

Identifying Growth-Promising Businesses

In 2004, LG Chem decided to cultivate four business areas as a growth engine; flexible display, clean energy, high-performance film, and new catalyst and manufacturing processes. Deepening its excellence in research and development in the related areas, the Company seeks business partnerships and alliances as well as joint research activities worldwide for the convergence of technological resources. The Company will accelerate early commercialization of new technology-based businesses and mass production supported through business incubation.

Fostering Global Leaders

Cultivation of talented individuals and supporting them to become leaders in their fields is prerequisite for sustainable growth. For those who deepen their expertise with a firm vision, act with liberal hearts, and welcome challenges in building their careers, there's LG Chem. The door is open wide regardless of age, gender, or borders.

Inasmuch as we provide a resourceful, creative, and flexible working environment, we offer our employees special promotion and reward, various reeducation programs, and ample welfare benefits. It is to encourage them to realize their personal and professional goals.

Competitiveness grows out from human resources. To sufficiently vie with multinationals, we cultivate employees with various reeducation programs, categorized largely into these three: intensive human power incubation (HPI), general education for entire employees, and special culture change education. The HPI is an intensive CEO-to-be leadership development program. It is designed to discover highly-capable employees and deepen their professionalism. General education programs available to all employees include job training and specialist programs diversified by position and responsibilities, foreign language programs, and infotech and e-learning programs. The culture change programs aim to freshen up our corporate culture through the sharing of ideas and insights, the fresh perspectives essential to achieve the "No. 1 LG Chem" objectives.

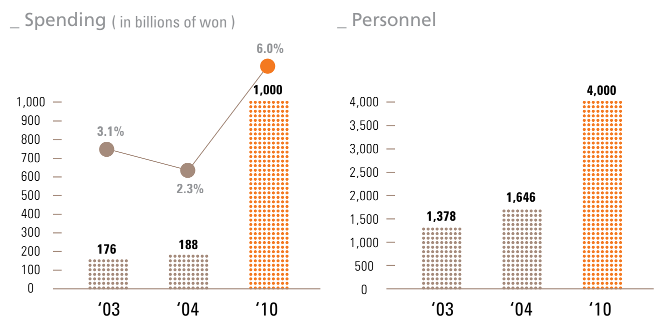
“ By 2008, the portion of businesses with a high competitive edge will be increased to 39%. ”

R&D

Capturing what the future holds and driving the growth engine at full speed, LG Chem emphasizes reinforcing R&D capabilities accompanied by proactive investment in securing human and R&D resources, sharpening technological edge, and globalization.

Jong-Kee Yeo
President & CTO

R&D Investment



R&D Strategies

IT industries have been burgeoned in hybridization of digital and other cutting edge technologies. The growing demand for high-end chemicals and high-performance industrial materials ensures a steady growth of related businesses.

In response to the latest development of IT business, R&D effort at LG Chem goes to innovating IT-related technology and materials centered on flexible display, flat-panel lighting device, mid-to-large-capacity rechargeable batteries for e-bike and Hybrid Electric Vehicle (HEV), fuel cell, etc.

By anticipating the upcoming trends in the IT business, LG Chem is proactive and unsparing in investing in hybridization of new technologies and products, including display components and materials, solar cell, and bio-catalyst.

R&D Achievements in 2004

LG Chem marked 2004 a banner year of completing master plans to start new businesses and future growth engines.

In the field of display, LG Chem developed and commercialized high-performance optical filters for Plasma Display Panel (PDP) and core material for the Organic Light Emitting Diode (OLED) technology. As for the clean energy business, the Company won $4.6 million for research and development of the HEV battery from the United States Advanced Battery Consortium (USABC). This provided a favorable position for tapping into the US automotive market. In the petrochemical business, noteworthy achievements include cost reduction and productivity improvement in producing vinyl chloride monomer (VCM) through innovating manufacturing processes. In the field of industrial materials, Heatrix, a new floor heating system with a remarkable energy-saving feature, has been developed and launched in the market.

Jin-Nyoung Yoo
Executive Vice President
LG Chem Research Park

R&D Empowerment

The number of employees involved in R&D will be increased from 1,646 in 2004 to 4,000 by 2010. The present R&D budget, amounting to ₩188 billion, will be increased to 6% of total sales. At the same time, the Company will continue to pool R&D resources by securing professionals involved in electricity, electronics, informatics, and physics.

In an effort to reinforce the technological platform, a nanotech center will be established to advance nanotech-biotech hybrid technologies, while expanding R&D areas with FAB, thin film production, and circuit technologies.

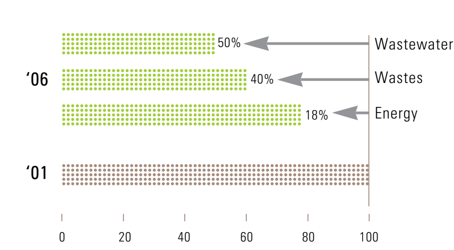
LG Chem plans to form a global R&D network in strategic regions, such as the US, China, Russia, and Japan. LG Chem will establish overseas R&D centers to expedite the development of high-performance polymers and flat-panel display components. Under localization policies, employees are recruited from those regions and reeducated. In addition, the Company secures core professionals from across the world and strengthens the R&D network through promoting alliances and partnership.

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
Design Center	Design for construction, interior, surface, automotive materials	Seoul
Tech Center	Technical service for petrochemical product	Daedeok, China, USA, Japan, Europe

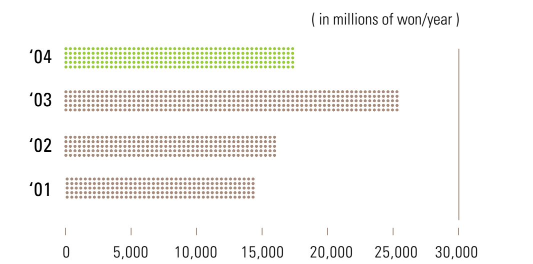
Environmental Management

Responsible Care®

2nd Step Goal _2002-2006



Environmental Investment by Year



LG Chem has renewed its environmental management on the basis of the Responsible Care Program, a collection of global environment conservation initiatives driven voluntarily by chemical companies to take greater responsibility for the safety and health of nature and people. LG Chem makes every effort to minimize pollutant emission and accidents, improve working conditions, and reduce energy consumption, faithfully following the United Nations Framework Convention on Climate Change.

Environmental Management Goals

LG Chem practices and achieves environmental management goals under a long-term master plan which has been reset phase by phase, aiming ultimately to achieve zero pollutant emission. With the first phase successfully completed in 1999, the second phase, scheduled for 2001 to 2006, is directed to the reduction of wastewater and wastes from the source of origin and of energy consumption by 50%, 40%, and 18%, respectively. To reach these goals, the Company is accelerating the development of alternative energy resources, new manufacturing processes, and wastes treatment technology in line with activating energy saving practices.

Environment and Safety Management System

At LG Chem, responsibility for caring for the environment and community has been instilled in the minds and actions of all employees. For instance, LG Chem has acquired ISO 14001, OHSAS 18001, and KOSHA 18001 certificates. To check whether the standards of environment & safety and health certificates are practiced thoroughly after acquisition, a biannual in-house audit and an annual post-acquisition inspection are held.

To ensure safety and health in workplaces, nature, and the community, environment & safety education takes place regularly in each company and periodic environmental safety diagnosis is carried out by the head office and each company. An environmental impact survey is conducted prior to starting new projects and businesses, manufacturing facility construction or expansion, and changing production processes. The "RC commitee(Responsible Care)" demands rigorous observance of quality, health, and safety management. The committee takes charge of maximizing the use of resources, in compliance with outside requirements related to environment & safety, public health, and natural resources issues.

Environment and Safety Management Performance

At LG Chem, use of natural resources and energy, pollutant emission, and environmental impact on air, soil, and water are assessed throughout the life cycle of the product from manufacturing stage to disposal. This life cycle assessment (LCA), an effective tool for measuring environmentally-friendly features, is now applied to all products.

LG Chem has striven to deliver eco-products that exceed customer requirements and the EU environment preservation regulations. As a result, 25 kinds of LG Chem products acquired the Eco-Label that informs the public of the Company's atmospheric management standards. In building materials, 10 kinds of products acquired the Healthy Building Material (HB) Mark, which ensures clean air features in interior spaces.

LG Chem voluntarily signed the agreement with the Ministry of Environment for the reduction of hazardous chemical substances. The Company strives to the utmost to reduce the total volume of hazardous chemical substances discharged from manufacturing to disposal. At the same time, the Company's transparent management and renewed strategies have upgraded business performance standards.

As for health concerns, LG Chem computerized the Health Promotion System (HPS) that integrates employees' health check, working conditions, MSDS, etc. The HPS data facilitates improvements in the employee health services and health management policy decisions.

Social Outreach

For years, LG Chem has carried out social contribution activities that have been well received by the public, helping to balance the usual unfavorable public perception of a chemical company. Social outreach includes 'Mobile Chemistry Lab.,' 'Chemistry Camp,' 'Chemical Frontier Festival,' 'Junior Engineering Acheivement,' and other special events, all appealing to like-minded children and grownups, as well as helping to cultivate science-loving talent and boost science and engineering in Korea.

BEYOND SEEING

BEYOND YOUR SEEING, THERE'S MORE OF OUR OPERATIONS.

more

Fine quality in products is all about how a company conducts itself in the world. On the strength of an extensive global manufacturing base, LG Chem works hard to deliver chemicals and polymers, industrial materials, information and electronic materials with added high-performance, multifunction, and value.

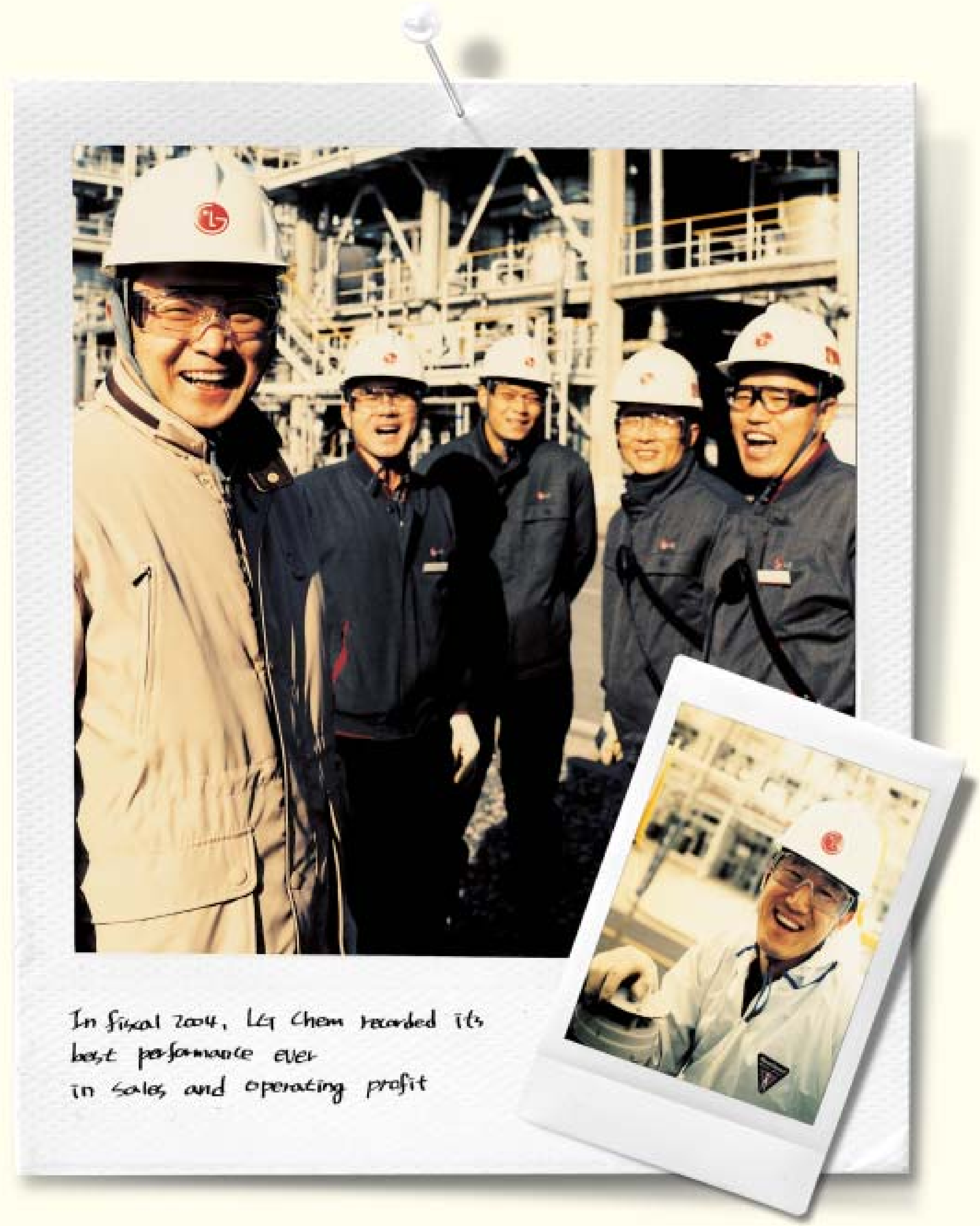
Chemicals and Polymers

In fiscal 2004, LG Chem recorded its best performance ever in sales and operating profit, ₩4,152 billion and ₩370 billion, respectively. Sales and operating profit accounted for the largest portion of the Company's total, taking 56% and 71%, respectively. Profit-oriented marketing strategies, stabilized procurement of raw materials, increased competitiveness in exports in China, increased sales of high value-added specialty products, and innovation activities year round all contributed to remarkable growth. In 2005, the empowerment of performance-based business capabilities, the acceleration of globalization, and the enrichment in human resources will be continued to secure profitable structure and global competitiveness.

The Best Business Results Ever

portion of total sales

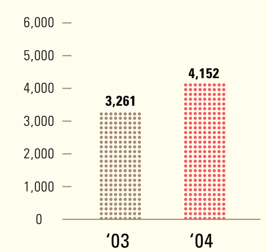
Churl-Ho Yoo
President
Chemicals & Polymers Company



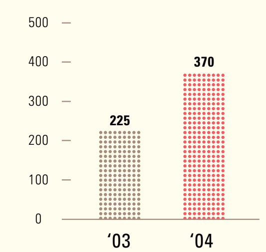
The outstanding business results have led us to raise our business goals higher in 2005. Our growth-driven strategies for 2005 will build on the 2004 figures to amplify profit resources as we move toward our goal, becoming one of top ten chemical companies in the world by 2008.

Key financials

_ Sales (in billions of won)



_ Operating Profit (in billions of won)



2004 Review

The Chemicals and Polymers Company's sales in 2004 were up 27% to reach ₩4,152 billion, and profit jumped a remarkable 64% to ₩370 billion, from the previous year. Major contributors to these results were price increases of mainstream products due to escalating oil prices, profit-focused marketing activities, proactive procurement of raw materials, such as the long-term supply contract for ethylene dichloride (EDC) made with Oxychem to secure PVC feed-stock, and the integrated procurement of SM and AN, both ABS feedstock.

Looking into the result of global marketing, the rapid economic growth of China contributed to the Company's export portions of 50%, which contributed to significant growth of the operating profit .

Sales portion of specialties recorded 14.7%, a 3.2% increase from the previous year's 11.5%. These were bolstering turnovers as well as profits, considering that early in 2004 the range of specialty products was narrowed to those generating more than 10% of operating profit margin and 30% higher than that of general-purpose products.

Other factors for leveraging profits were attributed to overall operational and process innovations that led to cost reduction in processing lines, improvement of productivity, and reduction in operating expenses. For instance, NPG business turned profitable after the loss in 2003. Process innovation activities contributed to secure sustainable cost structure and achieving approximately 23% of operating profit margin.

In the Chinese market, the Company established a new China-based subsidiary close to LG Dagu PVC Plant in Tianjin at the end of 2004. The investment decision was made to add 350KMT of VCM and 300KMT of EDC, for the purpose of full integration of PVC production base. In addition, the Company continuously solidifies overseas operations by increasing production bases, including the engineering compound facility in Tianjin.

2005 Outlook and Strategies

The economic downturn trend in the world, especially in the United States and Japan, and a steadily lowering Won-dollar exchange rate resulting from the US government's devaluation policy of dollars cast a bleak outlook. In Korea, the sluggish demand due, in large part, to a general recession will also undermine the chemicals and polymers markets. Looking over the Chinese market, the largest in the world, the competitive position of the Chemicals and Polymers Company will be weakened by start-ups of Yangzi-BASF, SECCO-BP, CNOOC-Shell, and other multinationals and large-scale industrial complexes. The price fall of Company's products, which started in November 2004 in line with declining market prices of raw materials, including ethylene and styrene monomer, is expected to slightly worsen business conditions in 2005.

" Becoming one of the industry's Global Top 10 in the near future. "

With delays in operation of new chemical plants in the Middle East, despite large-scale chemical plants in China going into full operation, the supply of PVC, ABS, acrylate, and engineering plastic (EP), and other mainstream products will fall short of meeting the ever-growing demand in the world. This in turn has led the upturn in the global petrochemical industry, which is expected to continue for two to three more years.

