Annual Report 2001 LG Chem

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LG Chem

GROWING PARTNER

CONTENTS

Founded in 1947, LG Chem has emerged as a leading chemical company over the past five decades. On 1 April 2001, the company was officially reorganized into three independent entities: holding company LG Chem Investment, LG Chem, and LG Household & Health Care. Today with a focused, synergistic business portfolio encompassing the fields of petrochemicals, performance polymers, industrial materials, and information and electronic materials, the new LG Chem is putting its advanced technology, vertical solutions, and cutting-edge products to work for partners around the globe as it a pursues its vision of being a global leader in chemicals.

Dear customers, shareholders, and employees,

The year 2001 was a watershed year for LG Chem in many ways. But none will have a greater impact on our future than the strategic demerger that took place on 1 April. On that date, Korea's leading general chemical company officially became three independent firms as part of a master plan to unlock shareholder value and bring a renewed focus on specialization and transparency. We inherited the LG Chem name and the petrochemicals and performance polymers, industrial materials, and information and electronic materials businesses. LG Household & Health Care inherited the household goods and cosmetics businesses. And LG Chem Investment inherited the life science business and became the holding company for the other two firms.

The year got underway with high hopes for favorable economic conditions that would put the chemical industry back on the road to growth. Unfortunately, those hopes would not materialize as weak global markets, the terrorist attacks on the U.S., and stagnation in the IT, electronics, and other industries turned a year of promise into one of our most challenging to date.

Despite the many internal and external challenges we faced in 2001, I am pleased to report we persevered to record an operating profit of 373.8 billion won on sales of 4,744.5 billion won for an industry leading operating margin of 7.9%, including first quarter results. Equally satisfying was the fact that our stock finished the year at over double the pre-demerger price as we dramatically enhanced transparency in corporate governance and refocused on our core competencies as Korea's premier vertically integrated chemical company.

As promised at the time of demerger, we also lowered our debt ratio well under 200%. By carefully prioritizing our investment budget, using asset-backed securities and an advanced collections system to substantially reduce accounts receivables, and minimizing inventories, we cut our debt-to-equity ratio by 33% from 219% on 1 April to 186% on 31 December, giving us a notably sounder financial structure as we headed into 2002. We also completed the sale of two non-core businesses during the year. In May, we spun off our dyestuffs business to M. Dohmen of Germany and our powder coatings business to Ferro of the U.S. We expect to exit a number of other peripheral businesses in the coming years as we continue to focus on our core strengths and the bottom line.

I would like to share a few business highlights of the year from each business unit to give you a feel for what we do and where we are headed.

PVC and ABS are the flagship products of our Petrochemicals and Performance Polymers Business Units. In 2001, we expanded our PVC production capacity in China from 150,000 to 240,000 mtpa. Combined with our 760,000 mtpa capacity in Korea, we now have a 1 million mtpa PVC production system with the economies of scale to compete with the world's best. We are also in the process of expanding our ABS capacity in China. By the end of 2002, we will bring another 150,000 mtpa online to boost our total capacity to 800,000 mtpa as we strategically position ourselves to maintain leadership in the rapidly growing Chinese market.

Our Industrial Materials Business Unit recorded the highest sales figures of our four units, generating 38% of the total. The unit's successful lineup includes an increasing percentage of high-end, high-performance products like High Gloss Deco Sheet surface finish materials, Hi-Macs acrylic solid surfaces, Best Ville PVC flooring, and Traum window systems.

Our Information & Electronic Materials Business Unit started up a second polarizer film production line, boosting capacity to 3.7 million sqm per year. A third lithium-ion battery line also came online to push capacity to 36 million cells annually. The unit also completed a new R&D center equipped with a flexible pilot production system, a capability that is now accelerating the commercialization of next-generation organic electroluminescent and low-

2001 Financial Highlights

Sales	3,616	in billions of won
Earnings from Operating	269	in billions of won
Net Earnings	132	in billions of won

All figures exclude Q1 results



dielectric materials. Another notable development came as we began delivering our plasma display phosphors to LG Electronics, the world's second maker to mass-produce plasma displays.

Although 2002 once again brings high expectations for an economic recovery, there is as always a considerable degree of uncertainty. For instance, there are numerous signs that the U.S. economy is beginning to recover. This positive news is tempered by the continuing weakness of the Japanese yen, a factor that will have a major impact on the international competitiveness of our products. In Korea, the presidential and regional elections will be among the non-economic events that will add uncertainty to the business environment, possibly triggering cutbacks in corporate investment and production that will significantly dampen any recovery.

Given the potential and likely challenges ahead of us, we have decided to make 2002 a year of transformation and change that will empower us to overcome whatever lies ahead as we lay a firm foundation for future growth. Our four-point business strategy for the year will focus on cash flow, innovation and solution creation, globalization, and organizational culture.

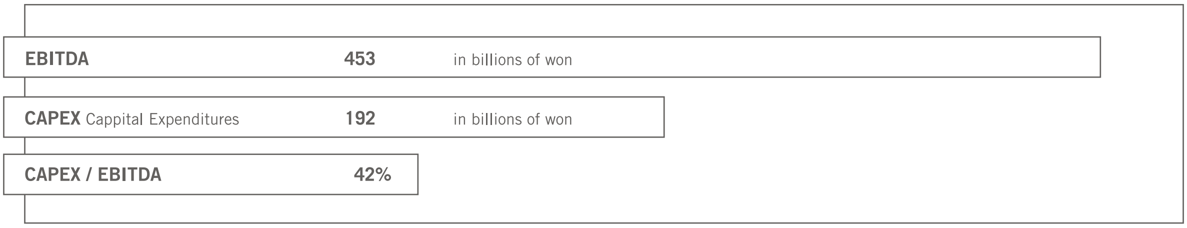
First and foremost, we are focusing on cash flow. When a cash flow problem arose in the past, we simply considered it a liquidity issue of having the necessary funds available at a particular time. Today, it is not a matter of liquidity but one of generating cash to build corporate value. Corporations must strive to grow by learning to live within their ability to generate cash, not by taking on debt. In essence, their cash-generating ability is what determines

Total Assets	**3,636**	in billions of won
Total Liabilities	**2,364**	in billions of won
Shareholder's Equity	**1,272**	in billions of won

their stock price and credit rating. As we work to survive in today's tough business environment and secure a solid revenue base to finance growth in tomorrow's strategic business fields, we will be putting top priority on curbing all non-essential, non-urgent investments, trimming operating expenses, and boosting cost-control efficiency.

Second, we are going to accelerate the pace at which we innovate and create solutions. In the past, we have relied on ongoing skill development programs, Six Sigma projects, and top-tier product development initiatives to drive product and quality innovation. This year, we are going to take those efforts to the next level as we dramatically increase investment in R&D to pave the way for new-to-world products, lay the foundation for success in the information and industrial materials fields, and firmly establish ourselves as a total solution provider. In short, we are going to go all-out to show both our investors and competitors that we are serious about being a global player.

Third, we are pushing full-speed ahead with globalization. China's entry into the WTO in December 2001 reminded us once again of how rapidly that country is growing. Given the fact that 25% of our overall sales now come from China, it has become imperative for us to step up our operational capabilities in this market. Our PVC and ABS plant expansion projects will continue to move forward this year as we boost our capacity to 340,000 and 300,000 mtpa, respectively. We are also upgrading up our technical support, marketing, and local distribution network as we prepare to compete head-to-head with the global majors in this globalizing market.



All figures exclude Q1 results

Fourth and finally, we are going to build a results-oriented organizational culture. Without the ability to get results, innovation is impossible. But to get results, you have to have motivated people. It also takes motivated people to create and nurture an egalitarian organizational culture. I believe that as the channels of management-employee communication are expanded and trust is built, and that as we embrace the practice of rewarding visible, quantifiable results in a timely fashion, that we will radically transform our culture for the better.

Above and beyond the four strategies just mentioned, we will also be hard at work implementing best practices in sales, production, purchasing, accounting, and personnel as we work to eliminate unproductive administrative processes and practices across the entire organization. We also plan to complete implementation of and launch the ERP system we have been working on since late 2000 as we pave the way for dramatic improvements in efficiency with integrated, up-to-the-second access to corporate resources and information.

Despite all the business challenges we faced at home and abroad in 2001, our remarkable financial performance was an unqualified success in building corporate value. I believe that this is a compelling testimony to the inherent strength and capabilities of our organization that have only become stronger and more robust with each challenge of our 55-year history. As we look forward to continuing and improving on that grand tradition once again in 2002, we invite you to join us as we work to create a brighter *future for you.*

Ki-Ho No
President & CEO

2001 Overview

Battery business gains strategic U.S. R&D partner

On 14 March, LG Chem helped mark the opening of Compact Power Inc., a U.S.-based developer and producer of second-generation lithium-ion polymer battery technologies for the emerging electric vehicle market. In addition to making a US$3 million investment in the business, LG Chem will work closely with CPI in both research and manufacturing as it continues to nurture the battery field as a strategic business.

