



## 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, 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



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)	
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
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
<b>Total current assets</b>	<b>1,656,706</b>	<b>1,108,879</b>
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
<b>Total assets</b>	<b>₩ 5,679,529</b>	<b>₩ 4,761,748</b>

# NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

(in millions of Korean won)

	<b>2004</b>	<b>2003</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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)	
>>	<b>2004</b>	<b>2003</b>
Shareholders' 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 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
	<u>739,652</u>	<u>739,090</u>
Retained earnings (Note 14)		
Legal reserve	29,337	16,526
Other reserves	505,940	284,750
Unappropriated retained earnings	536,430	362,116
	<u>1,071,707</u>	<u>663,392</u>
Capital adjustments		
Gain on valuation of equity-method investments (Note 8)	24,565	56,980
Treasury stock (Note 15)	(2,403)	(5,593)
Loss on valuation of derivative instruments (Note 13)	(3,811)	(4,698)
	<u>18,351</u>	<u>46,689</u>
Total shareholders' equity	<u>2,195,141</u>	<u>1,814,602</u>
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)

	<b>2004</b>	<b>2003</b>
<b>SALES</b> (Notes 19, 20 and 21)	₩ 7,127,411	₩ 5,672,465
<b>COST OF SALES</b> (Note 19)	5,784,125	4,519,927
Gross profit	1,343,286	1,152,538
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	820,368	678,880
Operating income	522,918	473,658
<b>NON-OPERATING INCOME</b>		
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
<b>NON-OPERATING EXPENSES</b>		
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
<b>PER SHARE DATA (in won)</b>		
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)	
	<b>2004</b>	<b>2003</b>
<b>RETAINED EARNINGS BEFORE APPROPRIATIONS</b>		
Unappropriated retained earnings carried over from prior year	₩ 10	₩ 8
Net income	536,420	362,108
	536,430	362,116
<b>TRANSFERS FROM OTHER RESERVES</b>		
Reserve for technology development	16,666	-
<b>APPROPRIATION OF RETAINED EARNINGS</b>		
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
<b>UNAPPROPRIATED RETAINED EARNINGS</b>		
<b>CARRIED FORWARD TO THE SUBSEQUENT YEAR</b>	₩ 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)

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
	<b>694,170</b>	<b>630,118</b>
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
	<b>(157,140)</b>	<b>63,808</b>
<b>Net cash provided by operating activities</b>	<b>537,030</b>	<b>693,926</b>

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

	(in millions of Korean won)	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment, 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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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
<b>CASH AND CASH EQUIVALENTS</b>		
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 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 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

## FINANCIAL STATEMENTS

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

**6. INVENTORIES**

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

	(in millions of Korean won)	
	<b>2004</b>	<b>2003</b>
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)	
	<b>CLASSIFICATION</b>	<b>2004</b>	<b>2003</b>
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 (%)		Percentage 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 Polycarbonate	-	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	Ending Balance
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)	
	<b>2004</b>	<b>2003</b>
	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)	
	<b>2004</b>	<b>2003</b>
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)	
	<b>2004</b>	<b>2003</b>
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
	<u>4,464,703</u>	<u>3,991,561</u>
Accumulated depreciation	<u>(2,561,809)</u>	<u>(2,333,602)</u>
	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
	<u>₩ 2,453,255</u>	<u>₩ 2,461,637</u>

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)	
	<b>2004</b>	<b>2003</b>
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)	
	<b>2004</b>	<b>2003</b>
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)	
	<b>2004</b>	<b>2003</b>
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:

	REFERENCE	(in millions of Korean won)	
		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.

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(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
<b>Won currency loans</b>	-	-		
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
<b>Foreign currency loans</b>				
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:

YEAR	(in millions of Korean won)			
	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)			
	<b>2004</b>			
	<b>Common Stock</b>		<b>Preferred Stock</b>	
	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)			
	<b>2003</b>			
	<b>Common Stock</b>		<b>Preferred Stock</b>	
	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 Tax Assets (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

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

	(in millions of Korean won)			
	<b>2004</b>			
	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)			
	<b>2003</b>			
	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 share and 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)	
	<b>2004</b>	<b>2003</b>
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)

Guarantee	2004				
	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).