To overcome subsequent difficulties and facilitate stable growth, the future course of managerial action of the Chemicals and Polymers Company is directed mainly to three fronts: (a) heightening performance standards; (b) accelerating global operation; (c) sharpening capabilities of employees. The sales goal is set at achieving ₩5.5 trillion and operating profit margin 11% by 2008. Ultimately, it gears to realize the vision of becoming one of the industry's Global Top 10 in the near future.

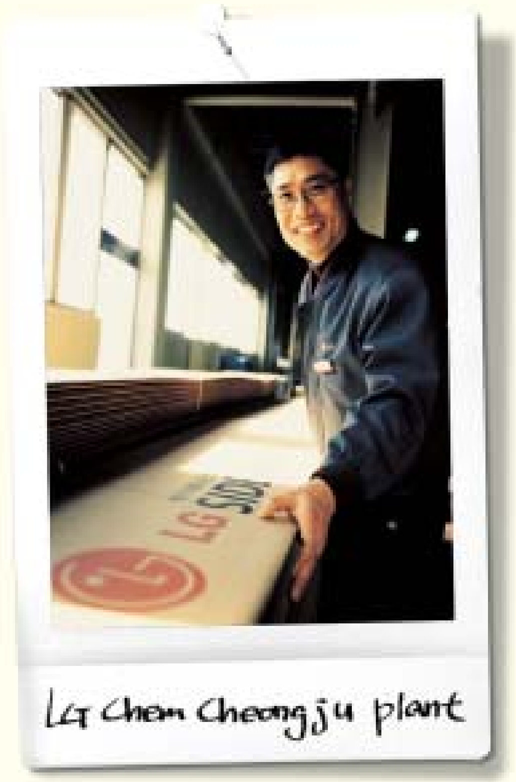
Industrial Materials

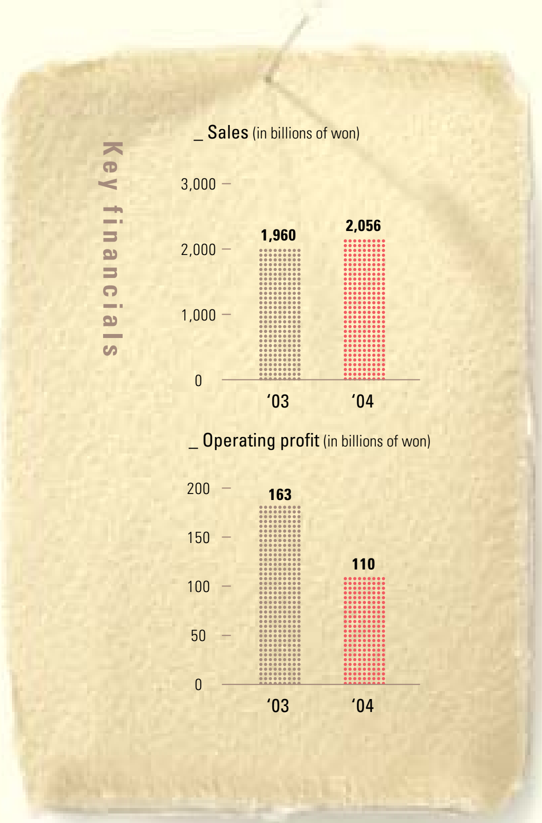
Over the past decade, the Industrial Materials Company has realized more than 10% of sales growth each year, fetching stable profits. However, sales in 2004 rose 5% to ₩2,056 billion and operating income fell 33% to ₩110 billion. Factors adding to difficulties in 2004 were the mainly dormant construction industry, squeezed consumer spending in a long period of recession, and soaring oil prices. Despite experiencing a lackluster business environment, the Company continued shifting its business portfolio to value-added high-end businesses with high growth possibilities and broke new ground for a broader global operation.

Kyu-Sok Park
President
Industrial Materials Company

Leaping forward into the World

portion of total sales





In the last ten years, the Industrial Materials Company has realized more than 10% growth rate in sales each year, fetching stable profits. Currently, cohesive energy has been poured into realizing its vision of becoming a world-acclaimed provider of industrial materials in coming years. To this end, it focuses on upcoming business areas to lay a stronger growth foundation.

2004 Review

From 2003 the Korean economy began to stagnate. The construction and real estate sectors, critical business indicators for the Industrial Materials Company, took a sharp turn for the worse and prices of PVC and other major raw materials rocketed, exacerbating the already-frozen market conditions.

Amid the unsettled business environment affected by surging oil prices and the war in Iraq, the economy of the United States, Japan, and advanced European countries started picking up. Upon this favorable turn, the Industrial Materials Company made every effort in line with aggressive global marketing and localization strategies, resulting in double digit growth in overseas sales, a 27% increase from the previous year.

As a way to get back on track, the Company concentrated on turn-around activity for auto parts, Decovil, and other poorly performing businesses. Meanwhile in new business areas, it combined efforts for laying solid groundwork and fostered world-class products for sustainable future growth. These efforts will produce more tangible business results in 2005.

2005 Outlook and Strategies

Business forecasts in Korea are not so bright for 2005, as a general domestic recession and enduring high international oil prices are making it hard for the domestic economy to recover. However, although the growth in demand for industrial materials used for construction and building interior is viewed as stunted, the growing demand in the remodeling sector and the growing concern about the environment is expected to push sales of high-performance, multifunctional, and environmentally-friendly industrial materials. Currently, the Industrial Materials Company's export of advertising, safety, and surface materials portions more than 40%. On the strength of the ever-growing Chinese market and the core competitiveness it has empowered in the global market over the years, sales of these materials is expected to enjoy continued growth. Sales of automotive materials is also expected to enjoy stable growth.

In 2005, the sluggish domestic demand and revaluating Won currency will impact on business performance. Consequently, the Company expects sales to show a slight increase over the 2004 figure. To spur up sales, the Company will reinforce business strategies as follows:

First, the global market position will be enhanced through strengthening the business foundation of overseas subsidiaries. Expanding sales channels and export volume to wider global regions, it expedites tapping into the potential of its global businesses to the fullest extent. Second, the Company will foster globally-competitive products including surface and advertising materials, along with enhancing R&D capabilities and exploring new business areas. The business portfolio is in transition to emphasize high-growth and profitable businesses and thus stabilize profit resources. Finally, as rising international prices of raw materials have threatened price competitiveness, productivity and cost innovation activities will be accelerated, driven by the Six Sigma initiatives and diversification of products differentiated by regions.

Information and Electronic Materials

The Information and Electronic Materials Company leveled up to global leading player. Sales recorded ₩1,207 billion, the highest number ever. Sales of rechargeable batteries and optical materials, including polarizers, both surpassed ₩500 billion in 2004. Sales of color filter photoresists and PDP filters, both new business items the Company has fostered for years, went into full swing and began to show tangible results. The operation of Ochang Techno Park in Korea and Nanjing Techno Park in China further secured the production capacity and stable supply of rechargeable batteries and polarizers. As for global operation, overseas production facilities, marketing and sales network have been expanded steadily, placing the Company in a good position to better compete with the global players.

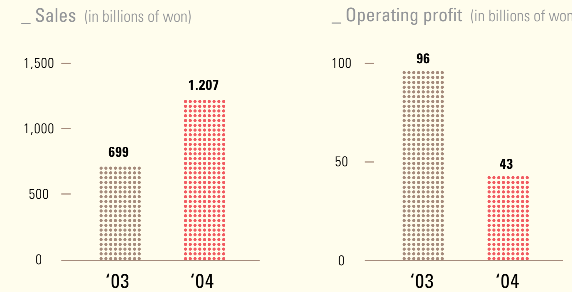
Global Leadership in Production and Marketing

portion of total sales

Soon-Yong Hong
President
Information & Electronic Materials Company

Sales of rechargeable batteries and polarizers increased considerably. Sales of color filter photoresists and PDP filter are now well underway. Expanded production facility and marketing network have enhanced global competitiveness.

Key financials



2004 Review

Sales of mobile handsets, notebook PCs, and flat-panel displays have grown rapidly in the global market. The competition among providers of related business lines intensified in 2004 following the trend in 2003.

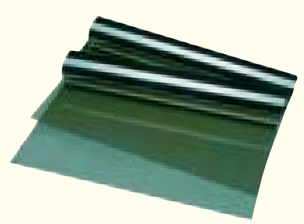
In the Information and Electronic Materials Company, the sales of rechargeable batteries increased 86% over the previous year. The leading-edge product quality appreciated by many global mobile and notebook makers led this huge success.

The strategic effort made for years to foster the mid-to-large-sized battery business came in August last year when it received US$4.6 million for the technological development of the lithium-ion polymer battery from the United States Advanced Battery Consortium (USABC), an organization formed by the big three US car makers. This placed it in an advantageous position for sales in the US automotive market.

As for sales of polarizers for TFT-LCD panels, the Company recorded a 75% growth over the previous year by dint of growing demand of LCD monitors and LCD TVs. With the operation of the post-process polarizer plant at Nanjing Techno Park, China, it is actively penetrating into the Taiwanese and Chinese markets. The development of high-end products such as pure black polarizing films strengthened the competitiveness which will set it apart from competitors in the global market and maximaze profits.

The Company-developed color filter photoresists, a value-added hard core for flat panel display, received enthusiastic customer endorsement in 2004. Achieving excellent results in sales, the photoresist business was included in the new business portfolio. It is expected to emerge as a primary business item in 2005.

sales
86%↑
rechargeable batteries



sales
79%↑
polarizers

2005 Outlook and Strategies

Many predict the IT industry will show gradual recovery in 2005 due to the oversupply of some IT-related products. But businesses involved with mobile handsets, notebook PCs, and LCD monitors, its primary businesses, will show fair progress.

In the rechargeable battery business, the Company will secure leading position in the market through developing new customers and solidifying the leading supplier's position among existing customers. The China-based production lines will serve as a launching base for entry into the Taiwanese and Chinese markets.

In the polarizer business, cost competitiveness coupled with internal development of raw material will be upgrade to capture a wider global market, while keeping abreast of the latest changes in the business environment.

In the areas of color filter photoresists, PDP filters, chemicals used for manufacturing processes, and other new products and businesses, the Company fosters growth through enhancing global competitiveness. New products applied with the OLED technology will be launched to seize opportunities and capitalize profit resources earlier than competitors.

As for printed circuit materials, the Company lays firmer groundwork for flexible copper-clad laminate (FCCL), and for toners, it targets high-end digital copiers.

BEYOND FEELING

BEYOND YOUR FEELING, THERE'S OUR REACH, GO FURTHER.

further

Far-sighted, LG Chem reaches out further into the world. Globalization in production, sales, and personnel is extended in the United States, China, EU countries, India, and Russia, where fast growth is poised to take off in coming years. With sustained efforts poured into global operations, our success in those regions is close to hand.

GLOBAL VISION AND STRATEGY

LG Chem plans to achieve both its short term and long term goals by gaining sales amounting to ₩15 trillion and increasing operating profit margin 11% by 2008, thus first becoming one of the industry's Top 3 in Asia, and then one of the Global Top 5. The global operation is slated for increasing the portion of overseas sales up to 57% by 2008.

2004 Business Review and the Year Ahead

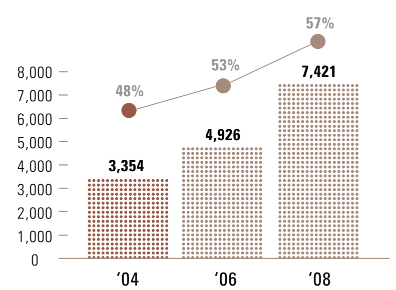
The sales growth overseas in 2004 was remarkable. The portion of overseas sales took 47% to US$3.3 billion of the Company's total, increasing 52% from the previous year's US$2.2 billion. In particular, LG Chem has successfully established itself as one of leading chemical providers in China with sales exceeding US$2 billion.

As part of its global drive, LG Chem established a Chinese Regional HQ and prepared a foundation to establish LG Chem China Investment Co., Ltd. as a China-based holding company. Aggressive marketing activities began in China in step with the completion of a battery and polarizing film plant in Nanjing and an ABS compounding plant in Guangzhou. The Company established a marketing subsidiary in Taiwan and branches in Thailand and Russia in order to capture new business opportunities from emerging markets.

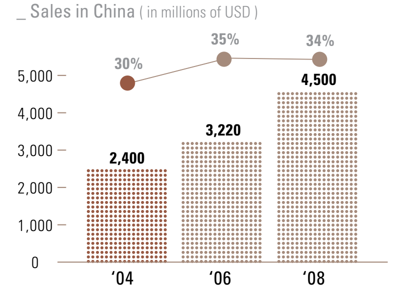
In 2005, overseas sales is targeted to reach US$4 billion, portioning 51% in the Company's total. To realize this goal, the Company first plans to boost production capacity and market leadership in China, a strategic market, along with strengthening its market position in the US, European countries, Asian countries, India, and Russia.

BUSINESS PROSPECTS

_ Overseas Sales (in millions of USD)



_ Sales in China (in millions of USD)



Global Vision and Strategies

Under the vision of becoming one of the industry's Top 3 in Asia by 2008 with sales amounting to ₩15 trillion and operating profit margin 11%, LG Chem is specifically boosting main business areas involved with chemicals and polymers, industrial materials, and information and electronic materials. The portion of overseas sales in the Company's total will be increased from 48% in 2004 to 57% by 2008, reaching US$7.4 billion in overseas revenues, including the overseas production output of US$4 billion and the direct export amount of US$3.4 billion. Excellence in tasks based on seamless teamwork, knowledge storing and sharing, powerful long-term strategies, continued innovation activities, and convergence of R&D resources is essential for realizing the Company's global vision, especially in China, the largest market ensuring a huge growth, as well as in the US, European countries, India, and Russia.

R&D activities focus on developing emerging businesses which will serve as a growth engine in coming years. Enhancement of R&D capabilities will be accomplished through converging corporate resources and constant modification of business portfolio. In addition, LG Chem invites pro fessionals regardless of borders and joint research activities with overseas R&D centers and laboratories, along with promotion of partnership with multinationals and reputed research organizations.

Human resources sway the success of a company. To enrich its pool of human resources, the Company continues to recruit enabling employees in strategic regions, including the US and China. For employees in global regions, diverse internship programs working in the head office are provided to heighten their understanding of the Company. A regional specialist education system, overseas MBA programs, and intensive foreign language programs also help build employee global leadership.

At LG Chem, innovation activities driven by the Six Sigma initiatives have been a tradition carried forward for decades. Successes and failures in exploring the Chinese market are studied and shared with Chinese specialists, and will be utilized as benchmarks in launching new businesses in the world.

LG CHEM OVERSEAS SUBSIDIARIES

	Subsidiaries	Establishment	Location	Products
Manufacturing	Tianjin LG DAGU Chemical Co., Ltd.	Dec. '95	Tianjin, China	PVC
	LG Bohai	Jan. '05	TianJin, China	VCM, EDC
	Ningbo LG Yongxing Chemical Co., Ltd.	Mar. '97	Ningbo, China	ABS
	Ningbo LG Yongxing Latex Co., Ltd.	Jun. '04	Ningbo, China	SBL
	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Jul. '02	Guangzhou, China	EP compound
	LG Chem (Tianjin) Engineering Plastics Co., Ltd.	Dec. '04	Tianjin, 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 Chem (Nanjing) Information & Electronic Materials Co., Ltd.	Jul. '03	Nanjing, China	Polarizers / batteries
	LG Chem Display Matrials (Beijing) Co., Ltd.	Dec. '04	Beijing, China	Polarizers
	LG Chem (Hunan) Phosphor Material	Feb. '03	Changsha, China	Phosphors
	LG Chem Industrial Materials Inc.	Oct. '03	Atlanta, USA	Artificial marble
	LG Polymers India Pvt. Ltd.	Dec. '96	Visakhapatnam, India	PS (HI, GP), EPS
	LG Vina Chemical J/V Company	Jun. '95	Hochiminh, Vietnam	DOP
Marketing	LG Chem China Investment Co., Ltd.	Jan. '05	Beijing, China	
	LG Chemical of America Inc.	May '85	NewYork, USA	
	LG Solid Source, LLC	Nov. '02	Phoenix, USA	
	LG Chem Europe Sarl	May '02	Geneva, Switzerland	
	LG Chem HK Ltd.	Nov. '96	Hong Kong, China	
	LG Chem (Taiwan), Ltd.	Jul. '04	Taipei, Taiwan	

LG CHEM IN CHINA

LG Chem's localization in management and marketing in China was accelerated by the establishment of a holding company in China, LG Chem China Investment Co., Ltd. The holding company set sales at reaching US$4.5 billion and operating profit margin 7% by 2008 in pursuit of its vision, becoming one of the top 5 chemical companies in China.

Jong-Pal Kim
President
LG Chem China Investment Co., Ltd.

"The years of experience and success in China emboldened LG Chem to establish a China-based holding company, LG Chem China Investment Co., Ltd., in January 2005. The holding company covers business strategy setting, marketing activities, and management support for China-based subsidiaries and branches. The holding company plans to reach US$4.5 billion in sales and 7% in operating profit margin by 2008 with its vision of becoming one of the Top 5 in China's chemical industry. In the meantime, the sales portion of locally produced products and the percentage of regional employees will be raised to 80% and 70%, respectively. Each business company will operate a Tech-center which will provide technical support and product development through capturing the needs of Chinese customers. The holding company will demonstrate a track record of excellence and experience in business operation in China."