Corporate demerger ushers in era of specialization

As part of an ongoing commitment to enhancing corporate governance and building shareholder value, LG Chem spun off its household goods and cosmetics businesses to create LG Household & Health Care and its life science business to create LG Chem Investment on 1 April. Shareholders received 0.88 shares of LG Chem, 0.18 shares of LG Chem Investment, and 0.16 shares of LG Household & Health Care for each original LG Chem share owned.

Dyestuffs business moves out and into global top-5

A strategic alliance with German dyestuff distributor M. Dohmen GmbH on 23 May created the world's No. 5 dyestuff supplier with annual sales surpassing US$140 million. In exchange for a 49% stake in Dohmen valued at US$33.7 million, LG Chem transferred ownership of its Korean dyestuffs business as well as its interest in Tianjin LG Specialty Chemical in China.

Powder coatings business aims to shine in joint venture

LG Chem's ongoing select-and-focus initiative resulted in the sale of its successful powder coatings business to U.S.-based Ferro Corporation, a major global supplier of performance coatings and chemicals. The company retains a 29.9% stake in LG Ferro Powder Coatings, a firm established on 31 May that is currently No. 3 in Korea with a 19% share of the market and a production capacity of 5,000 tpa.

ABS business targets 1 million mtpa in 2005

On 12 June, LG Chem announced that it would double its ABS production capacity through 2005. The first phase of the US$104 million project will boost production to 800,000 mtpa by the end of 2003. Output will rise from 350,000 to 500,000 mtpa in Korea, while production at joint venture Ningbo LG-Yongxing Chemical in China will jump from 150,000 to 300,000 mtpa. A further 200,000 mtpa expansion is planned for 2005 as the company positions itself to become a major global player in the field.

Flat panel technologies win prestigious IR52 awards

During the year, LG Chem was honored with two IR52 Jang Young-Shil Awards, Korea's highest honor for excellence in technology innovation. The first award recognized the company's plasma phosphors, which have surpassed the performance and quality standards set by pioneering Japanese firms in the field. The second award acknowledged the company's TFT-LCD polarizer film, a product that delivers optical performance that far surpasses the competition.

PVC business heads for 1.5 million mtpa in 2005

On 30 October, LG Chem marked the completion of a 90,000 mtpa expansion project at Tianjin LG Dagu Chemical that pushed its global polyvinyl chloride capacity to 1 million mtpa. Through 2005, the company intends to add an additional 500,000 mtpa to that figure with planned 100,000 mtpa expansion projects in China and Korea as well as a new 300,000 mtpa plant in China to take advantage of a continuing undersupply situation in that market.

2001 Global Leader products named

Continuing a tradition started in 1999, LG Chem honored several high-tech, high-quality products with the "Global Leader" designation for achieving market leadership in major global markets. The 2001 winners included High Gloss Deco Sheet appliance surface material, Banner Flex outdoor sign media, latex glove PVC resin, and fiber optic cable sheath PBT resin. The company intends to have 35% of its product portfolio achieving "Global Leader" status by 2005.

Key Performance Indicators

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

	2001
Operating Margin	7.4%
Return on Equity	14%
Net Debt to Equity	124%
Number of Outstanding Common Shares	64,425,064
Earnings Per Share in Won	1,949
Year End Stock Price in Won	21,750

2001~2002 Stock Price Performance

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

"Quiet and clean, yet powerful, personal transportation has been a dream of mine since I was program manager in charge of developing the electric propulsion system for GM's EV1 electric vehicle. Unfortunately, the lack of an advanced and reasonably priced battery has kept this and other electric vehicles out of mass-production. Today, I'm proud to once again be working with a distinguished engineering team and LG Chem—our technology and mass-production partner—on the advanced lithium-ion polymer battery technology that we believe will finally overcome the cost and range limitations to bring electric vehicles into the mainstream. And that will mean more clean air and blue sky for everyone!"

Dr. Daniel D. Rivers _ President & CEO, Compact Power Inc.

"As one of Korea's leading apartment builders, we rely on a lot of suppliers and contractors to help make our *Raemian* apartments better than the rest. LG Chem is one of our most valued partners, giving us the quality window systems, floorcoverings, and other decorative materials we need to build homes that are as comfortable as they are attractive. I've been especially impressed by LG's on-site service... They've always gone the proverbial 'extra mile' to help us get the job done."

Seung-Ho Kim _ Creative team manager, Housing & Development Group, Samsung Corporation

"LG Dagu Chemical is China's fourth-largest PVC producer and continues to gain market share with a high-quality product lineup. The company's approach of bringing in its world-class production technology and hiring the best and brightest local minds has really paid off here in China. The cooperation between our two companies and solidarity in labor-management relations are why LG Dagu Chemical is well on its way to becoming a world-class PVC producer in its own right."

Wan Guo-Shun _ Head manager, Production Division, Tianjin LG Dagu Chemical

"Since launching production of LCD polarizer film in the second half of 2000, we've seen sales rise from \5.8 billion to over \50 billion in 2001. In 2002, we aim to ship more than \100 billion worth of this value-added film as the computing-centric TFT-LCD display market gets an added boost from TVs made with the same flat-panels."

Myong-Ho Kim _ Plant Manager, Optical Materials Division, LG Chem

"Our R&D center already has a long list of developments to its name, including the world's top-performing plasma phosphors, LCD color filter and overcoat photoresists, pressure-sensitive adhesives for optical films, and color laser and copier toners. Along with new display technologies like organic electroluminescent materials, we're now working on advanced low-dielectric materials for semiconductor applications and high-performance engineering plastics with one goal in mind: delivering new, benchmark-setting products that will make LG Chem an industry leader."

Jin-Nyoung Yoo _ Director/Vice president, Advanced Materials Research Institute, LG Chem Research Park

"Philips has been buying resin for its monitor housings from LG Chem for six years now. Although I've only been personally working with LG Chem for the past year, the company has made a solid impression on me in three key areas: technology, performance, and logistics service. Simply put, doing business with LG Chem makes everything easier…"

Vincent Liu _ Buyer, Philips Consumer Electronics Mainstream

"After a disappointing first home-remodeling experience, we decided to hire a professional, full-service remodeling contractor for our current apartment. With LG Decoville, we got to talk directly to the designer about what we had in mind, a conversation that continued throughout the entire project. And after the work was done, the designer came by and did a walk-through with us to ensure everything was just right... Thanks LG Chem for helping us make our dream house!"

Hyun-Sook Ahn _ Homemaker

"As a professional window system design, fabrication, and installation firm, we make it a point to stay abreast of industry trends. Although LG Chem has only been in the window system business for three years, it's quickly established itself as an innovator. Its new award-winning *Traum* product family is simply the best on the market. But what's even more impressive is the satisfaction the company helps us deliver to our customers."

Sunny Park _ President & CEO, Mibaek Fenster

"In 2001, we set out to make our high-gloss sheet products the world's best. Today, we own 64% of the global market for this product that's primarily used to give refrigerators and other home appliances their textured feel. But we're not stopping there. Our third-generation high-gloss sheet products promise to expand our market share even further, offering a sophisticated stainless steel or aluminum-like finish that will bring a whole new upscale look to kitchens in the near future."

Eun-Chul Ha _ Production manager, Ulsan calendering plant, Living Materials Division, LG Chem

"The Six Sigma program we started in 1998 has remolded every aspect of our development efforts. A prime example is our latex glove PVC resin, a product that has been recognized as one of the world's finest. In addition to winning two key patents related to the monomer stripping process, we've delivered a resin with superior technical properties. And that allows us to command a US$20~30 per ton price premium in global markets."

Gyung-Chul Seo _ PVC Plant Technology Team, LG Chem

"I can say that the similar cultural background we share with China definitely gives us an advantage over the western competition in both market entry and customer solicitation. This advantage will also extend to logistics and delivery as China opens up to the world as a member of the WTO. I don't know of any other global chemical company that's as dedicated to the Chinese market as we are. And that's an advantage that'll only increase in the years ahead."

Sung-Ju Kim _ General manager, Shanghai Branch Office, LG Chem

"In China, no one speaks in absolutes when it comes to the future. I *can* say that LG Chem has laid the foundation for a successful joint-venture relationship in the Ningbo region. If the company can build on this good start with a strong, win-win marketing partnership and join us in becoming a catalyst for our region's economic growth, it will do well for itself. And if LG Chem should then choose to really become a 'local' firm, its prospects will certainly be bright."

Xiang Xu _ Vice president, Ningbo LG-Yongxing Chemical

"Since the Asian financial crisis in 1997 and 1998, most Korean companies have taken significant steps to improve the health of their balance sheets by reducing debt and unwinding contingent liabilities... In our view LG Chem has done a commendable job in improving transparency and attempting to improve the growth potential of the company. The split of the previous company into three new companies was successful in unlocking the value of the parts and is a model for other companies seeking innovative ways to enhance shareholder value."

Simon Andrew _ Analyst, Deutsche Bank

Vision & Strategy

On 1 April 2001, LG Chem demerged its life science, household goods, and cosmetics businesses as part of a master plan to refocus the company on chemicals and applied chemical technologies. With the demerger, we also introduced a new corporate vision and core values that capture the collective aspirations of our external and internal stakeholders, providing a clear and focused path for us to follow as we aim to become a major global player in the years ahead.

