

REPORT OF INDEPENDENT AUDITORS

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

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

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

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

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

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

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

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

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

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

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

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

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

Seoul, Korea
February 6, 2004



This report is effective as of February 6, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

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

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

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

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

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

in millions of Korean Won

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

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

Non-Consolidated Income Statements

Years Ended December 31, 2003 and 2002

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

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

Non-Consolidated Statements of Appropriations of Retained Earnings

Years Ended December 31, 2003 and 2002

(Date of appropriations: March 17, 2004 and March 8, 2003

For the years ended December 31, 2003 and 2002, respectively)

in millions of Korean Won

	2003	2002
RETAINED EARNINGS BEFORE APPROPRIATIONS		
Unappropriated retained earnings carried-over		
from prior years	₩ 8	₩ (2,273)
Changes in retained earnings resulting from the use of the		
equity method on investments	-	(8,864)
Net income	362,108	345,277
	<u>362,116</u>	<u>334,140</u>
APPROPRIATION OF RETAINED EARNINGS		
Legal reserve	12,810	11,003
Dividend	128,106	110,029
Reserve for technology development	221,190	213,060
Loss on disposal of treasury stock	-	40
	<u>362,106</u>	<u>334,132</u>
UNAPPROPRIATED RETAINED EARNINGS		
CARRIED FORWARD TO THE SUBSEQUENT YEAR	<u>₩ 10</u>	<u>₩ 8</u>

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

in millions of Korean Won

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

in millions of Korean Won

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

1. THE COMPANY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

(3) SKFAS No. 8, *Securities*

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

Accounting Estimates

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

Revenue Recognition

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

Asset-Backed Securities

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Securities

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

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

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

Equity-Method Investments

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

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

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

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

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

Property, Plant and Equipment and Related Depreciation

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

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

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

Revaluation of Receivables

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

Premiums or Discounts on Debentures

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

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date. Resulting translation gains and losses are recognized in current operations.

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

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

Accrued Severance Benefits

Employees and directors with one or more years of service with the Company are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

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

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

Income Taxes

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

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

Impairment Loss

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

Derivative Financial Instruments

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

Restatement and Reclassification of Prior Year Financial Statement Presentation

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

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

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

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

3. RESTRICTED BANK DEPOSITS

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

4. ASSET-BACKED SECURITIZATION

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

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

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

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

5. RECEIVABLES

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

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

6. INVENTORIES

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

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

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

7. INVESTMENTS

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

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

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

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

in millions of Korean Won

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

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

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

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

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

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

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

8. EQUITY-METHOD INVESTMENTS

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

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

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

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

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

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

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

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

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

in millions of Korean Won

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

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

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

in millions of Korean Won

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

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

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

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

in millions of Korean Won

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

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

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

See Note 9 for collateral arrangements on the above borrowings.

11. LONG-TERM DEBT

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

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

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

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

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

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

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

See Note 9 for collateral arrangements on the above borrowings.

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

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

12. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

13. CAPITAL SURPLUS AND RETAINED EARNINGS

Paid-in Capital in Excess of Par Value

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

Legal Reserve

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

Other Reserves

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

14. TREASURY STOCK

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

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

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

15. INCOME TAXES

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

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

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

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

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

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

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

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

in millions of Korean Won

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

in millions of Korean Won

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

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

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

16. EARNINGS PER SHARE

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

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

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

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

17. DIVIDENDS

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

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

18. RELATED PARTY TRANSACTIONS

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

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

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

The details of guarantees provided are as follows:

in millions of Korean Won

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

in millions of Korean Won

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

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

19. OPERATING RESULTS OF THE FINAL INTERIM PERIOD

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

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

20. SEGMENT INFORMATION

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

(1) Industry Segment Information

Industry Segments

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

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

in millions of Korean Won

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

in millions of Korean Won

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

(2) Geographical Segment Information

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

in millions of Korean Won

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

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

21. DISCONTINUED OPERATION

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

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

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

The financial results of the discontinued operation is as follows:

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

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

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