2004 Review

LG Chem's Chinese operations experienced slow progress in some business areas in 2004. However, the business results surpassed the goals set early in the year. Sales registered a remarkable 56% increase to US$2.4 billion, representing 30% of the Company's total sales. A battery and polarizer plant completed in Nanjing and an ABS compounding plant in Guangzhou contributed to business localization. The Company launched expansion projects of Tianjin EDC and VCM facilities for vertical integration of the existing PVC Plant, and started construction of Tianjin Engineering Plastic Plant and Beijing Polarizer Plant. A new human resources management system has been introduced. It focuses on empowering business capabilities of local subsidiaries and branches and local employees through various reeducation programs. The holding company system gears to bring greater synergy effects through integrating management in China.

2005 Goals

Many aspects in China indicate some possibilities of an economic slowdown in 2005. Continued risk factors such as shortage in capital resources, financial uncertainties, and social unrest could be potential threats. Accordingly, the business management in China is focused on minimizing risk factors through meticulous measures, thus to realize the sales goal of US$3 billion, a 22% increase.

Looking into goals business by business, the chemicals and polymers business empowers growth drive, cost competitiveness in PVC and ABS, while increasing sales of specialty products in an effort to generate higher profits. In the industrial materials business, localization of production and marketing will be speeded up through enhancing R&D capabilities and launching new-concept products with unique designs in key areas. The information and electronic materials business targets stabilization of production through technical support, strategic allocation of production facilities, and anticipation of customer's specific needs in the strategic regions. At the same time, aggressive marketing activities will take place in the high-end market.

Mid-to-Long-Term Outlook and Strategies

The economic forecast in China is bright, expected to enjoy a continued high growth until 2010. This will make it a global production and business matrix as great as that of all the EU nations combined. The combination of rapid globalization, urbanization, and informatization, plus the shortage of material resources and growing consumer spending, as well as China's functioning as a financial market open to multinationals, and many other factors, incubate multiplying business opportunities in China.

In the burgeoning Chinese market, LG Chem takes agile moves to turn business opportunities into successful results. A key to success is the convergence of corporate resources and selection of promising businesses. To this extent, LG Chem selected five competitive business items involved with battery, polarizer, PVC, ABS, and PVC window frame and door. Putting these items in the top priority, the Company works hard to seize a leading position in the Chinese market.

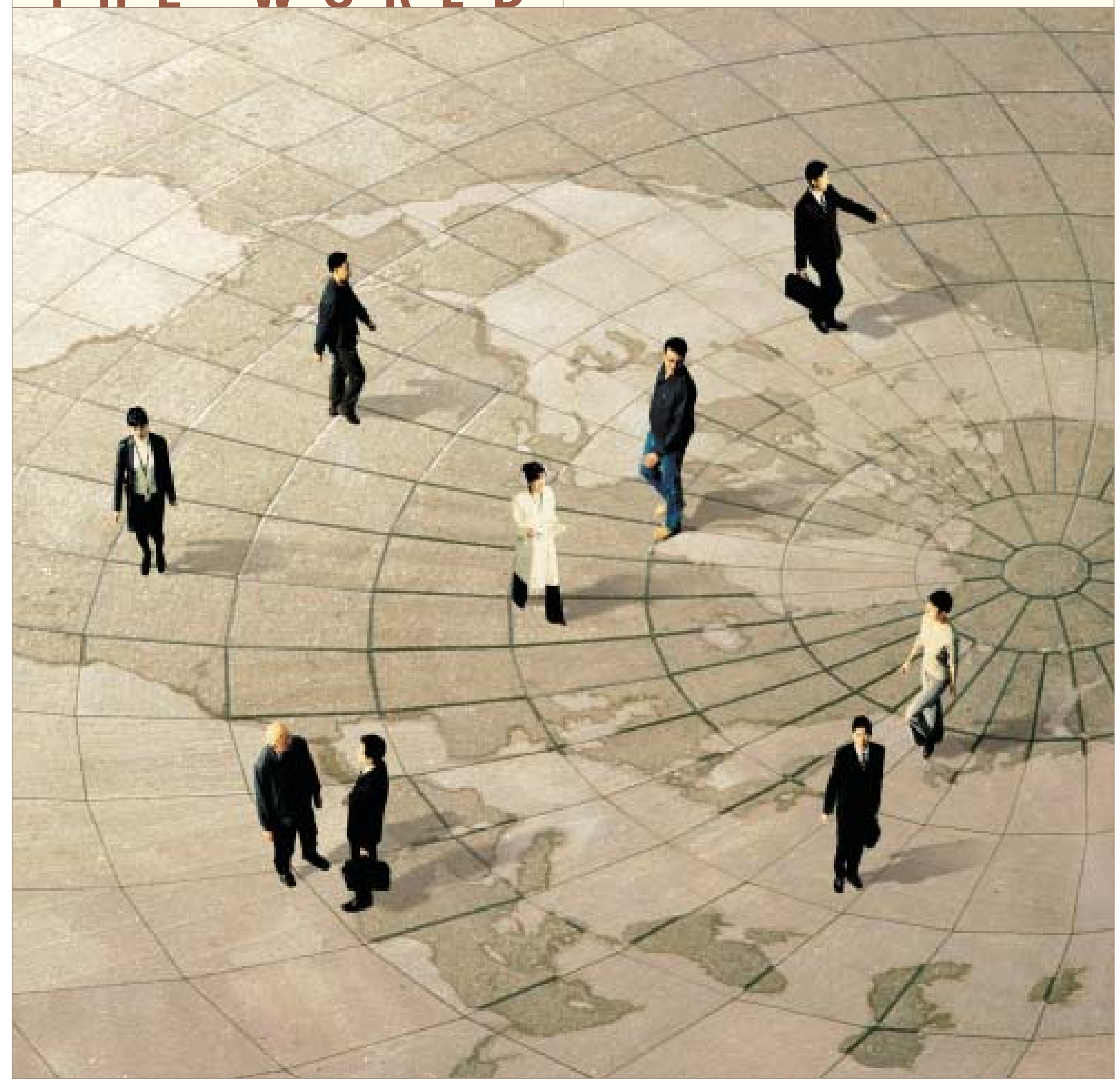
“Sales registered a remarkable 56% increase to US$2.4 billion, representing 30% of the Company's total sales.”

Cultivation of talent is essential to take businesses to a leading edge. Therefore, elite employees will be sent to the China-based subsidiaries and various reeducation programs will be provided for Chinese employees to build strength in regional management.

The business operation in China requires strong R&D abilities. Therefore, research and technical service centers in China will enhance R&D abilities through the employment of local professionals of varied backgrounds, while promoting joint industry-academia research activities. By 2008, LG Chem China R&D center will be established to serve as a mainstay for R&D activities.

LG CHEM IN THE WORLD

LG Chem has established manufacturing and marketing subsidiaries in advanced countries and newly emerging countries besides China. With the implementation of enterprise resource planning (ERP), marketing activities go full swing in these regions.



2004 Review

In 2004, LG Chem established artificial marble (Hi-Macs) plant in the USA, marketing subsidiary in Taiwan, and branch offices in Russia and Thailand that expanded production and sales bases in key global regions. The Enterprise Resource Planning (ERP) system was introduced in each establishment to sharpen stewardship. The Company tried to boost marketing activities in the advanced countries, including the United States and Europe, and in the emerging countries with high economic growth. CEO and CFO attended in investor relations road tours for key foreign investors. The Company also continued securing talent in the regions. For instance, a job promotion took place in prestigious colleges in the United States.

LG Vina, a plasticizer plant in Vietnam, increased sales 22% up to US$ 27 million from the previous year, and operating profit margin 9%. Sales of LG PI, a PS and EPS plant, accounted for US$ 27 million and operating profit margin 9%. PS sales took 32% market share and EPS 41%, both representing a dominant position in India.

LG Chem renewed strategies in India, Russia, and European countries, and surveyed of the Brazilian market. Building on already-established marketing strategies set for the US and Southeast Asian countries, in 2003 LG Chem continued redefining marketing strategies to keep up with the latest trends in different markets worldwide.

2005 Goals

In the United States, LG Chem will stabilize artificial marble operation of LG Chem Industrial Materials Inc. (LG CIM) and strengthen marketing of batteries used for notebook PCs. The marketing plan in Latin America to find business opportunities is now under review.

To solidify its business platform in the EU, LG will stabilize the business of LG Chem Europe (LG CE) through establishing a new marketing subsidiary in Frankfurt, Germany, by merging LG CE with Frankfurt office. The new subsidiary will help stabilize existing businesses, including artificial marble, while boosting sales of batteries to European mobile handset makers. LG Chem will establish a LG Chem branch in Turkey for entry into the Middle Eastern and African markets.

To broaden the Russian market, sales channels for chemicals, polymers, and industrial materials will be expanded through the newly-established LG Chem Moscow office. In India, one of the emerging markets the Company strategically sets its sights on, pre-marketing surveys are conducted to capture business opportunities for ABS and EPC. The company taps the battery market in India in collaboration with LG Electronics and other mobile handset providers. In the Middle East and Africa, all-out market surveys will commence as the Company embraces the challenges that lie ahead in those regions.

As for regionalization strategies, the number of local employees that participate in global operations will be increased. Frequent video conferencing is encouraged to exchange ideas across borders and to streamline communication between the head office and global subsidiaries and branches. Combining marketing experience, strategies, and human and research resources of old and new, LG Chem makes every effort to win the highest recognition in the broader regions worldwide.

Mid-to-Long Term Outlook and Strategies

LG Chem will increase overseas sales up to 57% by 2008. Upon this mid-to-long-term goal, LG Chem boosts marketing in the United States, European countries, and emerging countries including India and Russia as key global markets excluding China.

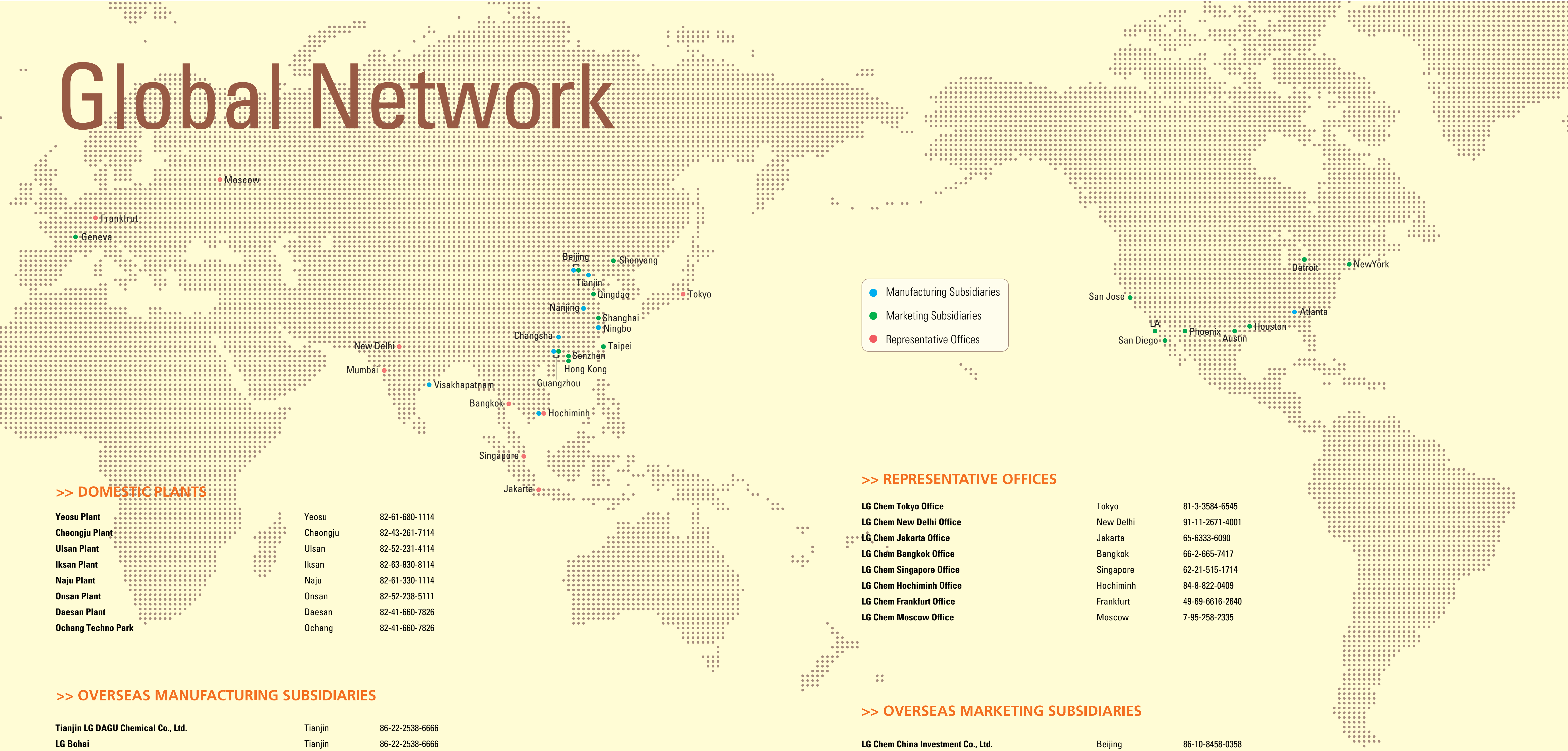
In the North and South American markets, industrial materials will be renovated to meet with the specific needs of the regions. In step with expanding the production of Hi-Macs and other surface materials, the Company taps HP, Dell, and other prospective customers for cylinder-type batteries. As for chemicals and polymers business in Latin America, regional marketing will be intensified with accompanying technical support to raise the sales portion to 17% in the Company's regional total sales.

In the EU, efforts to increase sales of batteries will be intensified to attract prospective customers, including Sony Ericsson and Siemens. The sales goal of artificial marble is to reach a 10% portion in the Company's regional total.

The local production of styrenics business lines will be enhanced in India, and the business localization of window frames and door materials will be accelerated to cope with their emerging demand in Russia.

“ LG Chem will increase overseas sales up to 57% by 2008. ”

Global Network



>> DOMESTIC PLANTS

Yeosu Plant	Yeosu	82-61-680-1114
Cheongju Plant	Cheongju	82-43-261-7114
Ulsan Plant	Ulsan	82-52-231-4114
Iksan Plant	Iksan	82-63-830-8114
Naju Plant	Naju	82-61-330-1114
Onsan Plant	Onsan	82-52-238-5111
Daesan Plant	Daesan	82-41-660-7826
Ochang Techno Park	Ochang	82-41-660-7826

>> OVERSEAS MANUFACTURING SUBSIDIARIES

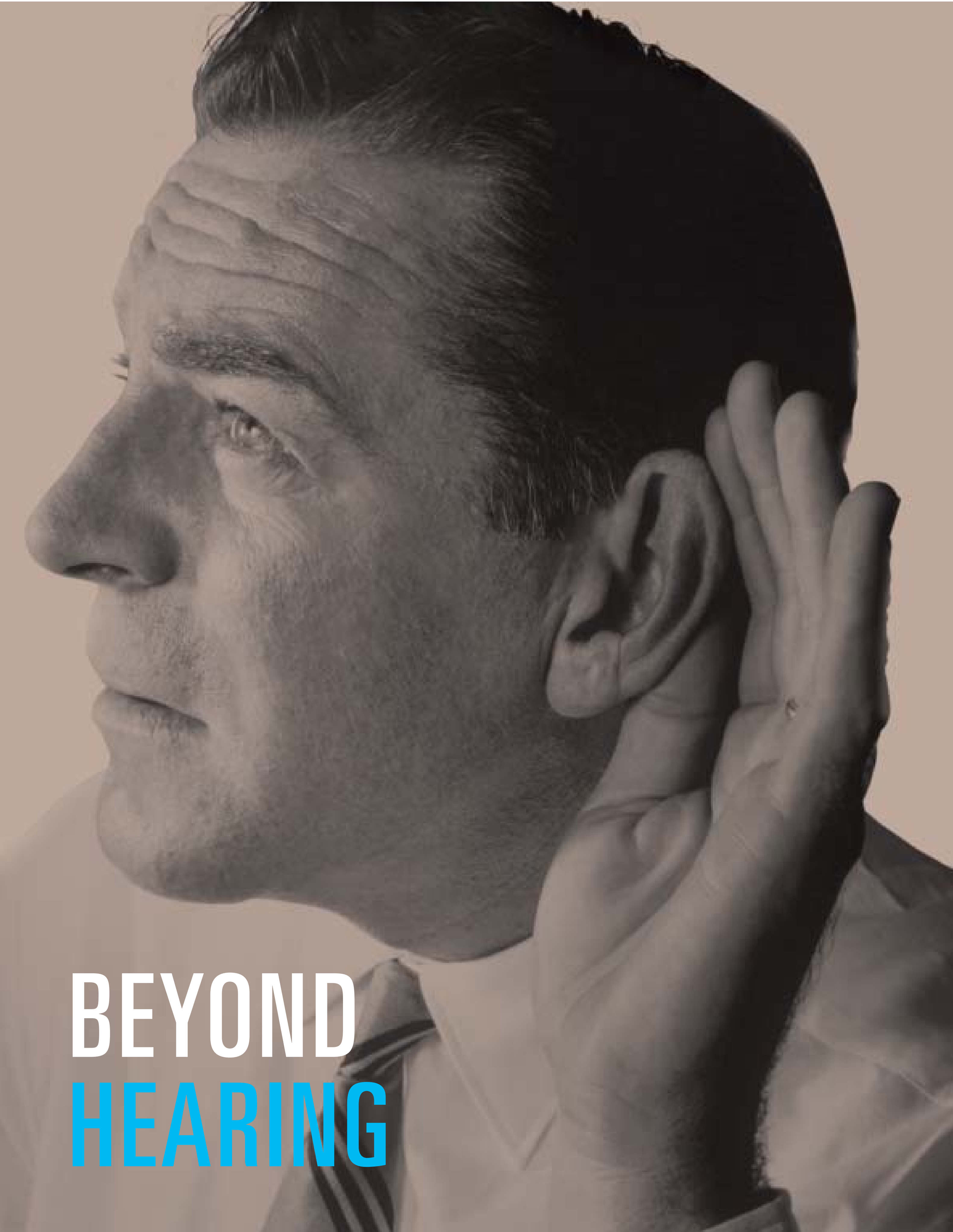
Tianjin LG DAGU Chemical Co., Ltd.	Tianjin	86-22-2538-6666
LG Bohai	Tianjin	86-22-2538-6666
Ningbo LG Yongxing Chemical Co., Ltd.	Ningbo	86-574-8637-7155
Ningbo LG Yongxing Latex Co., Ltd.	Ningbo	86-574-8637-7097
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Guangzhou	86-20-8200-1570
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	Tianjin	86-22-8212-5558
Tianjin LG New Building Materials Co., Ltd.	Tianjin	86-22-8212-5558
Tianjin LG Window & Door Co., Ltd.	Tianjin	86-22-8212-5558
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	Nanjing	86-25-8580-0603
LG Chem Display Matrials (Beijing) Co., Ltd.	Beijing	86-10-5839-3677
LG Chem (Hunan) Phosphor Material	Changsha	86-731-406-3692
LG Polymers India Pvt. Ltd.	Visak	91-891-252-0842
LG Vina Chemical J/V Company	HoChiMinh	84-8-822-1685
LG Chem Industrial Materials Inc.	Atlanta	1-706-629-4268