Vision

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

Global Leader

- World class in how we do business, with the best talent worldwide
- Leading globally in our future strategic businesses
- Consistently delivering superior value to a diversified base of domestic and foreign investors

Advanced Technologies & Innovative Solutions

- Continuously innovating to develop and deliver advanced technologies, materials and superior solutions
- Delivering value to customers by anticipating their needs and exceeding their expectations

Trusted by Stakeholders

- Preferred partner for customers, shareholders and employees through mutual trust and open management
- Respecting employees and providing an exciting place for them to grow and thrive

Core Values

Customer Value First

- We deliver value by anticipating customer needs and exceeding customer expectations

Innovation

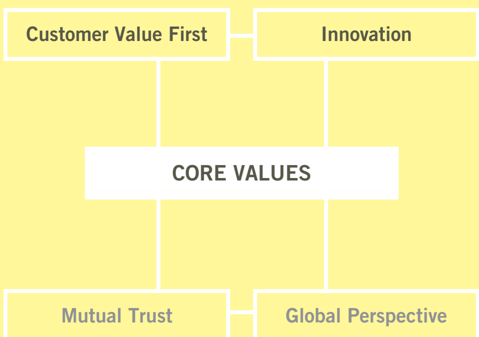
- We constantly strive to innovate: advancing our thinking, behaviors, product offerings and technologies

Mutual Trust

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

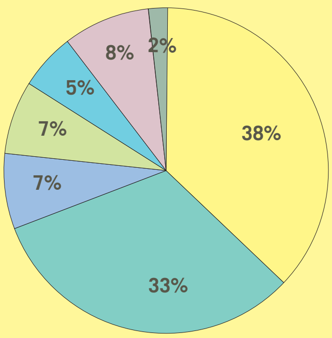
Global Perspective

- We think, operate and compete globally



Our Petrochemicals and Performance Polymers Business Units represent a business portfolio of high-value-added products that are exceptionally competitive in global markets.

Aiming to sharpen our competitiveness in the petrochemical business, we continue to increase the degree of specialization in our commodity portfolio as we focus on our core competencies. Our unique product mix is more profitable and geographically "in tune" than most of our competitors'.



Sales Breakdown by Product Category

PVC & Plasticizers | ABS & PS | Acrylic | Engineering Plastics | Speciality Resins | PE | Epoxies

In recent years, we have focused investment on the PVC and ABS resin businesses. In 2001, we began an expansion of our joint venture Tianjin LG Dagu Chemical PVC plant from 240,000 mtpa to 340,000 mtpa in 2002. Although global demand for PVC shrank in 2001, demand in China soared thanks to a continued economic boom led by construction and strong consumer spending. While the average worldwide PVC plant operating ratio was below 85% during the year, demand still far exceeded domestic production capacity in China, resulting in that country importing 47% of its PVC requirements. By 2005, we will have a PVC production capacity of 640,000 mtpa in China. This will increase our total capacity to 1.5 million mtpa, making us the world's 4th largest producer as well as China's largest foreign producer and distributor.

Our ABS business also operates a joint venture in China. Ningbo LG-Yongxing Chemical is currently expanding its capacity from 150,000 mtpa to 500,000 mtpa through 2005. This will increase our total capacity to 1 million mtpa, making us the world's 4th largest producer.

In addition to these ongoing investments to enhance our economies of scale, we've also been steadily increasing the value-added component of our product mix. Specialized products like PVC resin for surgical latex gloves, high-impact PE resin for piping, transparent ABS, flame-retardant ABS, and extrusion ABS continue to enhance our strong reputation for advanced technology and innovation.

Our Industrial Materials Business Unit has built a solid technology platform and a strong market presence backed by a commitment to continuous innovation and customer satisfaction.

Leveraging our core capabilities in petrochemicals, we've built a solid technology platform and strong market presence in the fabricated materials sector that's bringing a new level of comfort and luxury to life around the world.

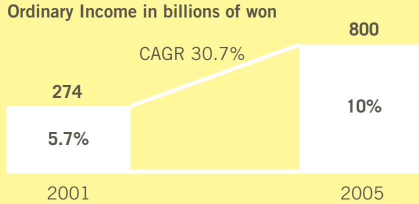
Two prime examples of our success in these businesses are our deluxe Traum window system and Hi-Macs acrylic solid surfaces, the latter of which dominates the acrylic kitchen and bathroom countertop markets with 55% of the global market. Another world-leading product from this unit is our Banner Flex outdoor sign media.

Vision & Strategy

Our Information & Electronic Materials Business Unit has a commitment to R&D, capital investment, and high-performance products that will make it a powerful engine for growth in the years ahead.

Sales in trillions of won

Ordinary Income in billions of won



Operating Margin

7.9% 12.5%

We live in a high-tech world where information and communications technology are rapidly redefining the way we live, work, and play. At LG Chem, we're hard at work developing and delivering the key technologies that are enabling manufacturers to keep their customers on the leading edge of the IT revolution.

Building on our success in the lithium-ion cell marketplace, our battery business is now delivering second-generation lithium-ion polymer cells that surpass the stringent quality and performance requirements of Motorola and other major mobile phone makers. A strong R&D program is also rapidly increasing the value-added ratio in our display and printed circuit board materials businesses. Our expanding high-tech product lineup in these fields includes phosphors for plasma displays, polarizer film and color filter photoresist for TFT-LCD panels, copper-clad laminate for circuit boards, and organic electroluminescent materials for the next-generation of display devices.

By 2005, we aim to be a top global player capable of consistently generating high growth and profitability in any market environment.

Our ambitious business plans call for us to be generating an ordinary profit of ₩800 billion on sales of at least ₩8 trillion in 2005. This target of a 10% ordinary margin and a 12% operating margin will place us well within the global top-10 in our industry by mid-decade.

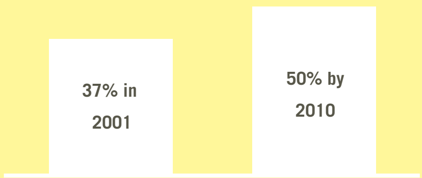
Our analysis of the global chemical industry leaders has shown they generally have a well-focused business portfolio with a strong emphasis on high-value-added products, resulting in superior long-term performance. A key challenge for us in delivering this kind of world-class performance will be in shifting an increasing percentage of our product portfolio into high-value-added categories in fields like specialty chemicals, industrial materials, and information and electronic materials.

In recent years, our international success in the above industries with products like transparent and fire-retardant ABS resins, engineering plastics, and Hi-Macs acrylic solid surfaces has helped us understand and increasingly focus on developing our global potential. This also holds true in commodity businesses, where our early advance into the Chinese market has laid a solid foundation that will continue to strengthen our leadership in regional markets. But the biggest indicator of our commitment to becoming a global player is that, in addition to maintaining and extending our leadership in our domestic market, we are forecasting more than 50% of our sales will come from outside Korea before the second decade of the millennium.

Our product portfolio is shifting toward:

- Information and electronic materials
- High-performance industrial materials
- High-value-added petrochemicals

Global Portion of Sales



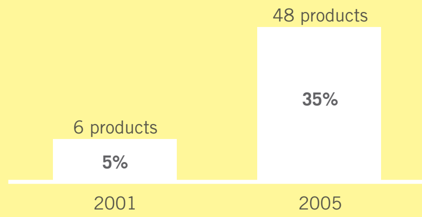
Our global business strategy emphasizes:

- Competing globally while maintaining dominance in the Korean market
- Achieving leadership in strategic emerging businesses in major global markets

In order to succeed in global markets, we must deliver superior technology, superior value, and superior marketing to ensure our products command a price premium. Today, we have six "Global Leader" products that are either first or second in one or more major global markets. By 2005, we aim to add another 42 to that list for a total of 48. These top-tier products will be instrumental in driving sales and profit growth, accounting for approximately 35% of sales by the middle of the decade.

At the most fundamental level, R&D will be the key driver behind our continued growth. Over the past decade, we've been researching, identifying, and investing in emerging business fields, priming our R&D pipeline to deliver the technologies and products essential to achieving our long-term objectives. Today, our R&D organization is equally adept at handling traditional long-term basic research projects as it is in working with business units to shorten time-to-market and cut production costs.