>> REPRESENTATIVE OFFICES

LG Chem Tokyo Office	Tokyo	81-3-3584-6545
LG Chem New Delhi Office	New Delhi	91-11-2671-4001
LG Chem Jakarta Office	Jakarta	65-6333-6090
LG Chem Bangkok Office	Bangkok	66-2-665-7417
LG Chem Singapore Office	Singapore	62-21-515-1714
LG Chem Hochiminh Office	Hochiminh	84-8-822-0409
LG Chem Frankfurt Office	Frankfurt	49-69-6616-2640
LG Chem Moscow Office	Moscow	7-95-258-2335

>> OVERSEAS MARKETING SUBSIDIARIES

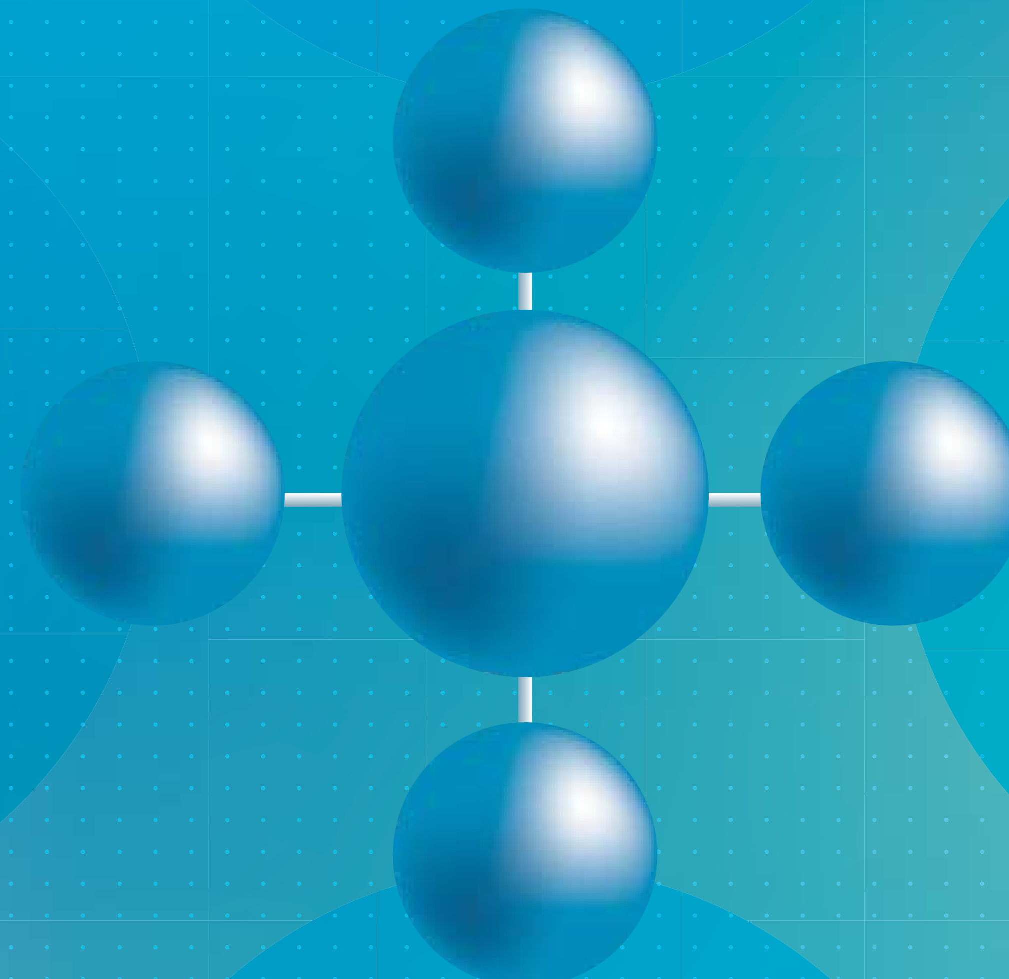
LG Chem China Investment Co., Ltd.	Beijing	86-10-8458-0358
	Shanghai	86-21-5241-5397
	Guangzhou	86-20-3878-1200
	Shenyang	86-24-2281-2755
	Qingdao	86-532-388-7361
	Shenzhen	86-755-8302-5201
LG Chem HK Ltd.	Hong Kong	852-2820-7952
LG Chem (Taiwan), Ltd.	Taipei	886-2-2700-9077
LG Chemical of America Inc.	New York	1-201-816-2309
	LA	1-562-653-8090
	Detroit	1-248-358-0400
LG Solid Source, LLC	Phoenix	1-623-776-7373
LG Chem Europe Sarl	Geneva	41-22-879-5481



BEYOND HEARING

BEYOND YOUR HEARING, THERE'S OUR SOILD FINANCE.

solid



At LG Chem, we have a lot more to offer than our competitors. With proven excellence in business performance, financial management, optimal allocation of corporate resources, and risk management, we believe that our financial presence is stable and healthy. Most importantly, our potential for future growth is even brighter.

CFO'S REVIEW OF OPERATIONS

“ In fiscal 2004, we developed LG Chem's enterprise-wide risk management to maintain a healthy and robust financial structure. ”

Suk-Jeh Cho
Executive Vice President and CFO

Fiscal 2004 was a very challenging year for the entire industry, with some of the greatest uncertainty in both the domestic and overseas financial market. This was due to the sudden rise in international oil prices and increased volatility in the exchange rate. Bearing these factors in mind in an already tough market, we considered it best to focus on stabilizing our financial structure by carrying out financial risk management on our optimal funding and fund operations necessary for our investments in strategic businesses. As a result, we were able to build a foundation that enabled us to cope with the radical changes in the business environment while still offering full flexibility. Our efforts in this respect are manifested in our construction of enterprise-wide, integrated risk management and in our introduction of a BPS (Business Planning & Simulation) system.

Thus, in 2005, we aim to further enhance operational stability by focusing on three tasks that we practice and control-enhanced financial management activities, efficient allocation of financial resources and systematic risk management. We will continue to pursue the maximization of the value of LG Chem through effective support for strategic decision-making. In addition, we will concentrate our efforts on continuing positive performance to increase our shareholders' value, as well as on initiating in-depth, pro-active IR activities for both domestic and foreign investors.

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Founded in 1947, LG Chem has emerged as a leading chemical company over the past five decades. In March 2003, when a holding company structure was implemented, LG Chem made a restart as a chemical subsidiary. Under the holding company structure, we were able to not only concentrate our efforts and capabilities on our core strategic businesses, but also build a foundation allowing us to enhance the value of LG Chem and its shareholders.

LG Chem operates three businesses: Chemicals and Polymers, Industrial Materials, and Information and Electronic Materials. We concentrate investments on Information and Electronic Materials, both the strategically-cultivated businesses, and China, the world's fastest growing market. By reinforcing competitiveness and seizing favorable market position early on, we continue to build up foundation for sustainable growth of the future.

In addition, to secure key competitive advantages in future strategic businesses, we are continuing to push ahead with R&D in emerging growth and core businesses while seeking to strengthen our advanced technology and business capabilities to become a leading company in the world. We believe that this can best be achieved through implementing enterprise-wide reform of business practices, such as reducing costs and improving productivity in the currently challenging economic climate.

2004 OVERVIEW

In fiscal 2004, despite shrinking consumer spending due to downturn in the domestic economy, our sales and operating income increased by 26% and 9%, respectively, on year on year. Main contributors were soaring prices of petrochemical products due to continuing high oil prices and explosive demand in China, increased exports, and increased sales of batteries and polarizers backed by capacity expansion. Our net profit for the year was ₩536 billion, a 48% increase over the net profit for fiscal 2003. This impressive achievement is attributable to the increase in gains on the valuation of investments using the equity method of accounting, which resulted from the outstanding performance of our key domestic and overseas subsidiaries. LG Chem's consolidated financial statements showed the remarkable performance of these subsidiaries. As a result, LG Chem's consolidated sales, operating profit and net income for fiscal 2004 were ₩8, 817 billion, ₩894 billion and ₩537 billion, respectively, an increase of 28%, 32% and 48% over the figures for fiscal 2003.

We achieved substantial growth in sales and operating profit in overall businesses in 2004. Despite slow demand in the domestic petrochemicals market, sales revenue for fiscal 2004 improved by 27% on a year on year basis. This is attributable to high sales prices driven by increased prices for major raw materials and growing demand from China. Although we were challenged by slow in the domestic construction industry and shrinking consumption, our global marketing strategies enabled us to achieve a 5% increase in sales of Industrial Materials. We were especially pleased with our fiscal 2004 sales in information and electronic materials, which showed dramatic growth of as much as 73% over fiscal 2003's sales. Such impressive results were due to increased demand from the frontline industries (e.g., mobile handsets, notebook computers, and TFT-LCD televisions), as well as to the increased sales associated with the expansion of production capacity for batteries and polarizing films.

The operating profit from Chemicals and Polymers jumped 62% on a year on year, which was caused by increased product sales prices due to higher overseas demand, especially in China and oil price hikes. However, we experienced a 33% drop in operating profit in the industrial materials during the year from fiscal 2003 due to slow consumption associated with the economic downturn, a worsening product mix resulting from poor sales performance for high value-added products, and a sudden price increase for PVC and other raw materials. In addition, operating profit from fiscal 2004 for the information and electronic materials dropped by 55% from fiscal 2003. This decrease was attributable to three factors: a change in the useful life for the depreciation of assets (from 12 years to 6 years), a decrease in profits caused by the expansion of production lines, and a sudden rise in the cost of major raw materials such as cobalt.

With regard to R&D, we aim to become a total solution provider by focusing R&D activities in the following: information and electronic materials (TFT-LCD display materials, rechargeable batteries, semiconductor materials), industrial materials (construction materials, advertising materials, and optical films), and petrochemicals (polymerization, process and catalysts). We will continue to seek high-growth businesses by laying a foundation for continual investment in R&D. With outstanding research results we will be able to achieve our medium-term goal of having 60% of our target sales with products from our top business by 2010. We place priority on constantly increasing our annual investments in R&D, with the goal of ₩650 billion (approx. 5% of sales) in 2008.

FINANCIAL INFORMATION

Financial Structure

As of December 31, 2004, our total liability and equity ratio and net debt to equity ratio were 159% and 90%, respectively, showing slight decreases from fiscal 2003. Our consolidated financial statements showed improved ratios similar to those of parent company. Due to the active investment in growing business we aim to conduct in 2005, we anticipate that our debt to equity ratio will not be improved significantly. But from the beginning of 2006, when returns on investment will start to be recognized, we will be able to improve our financial structure through the efficient management of working capital, in addition to consistent performance and restructuring. Basically, R&D expanse and capital spending for the expansion of production capacity will be financed by internal funds and we will seek to maintain a net debt to equity ratio of about 50% as a medium- and long-term target.

Major Financial Indicators

	LG Chem		Consolidated	
	2003	2004	2003	2004
Total liability and equity ratio	162.4%	158.7%	163.2%	155.2%
Net debt to equity ratio	94.0%	90.2%	105.2%	96.0%
Interest coverage ratio	5.6%	5.7%	7.0%	7.8%
Return on assets	8.4%	10.3%	8.3%	10.7%
Return on equity	21.4%	26.8%	21.2%	27.6%

※ The consolidated ROE and ROA are calculated with total net income which includes the income of minority interests.

Debt by Currency (LG Chem)

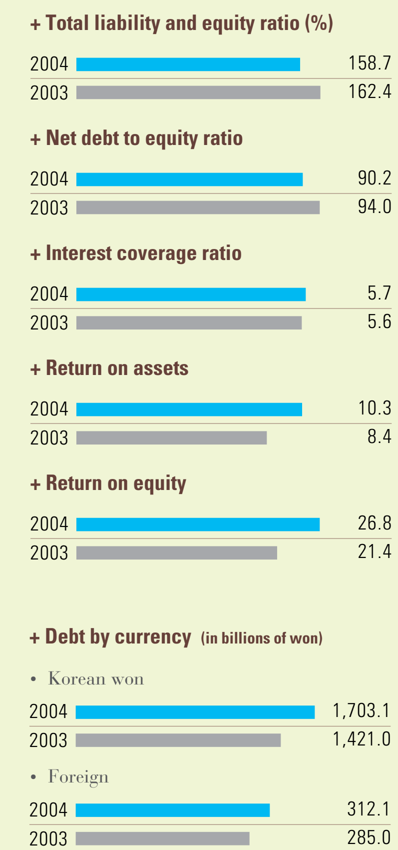
(in billions of won)

	Dec. 2003	Dec. 2004	Change
Korean won	1,421.0	1,703.1	282.1↑
Foreign	285.0	312.1	27.1↑
Total	1,706.0	2,015.2	309.2↑

Equity

Under the Korea's Monopoly Regulation and Fair Trade Act, at least 30% of LG Chem's issued shares must be held by LG Corp. in order to maintain its status as a holding company.

As of December 31, 2003, 34.03% of LG Chem's outstanding common shares were held by LG Corp., 29.67% by foreign shareholders, and 36.30% by Korean individual and institutional investors. In fiscal 2004, however, there was a steady increase in the shareholding proportion of foreign investors due to periodical overseas road shows and participation in overseas conferences. As a result, as of 31 December, 2004, 34.03% of LG Chem's outstanding common shares were held by LG Corp., 37.24% by foreign shareholders, and 28.73% by Korean individual and institutional investors.

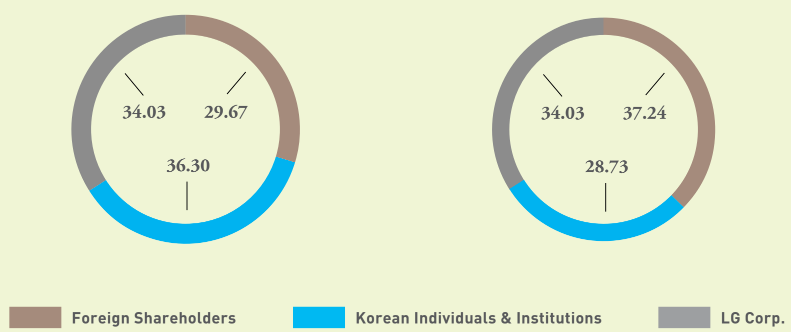


Status of shareholder (2004. 12. 31)

Share Type	Number of Outstanding Shares	Paid in Capital	Shareholding Ratio of Foreign Investors
Common Share	64,425,064	₩322.1 billion	37.24%
Preferred Share	8,661,251	₩43.3 billion	42.17%
Total	73,086,315	₩365.4 billion	37.83%

+ Sharehholder composition

(Common stock as of December 31, 2003)   (Common stock as of December 31, 2004)



Funding Strategy

LG Chem has attained the level of "AA," the highest credit rating that can be held by domestic chemical companies. Based on our high credit quality, we aim to minimize liquidity risk and reduce financing costs by carrying out stable funding and fund operations at low interest rates while maintaining our debt structure, focusing on long-term funds including foreign currency borrowings.

• **Long-term and Short-term Borrowings :** The greater portion of our debts is long-term borrowings. Stable liquidity management is achievable through the maturity diversification of long-term borrowings while the level of short-term borrowings, accounting for 80%~90% of our working capital, is maintained.

• **Interest :** LG Chem determines the portion of fixed interest rate debt based on an analysis of the correlation between fixed and floating interest rates, as well as the conditions and outlook of international financial markets. As of December 31, 2004, 80% of total won currency borrowings were based on fixed interest rates, whereas 40%~60% of total foreign currency borrowings were based on floating interest rates.

• **Borrowings in Foreign Currency :** In foreign currency borrowings, LG Chem determines the appropriate level of borrowings and the currency type by taking into consideration cash flow and exchange risk management strategy. As of December 31, 2004, LG Chem's foreign currency borrowings were US$299 million with the greater portion in US dollars.

Cost of Capital (in billions of won)

	2004 Results	2005 Target	Change
Interest paid	96.1	106.1	10.0
Interest rate	5.05%	4.99%	(0.06%p)

Debt by Currency (in billions of won)

	Dec. 2004	Dec. 2005(E)	Change
Korean won	1,703.1	1,813.4	110.3
Foreign	312.1	413.6	101.5
Total	2,015.2	2,227.0	211.8

Dividends & Dividend Policy

LG Chem considers dividend to be the basic form of profit return to shareholders. The amount of dividend is determined through consideration of the elements affecting investment resource funding and the soundness of financial structures necessary to increase business profit and pursue corporate growth.

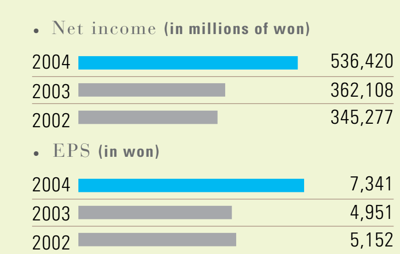
In fiscal 2004, LG Chem decided to pay out dividends with 30% common stock and 31% preferred stock at face value, a 5% percentage point decrease from the dividends of fiscal 2003. In deciding this, we took into account our forecasted tight cash flow and a target debt to equity ratio at a fixed level based on our business plan for a large-scale facility and R&D investment. We will continue to maintain the current level of dividends, which meets both the need to improve financial structures and our obligation to pay dividends. This will be accomplished through securing competitive advantages in our core businesses to generate profits continually, which will lead to a constant rise in share value.

Dividend Summary (in millions of won, EPS in won)

	2002	2003	2004
Net income	345,277	362,108	536,420
EPS	5,152	4,951	7,341
Earnings avail. for distrib.	110,037	128,116	110,032
Total dividends	110,029	128,106	110,029
Dividends to net income	31.90%	35.38%	20.51%
Dividend payout: common	30%	35%	30%
Dividend payout: preferred	31%	36%	31%
Dividend yield ratio	3.39%	3.40%	3.58%

※ Dividend payout is based on percentage of face value.

+ Dividend Summary



CAPITAL EXPENDITURE

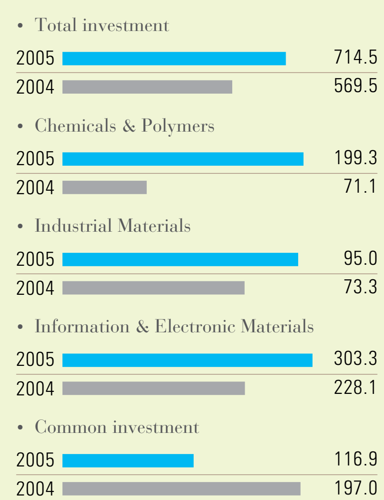
LG Chem is continually investing in future strategic businesses to boost growth. These include cutting-edge businesses such as flat panel display materials and fuel cells, as well as core businesses such as rechargeable batteries and polarizing films. The company will have invested ₩1 trillion won in the ongoing project of "Ochang Techno Park" (a 330,000㎡ site) by 2010. In fiscal 2004, LG Chem invested ₩228 billion won (out of a total investment of ₩570 billion) in the field of information, and electronic materials alone. With the establishment of a holding company in China, we plan to establish a R&D center and to increase regional-based production, and more businesses carried out mainly by regional employees under localization policies. It is to complete a regional-based business base covering all value chain from research, production to sales.

In 2005, we intend to secure a global leadership position through major investments in growth and strategic businesses. In addition, we aim to promote vertical integration by building supply bases for the raw materials, EDC and VCM, or the PVC business in China and strongly promoting businesses in China with further facilities in addition to our current ABS plant in the Eastern China. Furthermore, new PVC and ABS plants will be constructed in the Southern China. These expansions will allow LG Chem to become China's largest PVC and ABS supplier in 2008 (marking the 10th year of LG Chem's operations in China), when its annual production capacity for PVC and ABS is expected to be 1,000,000 tons and 700,000 tons, respectively.

Investment (in billions of won)

	2004	2005
Total investment	569.5	714.5
Chemicals & Polymers	71.1	199.3
Industrial Materials	73.3	95.0
Information & Electronics Materials	228.1	303.3
Common investment	197.0	116.9

+ Investment (in billions of won)



SPLIT OF HYUNDAI PETROCHEMICALS

Acquisition of Hyundai Petrochemicals

LG Chem acquired a 50% stake in Hyundai Petrochemicals on June 27, 2003, through joint investment (50:50) with Honam Petrochemicals Co., Ltd. ("Honam Petrochemicals") by injecting of ₩300 billion, respectively. The final acquisition price was ₩1.83 trillion , which includes ₩600 billion of equity and ₩1.23 trillion of borrowings.

Business Split

As of October 1, 2003, LG Chem and Honam Petrochemicals split and acquired the sales division of Hyundai Petrochemical's HDPE, LL/LLPE and PP business, under the conditional approval of the Fair Trade Commission, which allowed the two companies to take them over and split the businesses.

For a seamless business split, LG Chem held discussions with Honam Petrochemicals on issues relating to the split plan and determining business value. As a result, on August 31, 2004, we decided to acquire Hyundai Petrochemical's No.I complex, after considering various aspects such as the difference in values of the two plants, financing for investment in China and strategic future business and financial solidity.

Under the terms of the agreement between LG Chem and Honam Petrochemicals, it was decided that the current utilities and common supporting facilities (such as the port) would remain as a surviving entity, while the production facilities of No.I complex would be LG Daesan Petrochemicals Ltd., and No.II complex would be Lotte Daesan Petrochemicals Ltd. As of December 31, 2004, the business split had been completed, and LG Daesan petrochemicals Ltd. was officially organized as LG Chem's subsidiary.

Business Results & Production Capacity for Major Products

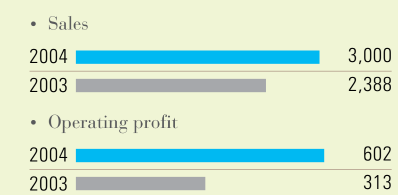
Business Results (in 2004) (in billions of won)

Classification	2003	2004	Growth Rate
Sales	2,388	3,000	26%
Operating Profit (%)	313 (13.1%)	602 (20.1%)	92%
Ordinary Income	190 (8.0%)	526 (17.5%)	177%
Net Income	541	374	-31%

Production Capacity for Major Products (no.I complex) (in thousand tons)

Major Proejcts	Ethylene	Propylene	Benzene	Butadiene	SM	EG
Capa	450	220	140	65	150	125

+ Income Statement (in billions of won)

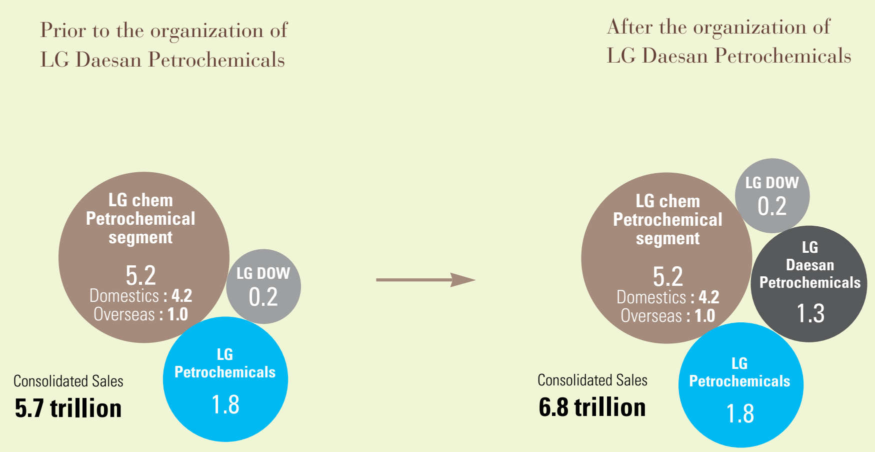


Synergetic Effect of LG Daesan Petrochemicals/LG Chem

The incorporation of LG Daesan Petrochemicals has allowed us to secure a stable long-term supply of raw materials (which include ethylene, SM and BD) necessary to the PVC and ABS businesses, our strategic area. We can now strengthen vertical integration with our core businesses and secure a leading position in costs. Furthermore, through the synergy, we will be able to enhance our capabilities and increase our market share for core businesses (which include SM, BD and LDPE), as well as secure competitive advantages in the market. As a result, we will be able to achieve up to 7 trillion won in sales in the petrochemicals segment (including the operations of LG Chem's subsidiaries) in 2005, growing into a general chemical company.

+ Change in the size of the petrochemicals segment upon the organization of LG Daesan Petrochemicals

(Fiscal 2004's consolidated sales (for Functional Materials) affter Inter-company transactions have been deducted)



ERM (ENTERPRISE RISK MANAGEMENT)

Background

With an increasing number of uncertainties in the business environment, global enterprises are pursuing ERM with an enterprise-wide perspective, separate from a defensive posture of conducting business centered on local risk management or risk minimization in the present financial circumstances.

To survive in the business environment, LG Chem became the first company in Korea to implement ERM within the manufacturing sector, with the aim of ultimately maximizing prosperity for our shareholders. This system will allow us to identify internal and external risk factors in advance and anticipate and control them to minimize uncertainties about financial results.

Promotion

We formed the ERM TFT in February 2004 to promote the implementation of ERM. The ERM TFT was developed through the identification and assessment of risks that specifically require urgent measures and enterprise-wide management. An ERM framework and operation plan were also developed to ensure that its measures and the KRI (Key Risk Indicator) were fully understood and sustainable, and that systematic risk management was practiced. In addition, we organized a risk management team consisting of the RM team, CRO (Chief Risk Officer), risk officer, risk owner, and risk management committee to build an optimal ERM foundation for LG Chem.

Post-Implementation Plan

LG Chem is set to organize its RM team to support systematic full-enterprise risk management and promote the implementation of ERM. By the year of 2005, we will complete the implementation of an EWS (Early Warning System), an IT system, to ensure signs of risk are recognized at an early stage while supporting ERM implementation for all subsidiaries. In addition, we plan to provide appropriate training to encourage our offices and employees to be aware of their need for risk management, ultimately building an improved business culture. We believe that once our ERM activity has become intrinsic to the organization and the culture of our firm, variations in business results caused by changes in the business environment will be managed within the risk tolerance level. This will contribute to maximizing the value of our company.

FINANCIAL RISK MANAGEMENT

Exchange Risk Management

To reduce exchange losses (decreases in operational income due to the volatility of exchange rate) within the tolerance level, we focus on minimizing excessive or undesired uncertainties and on carrying out exchange risk management through the following process:

Determining risk — Determining the maximum exchange loss that may occur from the exposure to operating exchange risk using the VaR model.

↓

Setting target amount of risk to be managed — Setting the amount of risk as a target figure to be managed, which is allowable by LG Chem, within the maximum exchange loss amount (VaR) computed by VaR at the stage "determining risk".

↓

Hedging — Hedging through futures, options, etc, to reduce uncertainties to the target level.

Interest Rate Risk Management

LG Chem determines the ratio of short-term to long-term borrowings and the ratio of fixed to floating interest rates with respect to borrowings, taking into consideration the cost and risk factors resulting from fluctuations in interest rates. Capital investment is funded using long-term borrowings, whereas operating funds are allocated using short-term borrowings. We aim to maintain the ratio of long-term borrowings to total borrowings at 80~90%, and keep the ratio of fixed interest rate borrowings at 60~80% to ensure the efficient management of our borrowing structure.

Liquidity Risk

We strive to diversify borrowing maturity dates in order to prevent simultaneous needs for cash flow.

Borrowing Maturing Date	'05	'06	'07	'08	Total
Borrowing (in billion won)	519	769	406	481	2,175
Component Ratio	24%	35%	19%	22%	100%

※ ABS borrowing, 160 billion won included

2005 OUTLOOK

In spite of the delay in the recovery of the domestic economy, which is still uncertain, in 2005 LG Chem expects sales to grow by 5%, generating revenues of ₩7.5 trillion. This sales growth will come from the continual expansion of the information and electronic materials business (batteries and polarizing films), the continuing boom in the petrochemicals business resulting from the delay in expansion projects in the Middle East, as well as the strong growth in demand in China. We anticipate that our consolidated sales will be ₩10.4 trillion, an 18% increase over fiscal 2004. With the prospect of the gradual recovery of domestic demand, we will continue to pursue improvements in profitability by constantly advancing into overseas markets and increasing sales of high value-added, high-performance products.

With the goal of "Securing sustainable competitiveness" this year, we plan to seek competitive advantages through the vertical integration of major products for the chemicals and polymers. Recovery in domestic demand for products in the industrial materials business is still expected to be slow due to continuing stagnation in the domestic construction sector. However, we plan to concentrate our business capabilities in our strategic overseas areas such as the United States and China, while increasing the relative proportion of high value-added products based on our excellent R&D and marketing capabilities. Looking into the information and electronic materials business, both bearing sustainable growth possibilities in the future, we continued to maintain our leading market position by stabilizing expended facilities and improving cost competitiveness, as well as early releases of new products, including medium-to-large-sized batteries and display materials.

LG CHEM UNDER HOLDING COMPANY STRUCTURE

AS of December 31,2004

*KOSPI & KOSDAQ Listed Companies

*LG Corp.

- *LG Chem (34.0%)
  - *LG Petro (40) / Hyundai Petro (50) / LG Dow PC (50)
- *LG Household & Healthcare (34.0%)
- *LG Life Sciences (30.4%)
- *LG Electronics (36.1%)
  - *LG Phillips LCD (44.6) / LG Innotek (69.8) / *LG Micron (36.0)
- *LG Telecom (37.4%)
- *DACOM (39.8%)
  - Powercomm (45.4)
- LG MMA (50.0%)
- Siltron (51.0%)
- LG CNS (65.8%)
- LG Sports (100%)
- LG N-sys (100%)
- LG MRO (100%)

In March 2003, LG Group implemented a holding company structure as Korea's first among conglomerates. It was purposed to simplify the cyclical investment structure practiced between subsidiaries and thus facilitate more transparent and responsive management. Under the holding company structure, the holding company takes charge of investment decisions and each subsidiary focuses on its specialized business. Business results of each subsidiary could be assessed more fairly on performance basis. January 2005, when the affiliated relationship between LG Corp. and GS Corp. was eligibly spun off, marked the transformation for laying a new business foundation. With the renewed corporate governance structure, LG Corp. became a holding company refocusing primarily on electronics, chemicals, and communication businesses. The new corporate governance structure composes of 37 subsidiaries: eight electronic-related subsidiaries including LG Electronics, seven chemical-related subsidiaries including LG Chem, and 21 communications and service subsidiaries including LG Telecom. Entering into a new business chapter, LG Chem doubles its efforts to reestablish itself as a world-respected chemical company.

BOARD OF DIRECTORS

1. Ki-Ho No
President
CEO of LG Chem

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

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

4. Ho-Soo Oh
Senior Advisor of
Investus Global Corp.

5. Chae-Chol Shin
Outside Director of
Korean Air

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 of LG Chem

Churl-Ho Yoo
President
Chemicals & Polymers
Company

Jong-Pal Kim
President
LG Chem China
Investment Co., Ltd.

Suk-Jeh Cho
Executive Vice President
CFO of LG Chem

Kyu-Sok Park
President
Industrial Materials
Company

Soon-Yong Hong
President
Information & Electronic
Materials Company

Jin-Nyoung Yoo
Executive Vice President
LG Chem Research Park

Geun-Yeol Yug
Executive Vice President
Chief Human Capital Officer

FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

Samil Accounting Corporation
Kukje Center Building
191 Hangangro 2 ga, Yongsanku
Seoul 140-702, KOREA
(Yongsan P.O.Box 266, 140-600)

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, 2004 and 2003, 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 did not audit the financial statements of Hyundai Petrochemical Co., Ltd. and certain other subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 14.21% of the Company's total assets as of December 31, 2004 (2003: 11.85%), and the equity in their net profits and losses represent 34.23% of the Company's net income before income taxes for the year ended December 31, 2004 (2003: 21.53%). These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity 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, based on our audits and the reports of other auditors, 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, 2004 and 2003, 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 19 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 year ended December 31, 2004, total sales to related companies amounted to ₩2,099,700 million (2003: ₩1,350,948 million), and total purchases from related companies amounted to ₩2,250,539 million (2003: ₩1,496,191 million). As of December 31, 2004, the related accounts receivable amounted to ₩147,792 million (2003: ₩121,963 million) and the related accounts payable amounted to ₩402,341 million (2003: ₩337,380 million).

Further, the Company has guaranteed repayment of various obligations of its subsidiaries. The total balance of these guarantees as of December 31, 2004, amounts to ₩250,028 million (2003: ₩234,447 million), of which ₩142,813 million (2003: ₩132,814 million) is related to bank borrowings.