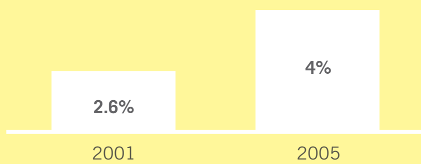
Top-Tier Product Contribution to Sales



Our high-value-added product strategy focuses on delivering:

- Superior technology
- Superior value
- Superior marketing

R&D Investment as a Percentage of Sales



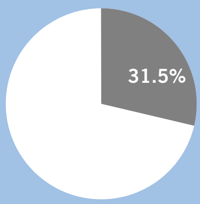
Our R&D organization emphasizes:

- Corporate R&D projects
- Close R&D-business unit collaboration
- Development of core technology platforms
- Long-term strategic projects
- Efficient project review
- Chief technology officer leadership

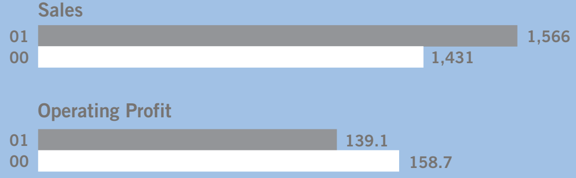
Churl-Ho Yoo
Executive Vice President
Chief of Petrochemicals
Business Unit

"Our strategy for success in the intensely competitive petrochemical industry is to focus on three things: expanding economies of scale in our core PVC and acrylates businesses, locating a growing portion of our global marketing organization in China, and continuously innovating with world-class products, quality, and cost leadership. In 2001, our hard work continued to pay off with an operating profit of 139 billion won on sales of 1,566 billion won for a solid operating margin of 8.9%. And we expect 2002 to be even better…"

Portion of Total Sales



Key Financials in billions of won



The Year in Review

As the decade-long U.S. economic boom came to an end in 2001 and recession set in, the stagnant information technology sector touched off a global economic slowdown. This was a particularly hard blow for the petrochemical industry, a field that faced its darkest days since the first oil shock hit nearly 30 years ago.

For us, the challenge hit home with a dramatic market drop that shaved 28% off the price of straight PVC and 24% off acrylates during the year. Despite these falling prices, we were successful in boosting year-on-year sales revenue a remarkable 9.4% thanks to our growing cost leadership edge, a conscious shift toward higher-margin products, and the timely, cost-effective addition of PVC production capacity in late 2000 with the takeover of Hyundai Petrochemical's 200,000 mtpa PVC business. Today, we're the world's 7th and Asia's 2nd largest PVC manufacturer with a 1 million mtpa production capacity that gives us the economies of scale we need to compete in Asia and beyond.

The Year Ahead

Bouyed by the consensus that the U.S. economy bottomed out in 2001, analysts are predicting a recovery for the global petrochemical industry that will help demand rebound to near pre-recession growth rates. China's entry into the WTO will also add momentum to the recovery as that country's economy continues to grow at a high single-digit pace. By the third quarter of the year, global demand is expect-

1,500,000 mtpa

Our target PVC production capacity in 2005

The late-2000 acquisition of Hyundai Petrochemical's PVC business and completion of an expansion project in China pushed capacity past the symbolic 1 million mtpa milestone in 2001. Through 2005, we intend add another 500,000 mtpa—80% in China—giving us the economies of scale to take on the world's best.


DE-1501

ed to be solidly on the rise, giving a much-needed boost to both prices and profitability.

In Korea, the FIFA World Cup, Asian Games, and presidential election will all help boost consumer sentiment as they fuel a projected 4% to 5% growth rate. Analysts forecast this will push growth in the electronics and IT industries past 10% and the automobile and construction industries up a respectable 3% to 4%, putting the petrochemical industry well on the road to recovery in the second half of the year.

On the Horizon

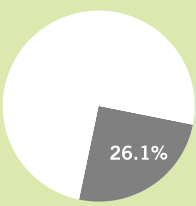
We're hard at work to ensure we're well prepared to take advantage of the next industry cycle that will peak in 2004~2005. With Korea now producing more petrochemicals than local manufacturers need, our focus has turned to neighboring China, the world's last major market where demand still far exceeds local production. We aim to be in a top-3 position in both PVC and acrylates by 2010 in that market as we strategically move to establish ourselves as the Asian industry leader.

Plans to increase our PVC production capacity 50% to 1.5 million mtpa in 2005 are well underway as we position ourselves to emerge as the world's No. 4 producer in the second half of the decade. A major portion of this capacity will be added in our most strategic market—China—a country that's now getting our full attention with first-class local sales and technical support. We also intend to leverage our long-term capacity expansion program and growing portfolio of high-value-added downstream products to emerge as a global player in acrylates during the same time frame.

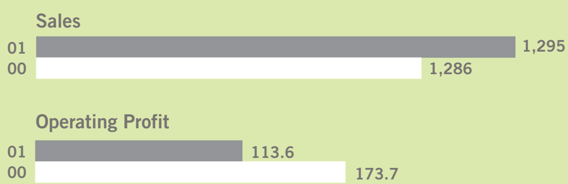
Sung-Dam Lim
Executive Vice President
Chief of Performance Polymers
Business Unit

"With over 56% of sales already coming from outside Korea and a phased expansion project underway that will double ABS capacity to give us global economies of scale in 2005, we're well on our way to becoming a global industry player. In 2002, we're aiming for double-digit growth in both sales and profits as ongoing R&D projects and strategic alliances continue to steadily increase the profitable specialty product portion of our portfolio."

Portion of Total Sales



Key Financials in billions of won



The Year in Review

Despite a dramatic drop in the price of acrylonitrile butadiene styrene resin—ABS—as the global recession forced manufacturers to cut output and prices, we posted an operating profit of 113 billion won on sales of 1,295 billion won for a respectable operating margin of 8.7%. Key factors that enabled us to maintain sales at year 2000 levels included robust sales of higher-margin specialty resins such as flame-retardant ABS, HIPS, and extrusion ABS.

Our ongoing strategy to expand our role from manufacturer to solution provider resulted in a number of notable developments during 2001. Our R&D center wrapped up development of a high-tech transparent extrusion ABS resin as well as partnering with Trinity Glass International of the U.S. on a project to create a high-performance PC/ASA alloy for window profile. Expanded R&D investment also accelerated important ongoing projects involving polymer nanotechnology and processing technology.

The Year Ahead

The slow-but-steady recovery of global markets and falling petrochemical inventories in the wake of production cuts made at the end of 2001 are expected to set the stage for a business upturn in 2002. In Korea, demand will be driven by rising LCD monitor and TV sales, globalization and modulization trends in the automotive and electronics parts industries, and an accelerated transition to eco-friendly products in all manufacturing sectors.

1,000,000 mtpa

Our target ABS production capacity in 2005

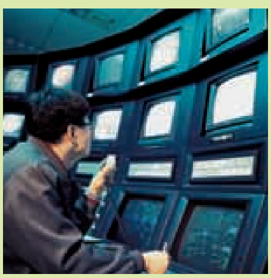
As part of our efforts to globalize in both the markets we serve and the products we deliver, we plan to double ABS production capacity over the next four years, adding 350,000 mtpa in China and 150,000 mtpa in Korea.


LG甬兴
LG甬兴严

China is a market that has remained remarkably unaffected by the latest global economic downturn. With growth forecast to exceed 7% in 2002 and expanding market access in the wake of its December 2001 admission into the WTO, demand for ABS will be stronger than ever in that country's toy, home appliance, and electronics industries. Our ongoing localization of manufacturing and marketing in this country will continue to enhance our market leadership, giving us invaluable hands-on local experience and a considerable head start in the world's fastest-growing market.

On the Horizon

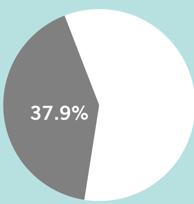
In 2001, we launched an ambitious expansion project that will double our current ABS production capacity from 500,000 to 1 million mtpa in 2005. Capacity at Ningbo LG-Yongxing Chemical—our joint venture subsidiary in China—will jump from 150,000 to 300,000 mtpa by the end of 2002 as we aim to become the leading supplier to that country's booming electronics and automobile parts industries. An additional 200,000 mtpa capacity expansion is also planned in China for 2005 as we continue to strategically reinforce our position as a major global player.



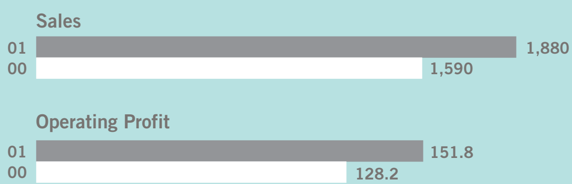
Yoon-Ki Bae
Executive Vice President
Chief of Industrial Materials
Business Unit

"Over the past decade, the business unit has recorded an average annual sales growth rate in excess of 10%. This remarkable achievement is a testimony to the consistency with which we've served and grown with our markets over the years. It's also the reason we continued to stand at the top of our home market in 2001 with an operating profit of nearly 152 billion won on sales of 1,880 billion won. And the future we're helping build looks bright indeed..."

Portion of Total Sales



Key Financials in billions of won



The Year in Review

A gradual recovery in the construction market and advances in product performance and quality made during the four years that have passed since the Asian financial crisis hit Korea in 1997 combined to produce a small but definite upturn in the building materials business in 2001. This upward momentum was mirrored in the home appliance, furniture, automobile, and other manufacturing industries, enabling us to record an outstanding 18.5% sales growth for the year.

A prime example of how new technology can take an existing market by storm and dramatically expand it at the same time was clearly illustrated during 2001 by the rapid transition from aluminum to PVC window profile in our domestic market. Our overall product mix also continued to shift toward high-value-added products. Sales of artificial marble, window systems, high-gloss sheet, commercial floor tile, automotive interior skin, and other high-margin products jumped 43% to 320 billion won, accounting for 20% of total sales. An equally remarkable statistic is that 38% of sales came from products introduced during the year, indicating that our product leadership strategy is working exceptionally well.

In 2001, we wrapped up a reorganization that has helped us streamline and refocus on our core businesses over the past few years. The year's highlights in this area included the spin-off of our dyestuffs business into a joint venture with M. Dohmen of Germany. We believe that this operation's prospects for success in global markets as well as those of our remaining businesses have been considerably enhanced through these win-win alliances.

600,000 sqm

Our high-gloss sheet monthly production in China

Facing rigorous competition from Japanese companies, we made the potentially risky decision to localize high-gloss sheet production in China in 1998. That move paid off handsomely in 2001 as our local market soared to 85% and production rose to 600,000 sqm a month.

The Year Ahead

With expectations of a boost at home from the FIFA World Cup and internationally from a recovery in the U.S. market, the outlook for 2002 is quite positive. Our building and decorative materials businesses expect to piggyback on the overall economic upturn. With over 40% of sales already coming from outside Korea, our Living Materials Division is looking for sales to pick up as key global markets emerge from their recessions. The Korean auto industry's projected 6% growth rate will also provide numerous growth opportunities for our automotive parts business.

While the overall outlook is positive, we do recognize the real possibility that major increases in feedstock chemical prices may negatively impact our cost structure. In response, we'll be dramatically stepping up the pace of our cost leadership initiative with accelerated high-performance, high-value-added product R&D in 2002 and beyond.

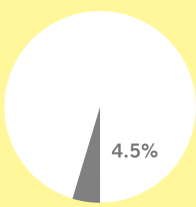
On the Horizon

At the beginning of 2001, we set some simple but ambitious mid-term goals for ourselves. By 2005, we plan to be generating an average annual sales growth rate of 13% with an operating margin of over 12%. And while we continue to work hard to stay at the top of our home market, we also intend to think more globally as we aim to tap overseas markets for 25% of our overall sales by the middle of the decade.

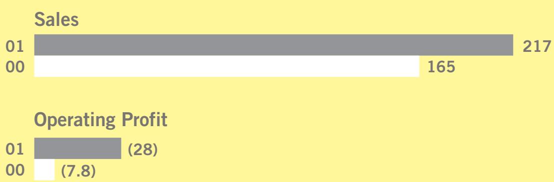
Jong-Pal Kim
Executive Vice President
Chief of Information & Electronic
Materials Business Unit

"Mass production of lithium-ion polymer batteries, TFT-LCD polarizers, and color filter photoresists got underway in 2001, boosting sales by over 31% to 217 billion won. Driven by a more than 1,100% increase in polarizer film sales, this remarkable growth couldn't overcome a 24% drop in our copper-clad laminate business and production start-up costs and investments related to our battery business, leading to a unit operating loss of 28 billion won for the year. Despite these temporary setbacks, we're confident we'll be back in the black in 2002."

Portion of Total Sales



Key Financials in billions of won



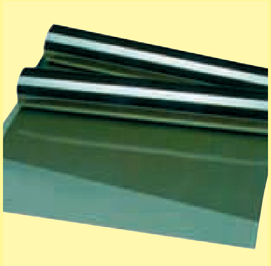
The Year in Review

Ongoing production problems, stagnant IT markets, and major investments in both R&D and production facilities prevented our battery business from meeting profitability targets in 2001. However, sales did grow an encouraging 19% for the year as we launched production of lithium-ion polymer batteries as part of a 50 billion won project to position ourselves as a leader in bringing this next-generation technology to market.

Our polarizer business far outperformed expectations in its second year with sales growth of nearly 1,100%. We also added a 2.5 million sqm capacity production line during the year, tripling output as we kept pace with skyrocketing demand. In contrast, our copper-clad laminate business suffered a 24% drop in sales as lower-cost Chinese and Taiwanese imports hit the market. Despite the tough competition, we continued to gain market share with Korea's major printed circuit board makers as we advanced into the Japanese and North American markets and successfully launched our build-up materials in the Chinese and Taiwanese markets. While our display and imaging materials businesses saw flat CRT phosphor sales as the Korean monitor industry contracted slightly, the loss was largely offset by a major upturn in demand for high-end plasma phosphors. The strong launch of our color filter photoresist business and continued global success of our toner business also contributed to the units's 11% growth rate.

The Year Ahead

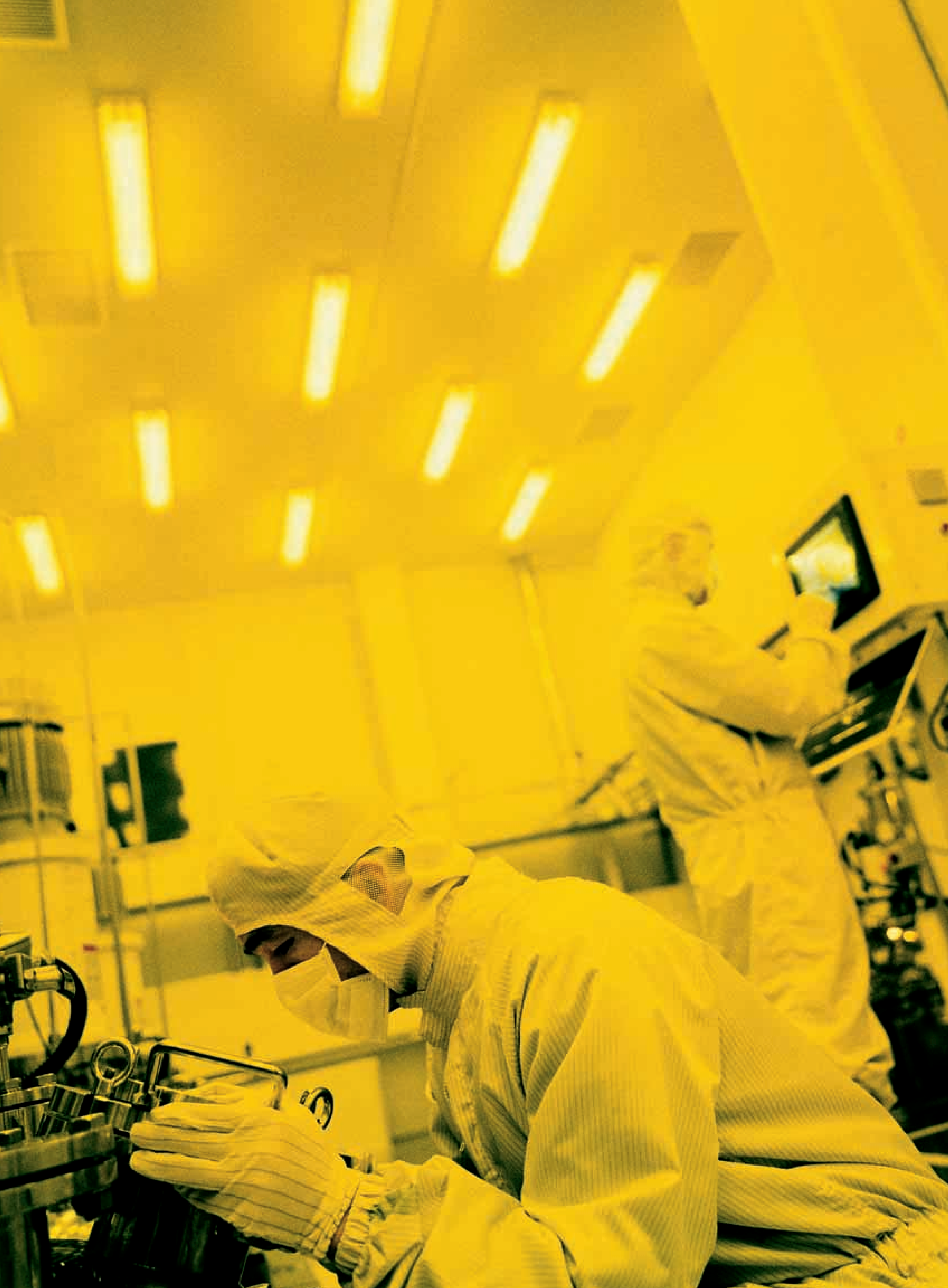
Growth for our polarizer film business looks to explode in Q3 2002 as the world's top-two LCD producers—Samsung Electronics and LG.Philips LCD—start up their fifth-generation fabs. Our third polarizer line



10,000,000 sqm

Our target polarizer film production capacity by 2004

In 2000, we became the world's fourth company to develop polarizer film, a key material in TFT-LCD displays. Recognized for its superior optical properties, our award-winning film captured 25% of the Korean market in 2001, a number that we're working hard to push to 40% in 2004.



is also slated to come online about the same time, ensuring we're ready for this major opportunity.

Our display and imaging businesses will also benefit from the previously mentioned fab startups, which are forecast to boost phosphor sales by 5% to 6% and color filter photoresist sales by considerably more. Overseas phosphor sales will continue to grow as our photosensitive LCD material lineup expands to cover all color filter grades as well as overcoat, resin black matrix, and column spacer photoresists. The year will also mark our entry into the organic electroluminescent material and pressure-sensitive optical film adhesive fields, while the addition of a fifth toner production line accelerates our continued global growth in that field.