As discussed in Notes 7 and 24 to the non-consolidated financial statements, in accordance with the resolution of the Board of Directors on January 30, 2004, the Company acquired commercial papers issued by LG Card Co., Ltd. amounting to ₩100,000 million, for the business recovery of LG Card Co., Ltd. The initial maturities of the commercial papers were May and June 2004, but were extended to February and March 2005, respectively. At the end of 2004, the Company agreed with the creditors of LG Card Co., Ltd. to extend the maturities of commercial papers amounting to ₩74,586 million up to the end of 2005. And, the Company also determined the debt-to-equity swap of commercial papers amounting to ₩25,414 million (number of shares : 4,381,724 shares) in accordance with the resolution of the Board of Directors on January 20, 2005.

For the year ended December 31, 2004, the Company recognized ₩27,667 million of impairment loss on investments for the difference between the estimated realizable value and the carrying value of the commercial papers.

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. for ₩19,277 million (purchase price per share of ₩3,655) from LG Corp. on December 30, 2003.

As discussed in Note 2 to the non-consolidated financial statements, the Company reduced its estimated useful lives of the Battery and Display & Optical Materials Division's machinery and equipment from ten years to six years in order to match costs with revenues in more reasonable manner. As a result of this change, for the year ended December 31, 2004, inventories and depreciation expenses, net of income tax expenses, were increased by ₩5,186 million and ₩34,026 million, respectively.

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 for 37,325,680 shares, at the average purchase price per share of ₩8,037 on June 26, 2003 for the acquisition of 50 % of the shares of HPCL.

Additionally, HPCL spun-off its petrochemical business and established LG Daesan Petrochemical Corp. ("LGPC") and Lotte Daesan Petrochemical, Ltd. ("LDPC") effective on January 1, 2005. As a result of the spin-off, Plant No.1 and Plant No. 2 and related businesses of HPCL were transferred to the newly formed companies, LGPC and LDPC, respectively, and the remaining businesses are maintained by the continuing company.

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

Seoul, Korea
February 4, 2005

Samil PricewaterhouseCoopers

This report is effective as of February 4, 2005, 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, 2004 and 2003

(in millions of Korean won)

	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2 and 23)	₩ 413,717	₩ 257,086
Short-term financial instruments	-	330
Held-to-maturity securities (Note 7)	59,627	1,765
Trade accounts and notes receivable, net (Notes 2, 4, 5 and 19)	457,061	392,879
Other accounts receivable, net (Notes 2, 5 and 19)	88,267	64,336
Inventories (Notes 2 and 6)	614,824	378,990
Accrued income, net	133	112
Advance payments	1,672	1,472
Prepaid expenses	12,612	10,284
Other current asset	8,793	1,625
Total current assets	1,656,706	1,108,879
Property, plant and equipment, net (Notes 2 and 9)	2,453,255	2,461,637
Long-term financial instruments (Note 3)	48	48
Investment securities (Note 7)	124,489	51,270
Equity-method investments (Note 8)	1,172,115	897,236
Long-term guarantee deposits (Note 4)	66,054	29,915
Long-term prepaid expenses	21,519	21,436
Long-term trade accounts and notes receivable, net (Note 5)	1,100	1,444
Other investments	33,780	30,751
Intangible assets (Note 10)	150,463	159,132
Total assets	₩ 5,679,529	₩ 4,761,748

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 11)	₩ 181,314	₩ 86,878
Current maturities of long-term debt, net (Note 11)	321,145	261,629
Trade accounts and notes payable (Notes 2 and 19)	769,932	612,627
Other accounts payable (Notes 2 and 19)	367,897	377,482
Withholdings	33,656	49,212
Accrued expenses (Note 2)	22,317	13,122
Income tax payable (Note 16)	77,713	47,156
Other current liabilities	5,071	10,924
Total current liabilities	1,779,045	1,459,030
Long-term debt, net (Note 12)	1,460,209	1,339,134
Accrued severance benefits, net	69,951	71,655
Deferred income tax liabilities (Note 16)	132,120	63,502
Derivative instruments transaction credit (Note 13)	39,302	10,081
Other long-term liabilities	3,761	3,744
Total liabilities	₩ 3,484,388	₩ 2,947,146
Commitments and contingencies (Note 13)		

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

(in millions of Korean won)

>>		2004		2003
Shareholders' equity (Note 1)				
Common stock	₩	322,125	₩	322,125
Preferred stock		43,306		43,306
		365,431		365,431
Capital surplus (Note 14)				
Paid-in capital in excess of par value		532,002		532,002
Gain on disposal of treasury stock		880		318
Asset revaluation surplus		206,770		206,770
		739,652		739,090
Retained earnings (Note 14)				
Legal reserve		29,337		16,526
Other reserves		505,940		284,750
Unappropriated retained earnings		536,430		362,116
		1,071,707		663,392
Capital adjustments				
Gain on valuation of equity-method investments (Note 8)		24,565		56,980
Tresury stock (Note 15)		(2,403)		(5,593)
Loss on valuation of derivative instruments (Note 13)		(3,811)		(4,698)
		18,351		46,689
Total shareholders' equity		2,195,141		1,814,602
Total liabilities and shareholders' equity	₩	5,679,529	₩	4,761,748

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

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2004 and 2003

(in millions of Korean won, except per share amounts)

		2004		2003
SALES (Notes 19, 20 and 21)	₩	7,127,411	₩	5,672,465
COST OF SALES (Note 19)		5,784,125		4,519,927
Gross profit		1,343,286		1,152,538
SELLING AND ADMINISTRATIVE EXPENSES		820,368		678,880
Operating income		522,918		473,658
NON-OPERATING INCOME				
Interest income		13,921		8,900
Foreign exchange gains		40,976		23,392
Gain on foreign currency translation		73,734		8,070
Gain on disposal of investments		387		143
Gain on valuation of investments using the equity method of accounting (Note 8)		311,319		145,083
Gain on disposal of property, plant and equipment		1,275		1,426
Reversal of bad debt allowance		237		4,959
Gains on valuation of derivative instruments (Note 13)		2,265		799
Others		24,403		15,366
		468,517		208,138
NON-OPERATING EXPENSES				
Interest expenses		92,174		86,017
Foreign exchange losses		27,222		25,538
Loss on foreign currency translation		7,278		6,747
Loss on disposal of trade accounts receivable		10,557		10,372
Loss on disposal of property, plant and equipment		15,840		18,174
Impairment loss on investments		32,279		11,180
Impairment loss on intangible assets (Note 10)		29,677		12,882
Loss on valuation of derivative instruments (Note 13)		31,570		4,720
Donations		4,451		4,483
Others		20,675		18,864
		271,723		198,977
Income before income taxes		719,712		482,819
Income tax expense (Note 16)		183,292		120,711
Net income	₩	536,420	₩	362,108
PER SHARE DATA (in won)				
Earnings per share (Note 17)	₩	7,341	₩	4,951
Ordinary income per share (Note 17)		7,341		4,951

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, 2004 and 2003
(Date of appropriations : March 17, 2005 and March 17, 2004 for the years ended December 31, 2004 and 2003)

(in millions of Korean won)

	2004	2003
RETAINED EARNINGS BEFORE APPROPRIATIONS		
Unappropriated retained earnings carried over from prior year	₩ 10	₩ 8
Net income	536,420	362,108
	536,430	362,116
TRANSFERS FROM OTHER RESERVES		
Reserve for technology development	16,666	-
APPROPRIATION OF RETAINED EARNINGS		
Legal reserve	10,998	12,810
Dividend	109,975	128,106
Reserve for technology development	220,000	221,190
Reserve for facilities	212,120	-
	553,093	362,106
UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO THE SUBSEQUENT YEAR	₩ 3	₩ 10

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 536,420	₩ 362,108
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	353,851	271,929
Provision for severance benefits	59,233	48,238
Gain on foreign currency translation, net	(68,813)	(942)
Loss on disposal of trade accounts receivable	10,557	10,372
Loss on inventory valuation	4,960	5,769
Impairment loss on investments	32,279	11,180
Loss on disposal of property, plant and equipment, net	14,565	16,748
Impairment loss on intangible asset	29,677	12,882
Gain on disposal of investments, net	161	(139)
Gain on valuation of investments using the equity method of accounting	(311,319)	(145,083)
Loss on valuation of derivative instrument, net	29,305	3,921
Reversal of bad debt allowance	237	(4,959)
Others, net	3,057	38,094
	694,170	630,118
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(79,105)	(77,528)
Increase in inventories	(226,342)	(44,091)
Increase in other accounts receivable	(25,163)	(10,872)
Decrease in accrued income	216	631
(Increase) decrease in advance payments	(200)	2,100
Increase in prepaid expenses	(2,328)	(1,688)
(Increase) decrease in other current assets	(885)	480
Decrease in long-term trade accounts and notes receivable	515	-
Increase in trade accounts and notes payable	160,948	166,828
(Decrease) increase in other accounts payable	(9,315)	58,639
Increase (decrease) in accrued expenses	9,196	(2,739)
Increase (decrease) in income taxes payable	30,320	(47,932)
(Decrease) Increase in other current liabilities	(21,426)	22,398
Accrued severance benefits transferred from affiliated company	786	919
Increase in deferred income tax liabilities	68,618	39,597
Payment of severance benefits	(46,797)	(52,104)
(Increase) decrease in deposits for severance insurance	(17,436)	7,485
Decrease in national pension fund	1,258	1,685
	(157,140)	63,808
Net cash provided by operating activities	537,030	693,926

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitonl of property, plant and epuipment, net	₩ (373,081)	₩ (496,241)
Disposal of short-term financial instruments	330	5,136
Acquisition of long-term financial instruments, net	-	(122)
Acquisition of long-term guarantee deposits, net	(36,164)	(13,730)
Acquisition of other investment, net	1,546	13,001
Dividend income	40,425	33,163
Disposal of investment securities, net	(168,903)	(22,229)
Acquisition of equity method securities	(31,945)	(331,549)
Acquisition of intangible assets	(26,739)	(39,167)
Others	875	292
Net cash used in investing activities	(593,656)	(851,446)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings, net	94,817	16,797
Repayment of current maturities of long-term debt	(262,463)	(705,405)
Proceeds from debentures	428,682	964,209
Proceeds from long-term debt, net	76,304	113,503
Disposal (acquisition) of treasury stock, net	3,990	(4,837)
Payment of dividends	(128,090)	(110,009)
Others	17	(3,413)
Net cash provided by financing activities	213,257	270,845
Net increase in cash and cash equivalents	156,631	113,325
CASH AND CASH EQUIVALENTS		
Beginning of year	257,086	143,761
End of year	₩ 413,717	₩ 257,086

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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 Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan and Daesan.

As of December 31, 2004 and 2003, the Company has an outstanding capital stock of ₩365,431 million including preferred stock of ₩43,306 million. The Company is listed on the Korean Stock Exchange since April 25, 2001.

As of December 31, 2004 and 2003, 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 on-cumulative preferred dividend at a rate of one percentage point over the common stock dividend.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial 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 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 Supervisory Commission. As SKFAS No. 2 through 9 became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS No. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2004.

(1) SKFAS No. 10, *Inventories*

The Company accounts for inventories under the provisions of SKFAS No. 10, Inventories. Inventory valuation loss, if any, is presented as a contra inventory account to reduce the carrying amount to its net realizable value. This inventory valuation loss forms part of cost of sales. Certain amounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the December 31, 2004 financial statement presentation. These reclassifications had no effect on previously 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 differ from those estimates.

Revenue Recognition

Sales of manufactured products and goods are recognized upon delivery when the significant risks and rewards of ownership of the goods are 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 Chem 1st and 2nd Special Purpose Companies, respectively. The Company repaid all the related floating debentures on November 28 and 29, 2004 at its maturity date. (Note 4).

In accordance with the Asset Securitization Law, on December 27, 2004, the Company transferred ₩229,625 million of trade accounts receivable outstanding as of November 30, 2004 to LG Chem 3rd Special Purpose Company (Note 4).

As of December 31, 2004, 2nd beneficiary certificates acquired from the trust companies, amounting ₩53,440 million (2003: ₩15,291 million) is 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, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

For the year ended December 31, 2004, the cost of sales is higher by and gross profit lower by ₩4,960 million under the new principle in SKFAS No. 10, compared to what would have been derived under the previous principle. To conform with the December 31, 2004 presentation, the cost of sales and gross profit for the year ended December 31, 2003, were reclassified by ₩5,769 million using the new principle under SKFAS No. 10.

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. 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 statements of income 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. However, the estimated contingent losses arising from the collectibility of the Company's receivables and guaranteed obligations of the investee or commitments to provide further financial support for the investee are recorded as an allowance for doubtful accounts or as an allowance for contingent liabilities.

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 20 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 under the capital adjustments, a component of shareholders' equity.

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:

	Estimated 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 reduced its estimated useful lives of the Battery and Display & Optical Division's machinery and equipment from 12 years to 6 years in order to match costs with revenues in more reasonable manner. As a result of this change, inventories and depreciation expenses net of income tax expenses for the year ended December 31, 2004, were increased by ₩5,186 million and ₩34,026 million, respectively.

The Company capitalizes interest expense incurred on borrowings used to finance the cost of constructing property, plant and equipment.

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 year ended December 31, 2004, the Company realized a loss on the disposal of propety, plant and equipment amounting to ₩15,840 million (2003: ₩18,174 million).

Intangible Assets

Intangible assets, consisting of intellectual property rights, exclusive facility use right are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from 5 to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the year incurred. For the year ended December 31, 2004, the Company expensed ₩133,492 million (2003: ₩83,724 million) as normal development expense.

Capitalized development costs are amortized over their economic lives not to exceed 20 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 year that they are first identified.

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 11 and 12, as of December 31 2004 and 2003 consist the following:

	Foreign Currency (In Thousands)				In Millions of Korean Won	
	2004		2003		2004	2003
Cash and cash equivalents	USD	3,983	USD	3,426	₩ 4,909	₩ 7,579
	EUR	208	EUR	1,068		
	GBP	105	GBP	181		
	JPY	24,223	JPY	126,445		
Trade accounts and notes receivable	USD	90,804	USD	74,108	185,211	127,659
	SGD	-	SGD	20		
	EUR	549	EUR	324		
	GBP	68	GBP	86		
	JPY	8,413,950	JPY	3,570,583		
Other accounts receivable	USD	2,825	USD	978	3,209	1,179
	EUR	41	EUR	11		
Trade accounts and notes payable	USD	140,726	USD	82,185	221,127	146,009
	EUR	479	EUR	408		
	JPY	6,902,454	JPY	4,303,645		
Other accounts payable	USD	27,119	USD	19,906	32,059	26,276
	JPY	228,256	JPY	230,665		
	EUR	549	EUR	100		
Accrued expenses	USD	1,788	USD	958	1,892	1,201
	JPY	8,057	JPY	5,562		

Accrued Severance Benefits

Employees and directors with at least a year of service are entitled to receive a lump-sum payment upon termination of their employment, 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 as of the balance sheet date.

As of December 31, 2004, accrued severance benefits are funded approximately 63.1% (2003: 58.6%), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of this deposit

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the year.

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. Derivative financial instruments for trading or hedging purpose are valued at estimated market price with the resulting unrealized gains or losses recognized in the current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Reclassification of Prior Year Financial Statements

Certain amounts in the December 31, 2003 financial statements were reclassified to confirm with the December 31, 2004 financial statement presentation. These reclassifications had no effect on the previously reported net income or shareholders' equity.

Approval of Non-consolidated Financial Statements

The December 31, 2004 non-consolidated financial statements will be approved by the Board of Directors on February 2 , 2005.

3. RESTRICTED BANK DEPOSITS

As of December 31, 2004 and 2003, long-term financial instruments of ₩48 million are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

Furthermore, group severance insurance deposits are restricted as to their withdrawal in connection with employees' retirement (Note 2).

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 Chem 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 Company repaid all the related floating debentures on November 28 and 29, 2004 on their maturity dates.

In accordance with the Asset Securitization Law, on December 27, 2004, the Company transferred ₩229,625 million of trade accounts receivable outstanding as of November 30, 2004 to LG Chem 3rd Special Purpose Company. Through the asset-backed securitization of trade receivables, the Company acquired beneficiary certificates. The maturity dates of these beneficiary certificates are January 28, 2008 (₩50,000 million), February 28, 2008 (₩50,000 million) and March 28, 2008 (₩60,000 million), respectively.

The senior-tranche securities have 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 Company has the obligation to collect the trade accounts receivable transferred and pay of the special purpose companies' expenses, such as interest and operating expenses as described above.

As of December 31, 2004, trade accounts receivable transferred to the Special Purpose Companies amounted to ₩213,440 million (2003: ₩158,291 million).

5. RECEIVABLES

Receivables and allowance for doubtful accounts as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

		2004		2003
Trade accounts and notes receivable	₩	499,311	₩	437,340
Less : Allowance for doubtful accounts		(42,250)		(44,461)
	₩	457,061	₩	392,879
Other accounts receivable	₩	106,279	₩	66,560
Less : Allowance for doubtful accounts		(18,012)		(2,224)
	₩	88,267	₩	64,336
Long-term trade accounts and notes receivable	₩	1,347	₩	1,831
Less : Present value adjustment		(247)		(387)
	₩	1,100	₩	1,444

6. INVENTORIES

Inventories as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	2004	2003
Merchandise	₩ 27,481	₩ 21,844
Finished products	308,521	180,853
Work-in-process	99,805	45,914
Raw materials	134,804	102,617
Supplies	17,002	15,999
Materials-in-transit	27,211	11,763
	₩ 614,824	₩ 378,990

As of December 31, 2004, inventories are insured against fire and other casualty losses up to ₩438,106 million (2003: ₩337,686 million).