On the Horizon

Backed by a flexible production system, a strategic R&D alliance with U.S.-based lithium-ion polymer battery technology specialist Compact Power Inc., and a growing customer list that includes Ericsson, Motorola, and other major companies, our battery business will continue to fine-tune productivity, cost competitiveness, and quality as we aim to turn an operating profit in 2003.

Our optical business continues to expand into new fields like rear-projection TV screens as the display industry transitions to interactive applications and big-screen digital displays. Similarly, we are now developing substrates for plastic and flip-chip ball grid array packages as we tap into the high-growth IC package field. We expect this mix of high-end, high-performance materials to take us to the top of the Korean printed circuit board materials industry by 2003 and the global top-5 by 2005.




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

"R&D is a tough business. Only half of projects started ever get finished, and only about one in three is completely successful. Given those odds, we really savor every 'home run' we hit. And we seem to be hitting more and more, particularly in the information and electronic materials fields. Today as we focus on harnessing the power of the atom with nanotechnology to create the materials of the future, we're also learning to more effectively tap into our most valuable intellectual property of all: our over 700-strong R&D team."

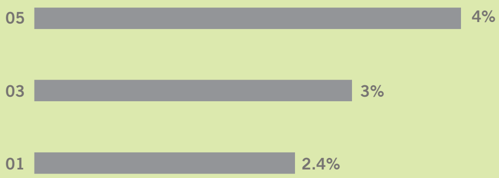
Research Facilities	Key Research & Development Areas	Location
Advanced Materials Research Center	Materials for future technology and electronic devices	Daedeok
Process Technology Research Center	Process technology and catalysts	Daedeok
Analytical and Computational Science Center	Analytical and computational technology	Daedeok
Battery Research Institute	Lithium batteries (LiLB, LiPB) and fuel cells	Daedeok
Information & Electronic Materials Research Institute	Optical materials for displays, PCB materials	Daedeok
Industrial Materials Research Institute	High-performance industrial materials	Cheongju, Daedeok
Petrochemical Product & Process Research Institute	Specialty chemicals, polymers (PVC, PE), e-processes	Yeosu, Naju, Daedeok
Performance Polymers Research Institute	High-performance ABS & ASA, functional latex resins	Yeosu, Daedeok
Technology Intelligence Center	Intellectual property, technology intelligence, and IT services	Daedeok
Maryland Satellite Lab	Polymer process modeling	Maryland, USA
Compact Power Inc.	Electric vehicle lithium battery module development	Colorado, USA

At LG Chem, we established ourselves as a leader in innovation back in 1979 when we opened our first research center in Daejeon, Korea. Known today as LG Chem Research Park, the multidisciplinary campus is home to three R&D centers, six R&D institutes, and a staff of more than 700 specialists, over 80% of whom have a master's degree or higher. Our ongoing commitment to developing advanced technology and products has helped us win numerous industry certifications and awards in recent years, including two of Korea's prestigious IR52 Jang Young-Shil Awards for our TFT-LCD polarizer film and plasma display phosphors in 2001.

With LG Chem's demerger and the adoption of a new corporate vision in April 2001, our R&D organization also underwent a fundamental transformation as we realigned ourselves with the new business organization to lay the foundation for an aggressive pursuit of emerging growth opportunities. We started by appointing LG Chem Research Park President Jong-Kee Yeo as our first chief technology officer to spearhead our corporatewide focus on developing new-to-world products as well as the systematization of our R&D activities to improve their effectiveness.

Under the CTO's leadership, our R&D organization was reorganized into central and business unit R&D functions in support of the dual missions of exploring and cultivating future opportunities while enhancing the competitiveness of our existing businesses. Encompassing the Advanced Materials Research Center, Process Technology Research Center, and the Analytical and Computational Science Center, these central R&D organizations tackle new-to-world product development as they master new product process development, ultrahigh-precision analytical technology, computational chemistry, and other enabling

R&D Investment as a Percentage of Sales



technologies with applications across our entire business portfolio. In contrast, the business unit R&D organizations work in close partnership with each of our four units to enhance the competitiveness of their existing businesses. A key example of this is our Maryland Satellite Lab and Compact Power Inc., two U.S.-based R&D facilities that are now playing a key role in the Information & Electronic Materials Business Unit's return to profitability.

Our ambitious goal of having at least 48 products that are top-tier category leaders in global markets by 2005 centers on R&D work now underway in information and electronic materials fields such as next-generation battery technologies, semiconductors and microelectronics materials, future display devices and materials, and optoelectronic materials. A new R&D facility dedicated to these fields was completed in November 2001. In addition to a pilot production plant, this state-of-the-art facility is now providing an environment conducive to synergistic cross-pollination between various projects and disciplines, accelerating the commercialization of organic light-emitting diodes and other materials for next-generation electronic devices.

Another key development in 2001 was our US$3 million investment in U.S.-based Compact Power Inc., a joint venture with some of America's leading experts in battery technology. Together, we're now working hard on next-generation lithium-ion polymer battery technology for electric vehicles, a fledgling market that's expected to take a major step forward toward becoming a mainstream part of the U.S. auto industry in 2003.

Looking ahead to 2002, we plan to increase investment in R&D by 6 billion won to 121 billion won. Approximately 43 billion won of the total is earmarked for work in the information and electronic materials fields, including the expansion of our staff specializing in those areas from 270 to 320.




Introduction

Founded in 1947, LG Chem has over the past five decades emerged as a leading chemical company. On 1 April 2001, the company was officially reorganized into three independent entities: holding company LG Chem Investment Ltd., LG Chem, Ltd., and LG Household & Health Care Ltd. The new LG Chem's scope of business encompasses the petrochemicals, performance polymers, industrial materials, and information and electronic materials industries. Today, the company is relying on advanced technology, vertical solutions, and cutting-edge products to make it an increasingly important player in the global chemical industry.

For consistency and the convenience of the reader, all financial amounts mentioned in this section include pre-demerger Q1 data unless otherwise noted. This may result in differences between this presentation and the presentation made in the financial statements. These analysis and forward-looking statements in this section are subject to a number of risks, uncertainties, and other factors that may cause the actual results to differ materially.

2001 Overview

A global economic recession and stagnant petrochemical and IT industries made 2001 a difficult year. Despite this challenging business environment, LG Chem recorded sales of ₩4,744.5 billion and recurring profit of ₩247.6 billion, a year-on-year increase of 11.4% and decrease of 3.1%, respectively.

From an industry standpoint, both the petrochemicals and performance polymers industries saw sharp declines in commodity prices contrasted by expanding markets for high-value-added products. The industrial materials industry enjoyed major gains in both sales and operating income, led by a recovering construction sector, growth in the remodeling industry, and brisk sales of new products. The information and electronic materials industries continued to face stagnant IT and electronics markets, resulting in slumping revenues and losses.

Behind this financial backdrop, LG Chem continued to push ahead with R&D in the battery and other emerging growth businesses as well as numerous capacity expansion projects. The company wrapped up its restructuring around core businesses with the spin off of its dyestuffs and powder coatings operations. In China, the company continued to upgrade its marketing and customer support as expansion projects at key PVC and ABS production bases proceeded on schedule.

From a financial perspective, LG Chem continued to make considerable headway in improving its financial health. The issuance of asset-backed securities, implementation of an advanced accounts receivable collection system, and tight screening of all investment projects helped the company lower its debt-to-equity ratio from 219% at the time of demerger to 186% at year-end.

Corporate Demerger

On 1 April 2001, LG Chem was demerged into three independent firms: LG Chem Investment Ltd., LG Chem, Ltd., and LG Household & Health Care Ltd. The capital structure of each firm was determined in principle by the nature of their operations and financial structure. The following is a detailed description of this process.

- The existing business units were associated with specific production and sales activities. Assets and liabilities that could be clearly identified this way were turned over to the firm assuming those units.
- Outstanding debt was divided on the basis of each firm's future investment plans and cash flow as well as industry averages.
- Total shareholder equity and stock conversion ratios were determined by each firm's ROE, industry averages, and future share price projections.

- Finally, any remaining liabilities and funds were distributed equitably within agreed-upon limits to the debt-to-equity ratio on the date of record.

The demerger has untangled a complicated web of business units, increasing business efficiency and paving the way for each company to become pure-play players in their respective sectors. This also will ensure cash flow is only available to the businesses that generated it for investment and dividend dispersal. Both fair trade regulations and the demerger objectives prohibit investments in areas unrelated to each firm's core business fields.

The demerger has led to large price gains for each of the three demerged firm's shares. The combined market value of the common and preferred shares of the firms rose 62% between 1 April and 31 December 2001, reaching ₩818.3 billion. An analysis of this growth clearly shows that, despite the profitability and soundness of its individual business units, the former business structure was preventing the marketplace from accurately reflecting corporate worth. Once this hidden market leadership and profitability were revealed by the demerger, the market responded by pushing share prices upward. In LG Chem's case, the company's common and preferred shares rose 71.3% and 90.9%, respectively, following the merger.