7. INVESTMENT SECURITIES

Investment securities as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	CLASSIFICATION	2004	2003
Bonds	Held-to-maturity (*1)	₩ -	1,765
	Less : Current portion	-	(1,765)
	Available-for-sale (*2)	100,000	7
	Less : Impairment loss	(27,667)	-
	Less : Current portion	(59,626)	-
		12,707	7
Stocks	Available-for-sale (*3)	111,782	51,263
		₩ 124,489	₩ 51,270

(*1) Bond classified as held-to-maturity as of December 31, 2003 included the subordinated note received from the asset-backed securitization, amounting to ₩1,765 million.

(*2) The Company acquired commercial papers issued by LG Card Co., Ltd. in January 2004 and the initial maturities of the commercial papers were May and June 2004, but were extended to February and March 2005, respectively. At the end of 2004, the Company agreed with the creditors of LG Card Co., Ltd. to extend the maturities of commercial papers amounting to ₩74,586 million up to the end of 2005. The Company also determined the debt- to-equity swap of commercial papers amounting to ₩25,414 million. For the year ended December 31, 2004, the Company recognized ₩27,667 million as impairment loss on investments for the difference between the estimated realizable value and the carrying value of the commercial papers (Note 24).

(*3) Stocks classified as available-for-sale as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value (*9)	
	2004	2003	2004	2003	2004	2003	2004	2003
N&L Marble (*6)	22.73	10.00	₩ 539	₩ 169	₩ 539	₩ 169	₩ 275	₩ 141
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	657	627
TECWIN	19.90	19.90	139	139	139	139	902	889
Chemizen. Com Ltd.	2.62	2.62	300	300	10	300	10	54
LG Mozel Ltd.	9.75	9.75	195	195	195	195	353	300
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	2,298	2,298	1,010	2,109
Compact Power Inc. (*1)	61.00	61.00	3,731	3,731	454	1,325	-	467
LG Chem Europe Sarl (*1)	100.00	100.00	5,635	5,635	2,321	2,321	1,820	2,126
LG Chemical (Guanzhou) (*2)	-	100.00	-	7,041	-	7,041	-	5,793
LG Chemical Trading (*1)	100.00	100.00	3,503	3,503	1,723	3,503	1,822	1,723
LG Holdings (H.K.) (*3)	18.18	18.18	30,494	22,011	30,494	22,011	26,531	21,739
LG Chemical (Hunan) Phosphor (*1)	100.00	100.00	1,793	1,793	1,793	1,793	2,021	2,181
LG Chemical I&E Materials (*1) (*7)	100.00	100.00	41,679	6,069	41,679	6,069	36,304	6,193
Australia EDC Corp. (*4)	-	100.00	-	3,120	-	-	-	-
LG Environment Strategy Institute	6.00	6.00	9	9	9	9	13	12
LG Chem Industrial Materials (*1) (*8)	100.00	100.00	17,846	3,514	17,846	3,514	14,955	3,593
LG Chem Taiwan (*5)	100.00	-	2,291	-	2,291	-	2,009	-
Ningbo LG Yongxing Latex (*5)	100.00	-	3,162	-	3,162	-	3,921	-
LG Chem(China) Investment Co., Ltd. (*5)	100.00	-	6,253	-	6,253	-	6,253	-
			₩ 120,443	₩ 60,103	₩ 111,782	₩ 51,263	₩ 98,856	₩ 47,947

(*1) Since the total assets of the investees are less than ₩7,000 million at the end of 2003 and the impact of applying equity method is not significant on the valuation of the investments, the equity method of accounting was not applied.

(*2) Since the total assets are over ₩7,000 million as of December 31, 2003, these investments were reclassified as equity method securities in 2004.

(*3) The Company acquired additional 7,270,000 shares of LG Holdings (H.K.) at ₩8,483 million in 2004 without any change in ownership percentage.

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

(*5) The entities were established during the current year, the equity method of accounting was not applied.

(*6) The Company acquired additional 700 shares of N&L Marble at ₩370 million in 2004, and the percentage of ownership increased from 10% to 22.73%. The impact of applying equity method is not significant on the valuation of the investment, therefore the equity method of accounting was not applied.

(*7) The Company acquired additional 30,750,000 shares of LG Chemical Information & Electronic Materials at ₩35,611 million in 2004, without any change in percentage of ownership.

(*8) The Company acquired additional 12,400,000 shares of LG Chem Industrial Materials at ₩14,332 million in 2004 without any change in ownership percentage.

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

8. EQUITY-METHOD INVESTMENTS

Equity-method investments as of December 31, 2004 and 2003 consist the following:

(in millions of korean won)

	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2004	2003	2004	2003	2004	2003	2004	2003
LG Sports Ltd. (*1)	-	20.00	₩ -	₩ 1,200	₩ -	₩ 989	₩ -	₩ 961
LG Petrochemical Co., Ltd.	40.00	40.00	153,790	153,790	291,131	242,512	280,760	226,102
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	42,110	47,817	48,038	47,787
Tianjin LG New Building Materials Co., Ltd. (*2)	93.61	90.37	19,894	12,399	14,864	10,097	15,550	10,164
Tianjin LG Window & Doors (*2)	100.00	100.00	13,308	9,820	8,558	8,236	9,041	8,462
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	73,347	73,347	94,810	90,292	96,410	90,318
LG India Holdings., Ltd.	100.00	100.00	31,466	31,466	52,348	49,215	52,223	49,236
LG Chem Hong Kong Ltd.	100.00	100.00	254	254	5,378	5,087	5,202	5,305
LG Vina Chem Co., Ltd.	40.00	40.00	1,194	1,194	2,140	1,968	2,541	1,968
LG Chemical America Inc.	100.00	100.00	9,596	9,596	-	-	4,156	2,210
P.T. Sinar LG Plastics Ind. (*3)	-	97.61	-	21,131	-	-	-	-
LG Lucoat Powder Coatings Ltd.	20.00	28.33	1,558	2,207	-	2,340	1,638	2,320
M. Dohmen Holding S.A (*4)	49.00	49.00	43,203	43,203	21,299	41,116	21,299	25,453
Hyundai Petrochemical Co., Ltd. (*5)	50.00	50.00	302,563	302,563	585,372	378,290	1,097,023	909,952
LG Dow Polycarbonate Ltd. (*6)	50.00	50.00	36,794	19,277	46,704	19,277	45,458	17,273
LG Chemical(Guangzhou) (*7)	100.00	-	10,486	-	7,401	-	8,444	-
			₩ 714,951	₩ 698,945	₩1,172,115	₩ 897,236	₩1,687,783	₩1,397,511

(*1) In accordance with the resolution of the Board of Directors on March 30, 2004, the Company disposed of its investment of 240,000 shares at a price per share of ₩2,520 for ₩605 million to LG Corp..

(*2) In 2004 the Company acquired additional 6,505,200 shares of Tianjin LG New Building Materials Co., Ltd. and 3,000,000 shares of Tianjin LG Window & Doors at ₩7,495 million and 3,488 million, respectively. As a result, the percentage of ownership for Tianjin LG New Building Materials Co., Ltd. increased from 90.37% to 93.61%.

(*3) P.T. Sinar LG Plastics Ind. is under liquidation.

(*4) The Company recognized ₩14,194 million of the accumulated unamortized difference between the purchase price and the underlying proportionate net book value of the investee as an impairment loss in 2004.

(*5) 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 nine months after the acquisition. The Company completed the payment of ₩300,000 million for 37,325,680 shares at the average purchase price per share of ₩8,037 on June 26, 2003 for the acquisition of 50 % of the shares of HPCL (Note 24).

(*6) In accordance with the resolution of the Board of Directors on December 22, 2003, the Company acquired 5,274,085 shares at the average purchase price per share of ₩3,655, ownership percentage: 50% of LG Dow Polycarbonate Ltd. from LG Corp. on December 30, 2003. Also, pursuant to the decisions of the Board of Directors on June 3, 2004, the Company acquired additional 1,751,700 shares at ₩17,517 million on June 21, 2004.

(*7) As the total assets are over ₩7,000 million as of December 31, 2003, this investment was reclassified as equity method investee in 2004. Also, the Company acquired additional 2,950,000 shares for ₩3,445 million in 2004.

Changes in equity-method investments for the year ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004					
	As of January 1, 2004	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2004
LG Sports Ltd.	₩ 989	₩ (989)	₩ -	₩ -	₩ -	₩ -
LG Petrochemical Co., Ltd.	242,512	-	(27,120)	75,809	(70)	291,131
Tianjin LG Dagu Chemical Co., Ltd.	47,817	-	-	1,052	(6,759)	42,110
Tianjin LG New Building Materials Co., Ltd.	10,097	7,495	-	(742)	(1,986)	14,864
Tianjin LG Window & Doors	8,236	3,488	-	(1,864)	(1,302)	8,558
Ningbo LG Yongxing Chemical Co., Ltd.	90,292	-	(13,165)	30,893	(13,210)	94,810
LG India Holdings., Ltd.	49,215	-	-	8,070	(4,937)	52,348
LG Chem Hong Kong Ltd.	5,087	-	-	1,029	(738)	5,378
LG Vina Chemical Co., Ltd.	1,968	-	(140)	758	(446)	2,140
LG Chemical America Inc. (*1)	-	-	-	-	-	-
LG Lucoat Powder Coatings Ltd. (*2)	2,340	(2,340)	-	-	-	-
M. Dohmen S.A.	41,116	-	-	(18,890)	(927)	21,299
Hyundai Petrochemical Co., Ltd.	378,290	-	-	207,050	32	585,372
LG Dow Ploycarbonate Ltd.	19,277	17,517	-	10,007	(97)	46,704
LG Chemical(Guangzhou)	-	10,486	-	(1,853)	(1,232)	7,401
	₩ 897,236	₩ 35,657	₩ (40,425)	₩ 311,319	₩ (31,672)	₩ 1,172,115

(*1) The Company discontinued using the equity method of accounting and the investments in these affiliates are stated at nil, since the affiliate's net asset value is negative. The accumulated unrecognized loss incurred after the discontinuation of the application of the equity method of accounting is ₩260 million.

(*2) The Company recognized impairment loss and then the Company disposed of the investment in 2004.

(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, 2004
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. (*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 nil, since the affiliate's 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.

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, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004				2003			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	EndingBalance
LG Sports Ltd.	₩ 10	₩ (10)	₩ -	₩ -	₩ 12	₩ -	₩ 2	₩ 10
LG Petrochemical Co., Ltd.	21,286	-	2,583	18,703	23,869	-	2,583	21,286
Tianjin LG New Building Materials Co., Ltd.	125	115	28	212	146	-	21	125
LG Lucoat powder Coatings Ltd.	20	(20)	-	-	27	-	7	20
M. Dohmen S.A.	15,662	-	15,662	-	17,620	-	1,958	15,662
Hyundai Petrochemical Co., Ltd.	(362,486)	-	(24,999)	(337,487)	-	374,985(*1)	(12,499)	(362,486)
LG Dow Polycarbonate Ltd.	1,982	-	198	1,784	-	1,982	-	1,982
	₩ (323,401)	₩ 85	₩ (6,528)	₩ (316,788)	₩ 41,674	₩ (373,003)	₩ (7,928)	₩ (323,401)

(*1) Difference between the purchase price and the underlying proportionate fair value of the investee.

The unrealized gains incurred from transactions entered into with equity method investees and eliminated as of December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004	2003
	inventory	inventory
LG Petrochemical Co., Ltd.	₩ 9,688	₩ 4,285
LG Chem Hong Kong Ltd.	773	218
Tianjin LG New Building Materials Co., Ltd.	121	192
Tianjin LG Window & Doors	36	226
LG India Holdings., Ltd.	-	21
LG Chemical America Inc.	4,338	2,597
Hyundai Petrochemical Co., Ltd.	1,026	174
LG Chemical (Guangzhou)	297	-
LG Vina Chemical Co., Ltd.	513	-
LG Dow Polycarbonate Ltd.	245	-
	₩ 17,037	₩ 7,713

Changes in gain on valuation of investment securities accounted for as capital adjustment for the years ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004	2003
Beginning balance	₩ 56,980	₩ 52,136
Increase	(21,967)	2,647
Decrease	10,448	(2,197)
Ending balance	₩ 24,565	₩ 56,980

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	2004	2003
Buildings	₩ 702,657	₩ 582,450
Structures	248,692	237,795
Machinery and equipment	2,999,088	2,692,080
Vehicles	22,085	19,532
Tools and furniture	492,181	459,704
	4,464,703	3,991,561
Accumulated depreciation	(2,561,809)	(2,333,602)
	1,902,894	1,657,959
Land	347,873	311,486
Construction-in-progress	172,258	413,091
Machinery in-transit	30,230	79,101
	₩ 2,453,255	₩ 2,461,637

For the year ended December 31, 2004, capitalized interest expense amount to ₩7,269 million (2003: ₩8,520 million). As a result of the capitalization of interest expense, for the year ended 2004, property, plant and equipment increased by ₩14,905 million (2003: ₩8,491 million) and net income increased by ₩4,778 million (2003: ₩6,368 million).

As of December 31, 2004, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩6,568,366 million (2003: ₩7,162,997 million). In addition, as of December 31, 2004 and 2003, the Company has business interruption insurance policies.

The Company's certain property, plant and equipment as of December 31, 2004 have been pledged as collateral for certain bank loans, up to a maximum of ₩361,890 million (2003: ₩382,212 million) (Notes 11 and 12).

As of December 31, 2004, the value of the Company's land, as determined by the local government in Korean for property tax assessment purposes, amounts to approximately ₩485,326 million (2003: ₩422,202 million).

10. INTANGIBLE ASSETS

Intangible assets as of December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004	2003
Intellectual property rights	₩ 7,036	₩ 9,697
Exclusive facility use rights	234	299
Development costs	135,865	141,790
Others	7,328	7,346
	₩ 150,463	₩ 159,132

The changes in development costs for the years ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004	2003
Beginning balance	₩ 141,790	₩ 114,915
Increase	37,423	48,690
Amortization	(17,979)	(12,057)
Disposal	(367)	(1,501)
Impairment loss	(25,002)	(8,257)
Ending balance	₩ 135,865	₩ 141,790

For the years ended December 31, 2004 and 2003, expenses which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

(in millions of Korean won)

	2004	2003
Employee education expenses	₩ 17,218	₩ 13,598
Advertising expenses	46,499	35,619
	₩ 63,717	₩ 49,217

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

Short-term borrowings and current maturities of long-term debts as of December 31, 2004 and 2003 consist the following:

	Annual Interest Rate (%)		In Millions of Won (In Thousands of Foreign Currency)	
	2004	2003	2004	2003
Short-term borrowings :				
General term loans	LIBOR+0.45	JIBOR+1.3	₩ 31,314	₩ 19,516
Commercial paper	3.6-5.6	4.7-5.1	150,000	65,000
Bank overdrafts	-	-	-	2,362
			(US dollar 30,000)	-
			-	(yen 1,743,140)
			₩ 181,314	₩ 86,878
Current maturities of long-term debt :				
Debentures	Libor+0.6-6.0	Libor+0.6-6.0	261,789	247,912
Won currency loans	3.0-7.0	3.0-9.1	197	431
Foreign currency loans	Libor+0.6-1.7	Libor+0.4-1.7	60,281	14,120
			(US dollar 212,562)	(US dollar 11,261)
			-	(euro 146)
			(Swiss franc 214)	(Swiss franc 428)
Less : Discount on debentures issued			(1,122)	(834)
			321,145	261,629
			₩ 502,459	₩ 348,507

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2004 (Note 9).

12. LONG-TERM DEBT

Long-term debt as of December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	REFERENCE	2004	2003
Debentures	(1)	₩ 1,335,470	₩ 1,205,914
Loans	(2)	124,739	133,220
		₩ 1,460,209	₩ 1,339,134

(1) Debentures as of December 31, 2004 and 2003 are as follows:

	Annual Interest Rate (%)		In Millions of Korean Won (In Thousands of Foreign Currency)	
	2004	2003	2004	2003
Publicly offered debentures, payable through 2009	3.5-6.0	4.0-6.0	₩ 1,200,000	₩ 1,000,000
Privately offered debentures, payable through 2006	CD+0.7	CD+0.7	100,000	100,000
Foreign debentures, payable through 2007 (*1)	Libor+0.6-0.9	Libor+0.6-0.9	313,140	371,318
			(US dollar 300,000)	(US dollar 310,000)
			1,613,140	1,471,318
Less : Current maturities			(261,789)	(247,912)
Discount on debentures issued			(15,881)	(17,492)
			₩ 1,335,470	₩ 1,205,914

(*1) 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, December 23, 2003 and June 24, 2004 with maturities on April 17, 2006, June 25, 2005, December 23, 2006, and June 24, 2007, respectively.

Furthermore, for the foreign currency debentures amounting to US$ 50 million with maturity on December 23, 2005, the debenture holders may exercise early redemption right in case that the Company provides any financial aids to LG Card Co., Ltd. As the Company purchased commercial papers issued by LG Card Co., Ltd., the debenture holders exercised early redemption right for the foreign currency debentures amounting to US$ 25 million in January 2005. As of December 31, 2004, the Company reclassified those debentures amounting to US$ 25 million as current maturities of long-term debt. The debenture holders of remaining US$ 25 million can exercise early redemption right in January 2006.