Corporate Worth in billions of won

	As of 31 Mar 2001	As of 31 Dec 2001				
	LGC	LGCI	LGC	LGHHC	Total	Increase
Common	1,239.7	144.1	1,401.2	451.4	1,996.7	61.06%
Preferred	75.6	13.3	95.3	28.3	136.9	81.05%
Total	1,315.3	157.3	1,496.5	479.7	2,133.6	62.21%

LG Chem Share Prices in won

	As of 31 Mar 2001		As of 31 Dec 2001		
	Share	Market cap	Share	Market cap	Increase
Common	12,700	818.2 bil	21,750	1,401.2 bil	71.26%
Preferred	5,760	49.9 bil	11,000	95.3 bil	90.97%
Total		868.1bil		1,496.5 bil	72.39%

Financial Structure

Liabilities

As of 31 December 2001, total liabilities stood at ₩1,577.4 billion, down a significant ₩304.5 billion from their pre-demerger level. The issuance of asset-backed securities accounted for ₩166 billion of the reduction, with the remaining ₩138.5 billion coming from debt retirement. At the time of demerger, short-term debt accounted for 64.4% of total obligations. By year-end, that ratio had dramatically reversed, dropping to just 34%.

Looking at the debt breakdown, ₩242.2 billion was in corporate paper, ₩1,030 billion in corporate bonds, and ₩77.7 billion in general borrowings for total won currency debt of ₩1,349.9 billion. When the ₩166 billion in asset-backed securities are added, that figure rises to ₩1,533.9 billion. The foreign currency portion of debt, ₩227.4 billion, included ₩84.7 billion in syndicated loans, 51.8 billion in floating rate notes, and ₩90.9 billion in other obligations.

Standing at 219% at the time of demerger, the debt-to-equity ratio fell to 186% by year-end. The company's ongoing revenue generation initiatives, advanced accounts receivable payment collection system, selective investment decision-making, debt retirement, and inventory reductions are expected to lower that figure to around 152% in 2003.

Major Financial Indicators

	1 Apr 2001	31 Dec 2001
Debt to equity ratio	218.9%	185.8%
Net debt to equity ratio	159.4%	124%
Interest coverage ratio	2.5%	2.7%
Return on assets	4.3%	4.6%
Return on equity	13.6%	14%

Debt by Currency in billions of won

	1 Apr 2001	31 Dec 2001	Change
Korean won	1,471.2	1,349.9	(121.3)
Foreign	410.7	227.5	(183.2)
Total	1,881.9	1,577.4	(304.5)

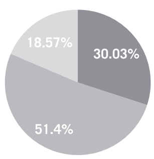
Debt by Maturity in billions of won

	1 Apr 200131	Dec 2001	Change
Long term	669.6 | 35.6%	1,040.7 | 66%	371.1
Short term	1,212.3 | 64.4%	536.7 | 34%	(675.6)

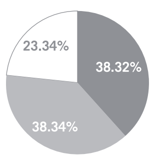
Equity

At the date of demerger, 18.57% of common stock was held by LG Chem Investment and other majority shareholders, 30.03% by foreign shareholders, and 51.4% by Korean individual and institutional investors. At 31 December 2001, LG Chem Investment held 23.34%, foreign shareholders 38.32%, and Korean individual and institutional investors 38.34%. As indicated by these figures, local investors were net sellers during the last three quarters of the year, allowing majority and foreign shareholders to increase their holdings. As required by current Korean fair trade regulations, LG Chem Investment is expected to secure at least 30% of the company's outstanding shares by 31 March 2003 in order to maintain its holding company status.

Ownership Breakdown as of 1 Apr 2001



Ownership Breakdown as of 31 Dec 2001



Foreign Shareholders | Korean Individuals & Institutions | LGCI & Majority Shareholders | LGCI

Funding Strategy

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

- Debt term: The short-term corporate paper portion of debt is between 80% and 90% of net operating capital. Long-term debt maturities are staggered to ensure liquidity.
- Interest: The fixed-rate portion of debt is decided by an analysis of the trade-off relationship between current fixed and floating rates. For won currency debt, about 80% is fixed. For foreign currency debt, between 20% to 40% is held at floating rates.
- Currency: The foreign-denominated portion of debt is set at a level that facilitates both cash flow and natural hedging. For LG Chem, the current level is US$200 million, about 50% of unhedged cash flow.

Cost of Capital in billions of won

	2001 Results	2002 Target	Change
Interest paid	143.6	132.2*	11.4
Interest rate	8.53%	8.15%	(0.38%)

* Includes asset-backed securities financing costs

Debt by Currency in billions of won

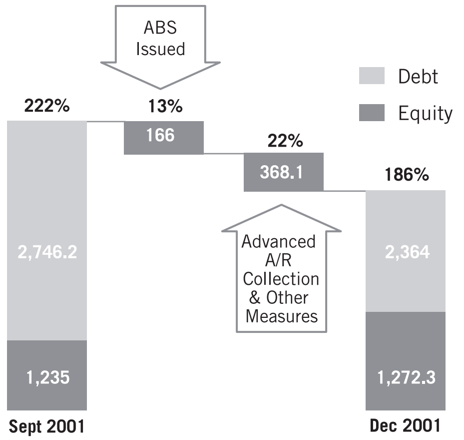
	31 Dec 2001	31 Dec 2002 (Est)	Change
Korean won	1,349.9	1,332.4	(17.5)
Foreign	227.5	241.3	13.9
Total	1,577.4	1,573.7	(3.6)

ABS Issuance

LG Chem began issuing asset-backed securities backed by accounts receivables and leasehold deposits to lower its debt-to-equity ratio as part of ongoing efforts to improve its financial structure. A total of ₩143 billion in receivables-backed securities maturing in May 2005 and carrying an interest rate of 7.1% were issued. An additional ₩23 billion in leasehold securities maturing in February 2005 and carrying a 6.85% interest rate were also issued.

These successful issues allowed the company to retire ₩166 billion in debt, shaving 13 percentage points off its debt-to-equity ratio. The revolving nature of the issuances will also allow the company to maintain this structural improvement for the long term. On a related note, the company's AAA credit rating for the securities issuance also enabled it to secure the funds at lower interest rates than funds raised through normal financing channels.

ABS Impact on Debt-to-Equity



Dividend & Dividend Policy

LG Chem determines the dividend based on net income and the amount of earnings available for distribution. Over the past three years, the company has granted a dividend of 15% of the face value (₩5,000) for common stock and 16% for preferred stock. Backed by a consistent revenue stream and a solid financial structure, the company intends to increase the dividend payout ratio in the future as it continues to focus on enhancing shareholder value.

Dividend Summary in Millions of won, EPS in won

	1999	2000	2001*
Net income	367,728	324,821	132,459
Net EPS	3,906	3,385	1,949
Earnings avail. for distrib.	81,841	78,842	55,245
Total dividends	81,834	78,834	55,235
Dividends to net income	22.25%	24.27%	41.70%
Dividend payout, common	15%	15%	15%
Dividend payout, preferred	16%	16%	16%
Dividend yield ratio	2.09%	6.61%	3.45%

* Year 2001 figures do not include Q1 income. Dividend payout is based on percentage of face value

Globalization

LG Chem is actively pursuing business opportunities in global markets as it works toward its vision of being a global chemical industry leader. The company continues to establish production, R&D, and marketing subsidiaries in key international markets as it builds its global network. As of the end of 2001, this network consisted of seven manufacturing affiliates, two marketing subsidiaries, one R&D center, five invested companies, and 10 offices covering Asia, Europe, and North America. Combined exports and sales by the network reached ₩1.5 trillion during the year, representing 31% of total sales.

- Overseas Manufacturing Affiliates
- Overseas Marketing Affiliates
- Overseas Branches

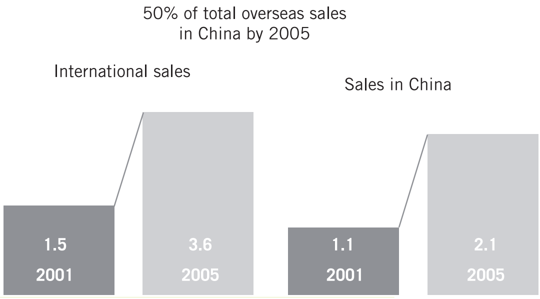
As LG Chem's financially successful PVC and ABS manufacturing operations in China indicate, that market has become the major focus of the company's globalization strategy. In addition to ongoing capacity expansion projects of those commodity resins, the company is also accelerating its entry into the Chinese market with high-value-added products like high-gloss sheet.

This commitment to globalization is also a critical component of LG Chem's 2005 sales goal of ₩8 trillion. Of this total, about 45% is expected to be generated outside of Korea, with over half coming from company operations in China. The strategic direction in that market will first focus on securing a competitive edge in major product categories by dramatically expanding local production capacity at existing facilities. More specifically, the company will expand PVC capacity from 240,000 mtpa to 640,000 mtpa through 2005 and ABS capacity from 150,000 mtpa to 500,000 mtpa during the same period.