(2) Loans as of December 31, 2004 and 2003 consist the following:

	Annual Interest Rate (%)		In Millions of Korean Won (In Thousands of Foreign Currency)	
	2004	2003	2004	2003
Won currency loans	-	-		
Energy fund loans	5.0-7.0	5.0-7.0	₩ 264	₩ 619
Housing loans	3.0	3.0-9.1	3,335	3,479
			3,599	4,098
Less : Current maturities			(197)	(431)
			3,402	3,667
Foreign currency loans				
General term loans	Libor+0.6-1.7	Libor+0.4-1.7	₩ 181,618	₩ 143,673
			(US dollar 173,807)	(US dollar 108,823)
			(Swiss Franc 214)	(Swiss Franc 643)
				(euro 146)
				(yen 1,115,210)
Less : Current maturities			(60,281)	(14,120)
			121,337	129,553
			₩ 124,739	₩ 133,220

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2004 (Note 9).

The annual maturities of long-term debt, excluding discounts and premiums on debentures, as of December 31, 2004 are as follows:

(in millions of Korean won)

YEAR	Debentures	Won currency Loans	Foreign currency Loans	Total
2006	₩ 700,037	₩ 103	₩ 48,271	₩ 748,411
2007	331,314	-	73,066	404,380
2008	220,000	-	-	220,000
2009 and thereafter	100,000	3,299	-	103,299
	₩ 1,351,351	₩ 3,402	₩ 121,337	₩ 1,476,090

13. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004 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. and provides financial guarantee to customers.

As of December 31, 2004 and 2003, 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, 2004.

The Company has guaranteed repayment of various obligations of its subsidiaries. The total balance of these guarantees as of December 31, 2004, amounts to ₩250,028 million (2003: ₩234,447 million), of which ₩142,813 million (2003: ₩132,814 million) is related to bank borrowings (Note19).

As of December 31, 2004, the Company is contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business including LG International Corp., amounting to ₩284,081 million (2003: ₩137,992 million). Further, the Company is contingently liable for trade receivables transferred to the special purpose companies amounting to ₩213,440 million (2003: ₩158,291 million), as of December 31, 2004 (Note 4).

As of December 31, 2004, the Company has bank overdraft agreements with several banks up to ₩37,500 million. And, the Company has also entered into contracts with several financial institutions to open import letters of credit up to ₩116,600 million and US$ 148 million.

As of December 31, 2004 and 2003, 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, 2004 and 2003, 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, 2004, the Company has entered into a long-term purchase contract and provided US$ 16,422 thousand (2003:US$ 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 (2003: ₩100,000 million), currency swap of US$ 205,000 thousand (2003: US$ 205,000 thousand), currency options of US$ 50,000 thousand (2003: US$ 55,000 thousand) as of December 31, 2004.

14. 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 Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. These reserves may be distributed as dividends after reversal.

15. TREASURY STOCK

Changes in treasury stock for the years ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004			
	Common Stock		Preferred Stock	
	Number of shares	Amount	Number of shares	Amount
January 1, 2004	126,493	₩ 5,573	3,657	₩ 20
Increase	-	-	-	-
Decrease	(72,413)	(3,190)	-	-
December 31, 2004	54,080	₩ 2,383	3,657	₩ 20

(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

16. INCOME TAXES

Income taxes for the years ended December 31, 2004 and 2003 consist the following:

(in millions of Korean won)

	2004	2003
Current income taxes under the tax law	₩ 114,911	₩ 81,114
Income tax directly deducted from capital surplus (*1)	(237)	-
Changes in deferred income tax assets (liabilities) (*2)	68,618	39,597
Income taxes	₩ 183,292	₩ 120,711

(*1) Income tax resulting from gain on disposal of treasury stock was directly deducted from capital surplus.

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

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income TaxAssets (Liabilities)	
	2004	2003	2004	2003
Beginning balance	₩ 234,230	₩ 80,489	₩ (63,502)	₩ (23,905)
Ending balance	₩ 480,435	₩ 234,230	(132,120)	(63,502)
			₩ (68,618)	₩ (39,597)

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

(in millions of Korean won)

	2004	2003
Income before income taxes	₩ 719,712	₩ 482,820
Additions to pretax income	367,126	194,647
Deductions from pretax income	(608,163)	(311,188)
Taxable income	₩ 478,675	₩ 366,279

Changes in temporary differences for the year ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004			
	Beginning Balance	Increase	Decrease	Ending Balance
Accrued severance benefits	₩ 19,451	₩ 118,632	₩ 21,580	₩ 116,503
Severance insurance plans	(18,806)	(119,277)	(21,580)	(116,503)
Allowance for doubtful accounts	48,270	57,897	45,340	60,827
Accrued income	(614)	(43)	(258)	(399)
Research and development costs	(39,408)	-	(13,637)	(25,771)
Present value discount	221	-	91	130
Depreciation	35,301	17,400	12,563	40,138
Gain on valuation of investments using the equity method of accounting	(146,269)	(270,894)	821	(417,984)
Gain on foreign currency translation	3,903	-	3,453	450
Reserves for technology development	(190,000)	(90,000)	(16,667)	(263,333)
Others	53,721	102,347	30,561	125,507
	₩ (234,230)	₩ (183,938)	₩ 62,267	₩ (480,435)

(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)

The statutory income tax rate, including resident tax subcharges, applicable to the Company for the years ended December 31, 2004 and 2003, is 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 year ended December 31, 2004 is 25.5 % (2003: 25%).

17. EARNINGS PER SHARE

Basic ordinary income per share and earnings per share for the years ended December 31, 2004 and 2003 are computed as follows :

(in millions of Korean won, except per share amounts)

	2004	2003
Net income	₩ 536,420	₩ 362,108
Preferred stock dividends	(13,419)	(15,584)
Preferred stock share of remaining profit available for dividend	(50,568)	(27,731)
Net income and ordinary income available for common stock (A)	472,433	318,793
Weighted average number of shares of outstanding common stock (B) (*1)	64,352,782	64,383,536
Basic earnings per shareand ordinary income per share (A/B)	₩ 7,341	₩ 4,951

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

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2004 and 2003. Accordingly, basic earnings and ordinary income per share are identical to fully diluted earnings and ordinary income per share.

18. DIVIDENDS

Details of dividends for the years ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won, except per share amounts)

	2004	2003
Shares issued and outstanding (par value per share: ₩5,000)		
Common stock	64,370,984 Shares	64,298,571 Shares
Preferred stock	8,657,594 Shares	8,657,594 Shares
Dividend per share (in won)		
Common stock : cash	₩ 1,500 (30%)	₩ 1,750 (35%)
Preferred stock : cash	₩ 1,550 (31%)	₩ 1,800 (36%)
Cash dividend amount (in millions)		
Common stock	₩ 96,556	₩ 112,522
Preferred stock	13,419	15,584
	₩ 109,975	₩ 128,106

19. RELATED PARTY TRANSACTIONS

Significant transactions, which occurred in the ordinary course of business with related companies for the years ended December 31, 2004 and 2003, and the related account balances as of December 31, 2004 and 2003, are summarized as follows:

(in millions of Korean won)

	2004	2003
Sales	₩ 2,099,700	₩ 1,350,948
Purchases	2,250,539	1,496,191
Receivables	147,792	121,963
Payables	402,341	337,380

The Company has guaranteed repayment of various obligations of its subsidiaries. The total balance of these guarantees as of December 31, 2004, amounts to ₩250,028 million (2003: ₩234,447 million), of which ₩142,813 million (2003: ₩132,814 million) is related to bank borrowings.

The details of guarantees provided as of December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004		
Guarantee	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 12,526	Fudong Bank	₩ 12,526
	18,788	ABC	18,788
	4,175	ICBC	4,175
Tianjin LG New Building Materials Co., Ltd.	1,253	KEB	1,044
	4,697	ICBC	4,697
	4,697	CHB	4,697
	4,801	KDB	4,801
	6,680	Woori Bank	6,680
	7,307	UFJ	4,436
Tianjin LG Window & Doors	6,248	Woori Bank	4,168
	3,131	CHB	3,131
	4,175	ABC	3,131
	5,219	SCB	3,914
	1,879	KEB	1,566
LG Chem (Guangzhou)	6,054	ICBC	5,941
	-	Citibank	-
	2,088	SG	2,025
LG Chem Information & Electronics Materials	34,289	BOC	33,767
	26,095	Woori Bank	5,219
LG Chemical America Inc.	10,438	Woori Bank	-
	-	Bank One	-
	-	BOA	-
LG Solid Source	5,219	Bank One	3,601
LG Chem Industrial Materials	16,075	Wachovia	-
LG Chem Hong Kong Ltd.	36,533	BOA	10,470
	-	HSBC	-
LG India Holdings., Ltd.	4,697	BOA	16
	14,446	SCB	2,958
	-	CHB	-
LG Chem Europe Sarl	4,259	CL Bank	419
	4,259	SG	643
	₩ 250,028		₩ 142,813

(in millions of Korean won)

Guarantee	2003 Amount of Guarantee	Financial Institution	Outstanding Loan 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 Hong Kong 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

20. OPERATING RESULTS FOR THE FINAL INTERIM PERIOD

Operating results for the three-month periods ended December 31, 2004 and 2003, are as follows:

(in millions of Korean won, except per share amounts)

	Three-month periods ended December 31 2004 (unaudited)	2003 (unaudited)
Sales	₩ 1,902,836	₩ 1,517,038
Operating income	84,940	115,713
Net income	126,535	88,679
Earnings per share	1,731	1,213

21. 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
Chemicals & Polymers	PE, PVC, VCM, Alcohol, Plasticizers, ABS/PS, EPS, MBS, SBL, EP and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Industrial Materials	Hi Sash, 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, 2004 and 2003 are as follows:

(in millions of Korean won)

	2004 Chemicals & Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 3,884,777	₩ 2,033,589	₩ 1,206,057	₩ 2,988	₩ 7,127,411
Inter-segment sales	267,526	22,243	627	46,471	336,867
	₩ 4,152,303	₩ 2,055,832	₩ 1,206,684	₩ 49,459	₩ 7,464,278
Operating income	₩ 365,735	₩ 109,528	₩ 43,144	₩ 4,511	₩ 522,918
Property, plant and equipment and Intangible assets	₩ 947,674	₩ 434,413	₩ 788,841	₩ 432,790	₩ 2,603,718
Depreciation and amortization	₩ 162,211	₩ 64,270	₩ 122,964	₩ 4,406	₩ 353,851

(in millions of Korean won)

	2003				
	Chemicals & Polymers	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 3,013,890	₩ 1,957,144	₩ 698,883	₩ 2,549	₩ 5,672,466
Inter-segment sales	265,559	2,831	219	41,744	310,353
	₩ 3,279,449	₩ 1,959,975	₩ 699,102	₩ 44,293	₩ 5,982,819
Operating income	₩ 220,765	₩ 152,546	₩ 94,765	₩ 5,582	₩ 473,658
Property, plant and equipment and Intangible assets	₩ 1,018,282	₩ 458,841	₩ 650,785	₩ 492,861	₩ 2,620,769
Depreciation and amortization	₩ 162,827	₩ 69,931	₩ 34,694	₩ 4,476	₩ 271,928

(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2004 and 2003 are as follows:

(in millions of Korean won, except per share amounts)

	Domestic (*1)	China	North America	South America	South-East Asia	Western Europe	other	Total
2004	4,320,580	1,543,240	313,232	38,988	156,933	209,527	544,911	7,127,411
2003	3,880,719	1,042,957	226,215	30,454	111,144	152,944	228,033	5,672,466

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

22. DISCONTINUED OPERATIONS

On August 31, 2004, the Company disposed of its methanol business and realized a gain on the disposal amounting to ₩5,100 million.

The financial results of the discontinued operations are as follows:

(in millions of Korean won)

	2004.1.1 ~ 8.30	2003
Sales	₩ 40,315	₩ 71,887
Cost of sales	38,613	63,651
Gross profit	1,702	8,236
Selling & administration expenses	740	2,492
Operating income	₩ 962	₩ 5,744

23. 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)

	2004	2003
Transfer to property, plant and equipment	519,248	201,890
Transfer to machinery and equipment	132,053	44,698
Transfer to development costs	5,225	8,402
Gain on valuation of investment using the equity method of accounting (capital adjustment)	32,415	4,844
Transfer to current maturities of long-term debts	60,478	14,551
Transfer to current maturities of debentures	261,789	247,912
Gains on valuation of derivatives (capital adjustment)	887	4,698

24. SUBSEQUENT EVENTS

With the Board of Directors' resolution dated January 20, 2005, the Company executed a debt-to-equity swap of commercial papers issued by LG Card Co., Ltd. amounting to ₩25,414 million representing 4,381,724 shares on January 28, 2005 (Note 7).

Hyundai Petrochemical Co., Ltd. which was jointly acquired by a consortium comprised of the Company and Honam Petrochemical Corp in 2003 spun-off its petrochemical business and established LG Daesan Petrochemical Corp. and Lotte Daesan Petrochemical, Ltd.on January 1, 2005. As a result of the spin-off, Plant No.1 and Plant No. 2 and related businesses of HPCL were transferred to the newly formed companies, LG Daesan Petrochemical Corp. and Lotte Daesan Petrochemical, Ltd., respectively. The remaining businesses are maintained by the continuing company (Note 8).

Milestones

Jan.	**1947**	Lucky Chemical Industrial Corp. founded.
Nov.	**1951**	Headquarters moved to Bujeon-dong, Busan. (First molded plastic products produced in Korea.)
Jun.	**1954**	Started operation Yeonji facility in 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**	IPO
Feb.	**1974**	Company name changed to 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.
Mar.	**1984**	Korean General Chemicals Naju Plant acquired.
Dec.	**1990**	Lucky MMA (LG MMA) established as a joint venture.
Oct.	**1992**	PA plant completed in Yeocheon.
Apr.	**1993**	World's first HCFC-resistant resin developed and put on market.
Oct.	**1994**	First Phase of LG Chemical Research Park completed.
Feb.	**1995**	Company name changed to LG Chemical Ltd.
Nov.	**1996**	Hindustan Polymer Ltd. in India acquired.
Apr.	**1997**	Acrylate, EDC/CA, and VCM expansion completed.
Dec.	**1997**	LG Chemical Ltd. selected as one of the Asia's Best Companies by *Euromoney* magazine.
May	**1998**	PVC and PVC flooring plants completed in Tianjin, China.
Jul.	**1998**	ABS plant completed in Ningbao, China.
Feb.	**1999**	Two million shares of global depository receipts issued.
Oct.	**1999**	Lithium-ion battery, phosphor, and copper clad laminate plants completed in Cheongju.
Oct.	**1999**	Color filter photoresist for LCDs commercialized.
Jul.	**2000**	Korea's first phosphor for PDPs developed.
Oct.	**2000**	ABS plant in China expanded (by 90,000 MT).
Nov.	**2000**	Hyundai Petrochemical's PVC business acquired.
Mar.	**2001**	Battery R&D center established in the US.
Apr.	**2001**	LG Chemical Ltd. broken up into LG Chem, LG Chem Investment, and LG Household & Health Care.
Oct.	**2001**	PVC plant in China expanded (by 90,000 MT).
Feb.	**2002**	Polarizer plant expanded.
Apr.	**2002**	Double up the capacity of rechargeable battery plant.
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.
Dec.	**2002**	Ground broken for information & electronic materials complex in Ochang.
Mar.	**2003**	Window frame facility completed in Tianjin, China.
Jun.	**2003**	LG Chem/Honam Petrochemical consortium acquires equity in Hyundai Petrochemical.
Aug.	**2003**	LG Chem Nanjing established.
Nov.	**2003**	LG Chem Industrial Mateerials Inc. established in Atlanta, USA.
Mar.	**2004**	Ochang Techno Park project completed.
Jun.	**2004**	LG Yongxing Latex established in Ningbo, China.
Jan.	**2005**	Establishment of a LG Chem China Investment Co., Ltd.

2005 PLANS

The Company empowers overall competitiveness and investor relations. The investor relations activities and in-depth promotions mainly target foreign investors as well as major Korean institutional investors.

	PLANS	SCHEDULE
IR Capability Reinforcement	- Providing feedback to each business based on IR results (performance / marketing data) - Seamless collaboration between related business units (businesses / promotion)	Year round
IR Contents Development	- In-depth review and in-house input about main issues - Providing real-time industrial information updates - Consistent and systematic responses and countermeasures for FAQ - Financial statements of subsidiaries in the consolidated basis open to the public (sales, ordinary income, debt to equity ratio)	Year round
Special IR Events	- IR activities led by top management - Holding regular meetings themed on business performance - IR activities centered on production sites (plants in Korea and overseas)	Year round Quarterly 12 times a year
IR Activities Targeting Foreign Investors	- Holding overseas roadshows: 2 ~ 3 times a year - Attending overseas conferences: 2 ~ 4 times a year - Increasing conference calls with prospective overseas investors - Real-time updates and new contents added in the English website	May, Oct. Year round Once or more quarterly Ongoing basis
Shareholders' General Meeting and Public Notice	- Deepening expertise of the IR team to sufficiently cover matters related with shareholders' general meeting and public notice - Reshuffling related processes for effective public notice tasks - Ongoing in-house promotion to prevent informing unjust public notice	Year round