LG Chem will continue to introduce top-tier products to the Chinese market. The company will be expanding its high-gloss sheet production capacity as well as launching its Hi-Macs acrylic solid surface, LCD polarizer film, and phosphor product lines. At the same time, the company will also focus on beefing up its local business and technical support organization as it focuses on hiring and training key personnel.

The company will also be diversifying into new markets in 2002, setting up marketing subsidiaries to handle industrial materials sales in Europe and North America. Cooperation with U.S.-based Compact Power Inc. on lithium-ion polymer battery technology for electric vehicles will continue to accelerate. The company is also planning to build an ethylene dichloride (EDC) production joint venture subsidiary in Queensland, Australia. These are just a few of the projects the company is now working on that will play a key role in its emergence as a global player in chemicals.

China Business Prospects



In trillions of won. Includes sales of overseas subsidiaries and exports

Risk Management

Today's companies face rapidly changing business environments both internally and externally, gradually increasing the uncertainty they have to deal with. The goal of risk management is to reduce and control the degree of uncertainty so businesses can have more confidence in their planning to deliver maximum profitability and shareholder value.

Companies recognize that appropriate risk management is critical to corporate stability. Risk always represents two sides: the possibility of loss and the opportunity for gain. LG Chem believes that risk should always be met head-on and managed. When it decides that a risk is worth taking, the company fully accepts it and works 100% to maximize the gains.

At LG Chem, risk management is performed by teams reporting to the CFO. The company has defined its major risk areas as investment and strategy, financial, and legal. These areas are further subdivided by risk factors, with each factor being handled by a separate team that monitors risk using proprietary analysis methods. When a risk exceeds a predetermined threshold and is deemed to be a serious threat to company operations, the situation is referred to the Risk Management Committee. The committee then formulates and executes a plan to deal with the risk.

Financial Risk Management

In the course of its operations, LG Chem is exposed to both liquidity risk and the market risks of fluctuating foreign exchange and interest rates. The company's financial risk management team is charge of addressing both types of financial risk.

Foreign Exchange Risk

In 2001, LG Chem's international sales generated a foreign exchange cash flow of US$12.4 billion. This figure was greatly offset by US$10.6 billion in foreign currency loans and import settlements, leaving a surplus of US$1.8 billion. This prompted the company to actively hedge through futures trading to protect this operating profit and maintain a stable cash flow.

Late in the year when indicators were pointing to a spike in exchange rates, the possibility of a major currency valuation loss on foreign debt carried on the balance sheet for cash-flow hedging loomed. The company took the unusual step of turning to currency futures to hedge the risk on US$1.46 billion of the surplus. As a result, it was able to turn a profit-damaging valuation loss on its foreign currency debt into a ₩5 billion exchange gain.

While the foreign exchange outlook for 2002 forecasts continued weakness for the Japanese yen, intervention by Korean policymakers to prevent the won from excessively strengthening, and other factors that could lead to rising exchange rates, a continuing current account surplus, expectations of economic recovery, and steady inbound foreign investment, the company believes that the exchange rate will stay relatively stable in the second half of the year. In line with the analysis of major research organizations, the company expects the exchange rate to hover around ₩1,250 to the dollar at year-end.

Interest Risk

LG Chem strives to maintain an appropriate balance between floating and fixed interest rates as it works to dampen the impact of market fluctuations. As part of these efforts, the company increased the floating-rate debt ratio in 2001 by issuing ₩50 billion worth of private-placement bonds locked to the CD floating rate.

In 2002, interests rates are expected to rise in the second half of the year as price pressure builds on expectations for economic recovery, rising stock prices, government economic support policies, the FIFA World Cup, and local and presidential elections. The company expects average annual interest rates to closely track the three-year government bond rate of 6.5%.

Liquidity Risk

LG Chem works to spread out debt maturity dates to prevent a common cause of liquidity risk. In 2001, ₩90 billion worth of three-year bonds matured and was rescheduled. The amount of debt maturing in 2002 will be more evenly spaced out, and the company has made preparations to ensure liquidity pressure from the repayments will be minimal.

Capital Expenditures

LG Chem is heavily investing in production facilities for products in its core strategic fields. In 2001, the company invested ₩273.1 billion to build or add capacity for lithium-ion polymer batteries, plasma display phosphors, and transparent ABS. In 2002, it plans to invest ₩391.3 billion, including ₩69.5 billion in the information and electronic materials fields to add capacity for lithium-ion and lithium-ion polymer batteries, and LCD polarizer film, ₩90.5 billion in the industrial materials fields to add Hi-Macs acrylic solid surface capacity, and ₩127.4 billion in the petrochemicals and performance polymers fields to build capacity for chemicals used in LCD fabrication and other advanced products.

Restructuring

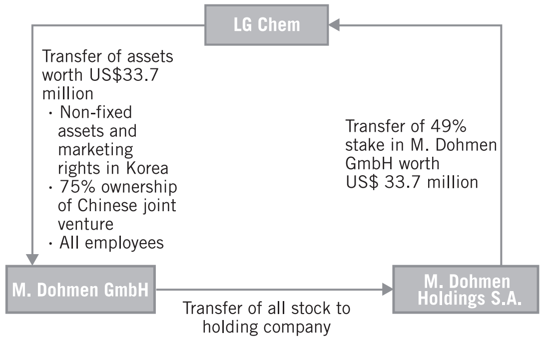
Over the past few years, LG Chem's select-and-focus strategy has enabled the company to sell or spin off a number of non-core businesses. In 2001, the company spun off its powder coatings and dyestuffs businesses into strategic joint ventures.

In May, the company transferred its powder coatings operations and a 5,000 tpa production facility in Onsan to U.S.-based Ferro Corporation, creating LG Ferro Powder Coatings Ltd. The company received a 29.9% stake in the new venture and ₩8.5 billion won cash, which was immediately invested in its strategic information and electronic materials businesses. Entering the powder coatings business in 1994, the company made the decision based on the major commitment of resources needed to keep up with technology and the specialized, short-run nature of coating production. Also during May, the company formed a strategic alliance with German-based dyestuffs distributor M. Dohmen GmbH to create M. Dohmen Korea Ltd., the world's No. 5 dyestuffs maker. The company transferred its 75% stake in the 3,000 tpa dyestuffs joint venture in China—Tianjin LG Specialty Co., Ltd.—and non-fixed assets of its Onsan dyestuffs operations valued at a total of US$33.7 million to M. Dohmen Holdings S.A. in exchange for a 49% stake in M. Dohmen GmbH. The company will also receive a set rental fee for the use of the fixed assets of its 8,000 tpa Onsan plant. The venture is expected to prosper with access to M. Dohmen's advanced application technology and global marketing network.

In 2002, LG Chem will continue to evaluate its business portfolio, exiting non-core businesses and fields with limited growth potential as it continues to aggressively invest in the fields of the future. The company defines non-core businesses as areas where it's uncertain whether or not core competencies can be secured, areas where environmental factors have created structural weakness, and areas with little possibility for synergy with mainstream businesses. Similarly, limited-growth businesses are defined as structurally weak areas suffering from chronic losses or shrinking sales growth.

Prior to the demerger on 1 April, the company had completed restructuring in 16 fields previously identified for streamlining or spin off, generating over ₩250 billion in cash. These areas included EMC and five other poor-performing businesses, carbon black and four other non-strategic fields, and PMMA and four other fields targeted for restructuring.

Structuring of Dyestuffs Business Spin-Off



2002 Outlook

In 2002, LG Chem expects sales to grow 6%, generating revenues of ₩5,034.1 billion and an operating profit of ₩415 billion as the global economy begins a gradual across-the-board recovery. In particular, the petrochemicals, IT, and construction sectors are expected to rapidly recover, improving both sales and profitability in these fields.

From a profitability perspective, strong sales of high-performance, high-value-added products and improving cost competitiveness will help year-on-year operating profit grow 11%. With its Information & Electronic Materials unit expected to turn a profit in 2002, the company also stands to do significantly better than the above projections if global petrochemicals markets recover more quickly than expected.

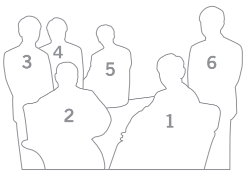
Milestone

Jan 1947	Established as Lucky Chemical Industrial Corporation
Nov 1951	Produced Korea's first injection-molded products
Oct 1954	Commissioned Yeonji injection-molding plant
Jul 1961	Launched vinyl flooring production
Jan 1966	Renamed Lucky Chemical Industries Co., Ltd.
Mar 1966	Launched PVC pipe production
Oct 1969	Listed on Korea Stock Exchange
Jan 1974	Renamed Lucky Ltd.
Sep 1976	Launched PVC window profile production
Nov 1976	Commissioned Yeocheon PVC resin plant
Oct 1978	Commissioned Ulsan FRP plant
Nov 1978	Commissioned Yeocheon ABS resin plant
Dec 1979	Opened Lucky Central R&D Center in Daejeon, Korea
Aug 1980	Commissioned Onsan dyestuffs plant
Jan 1983	Commissioned Cheongju window profile plant
Apr 1984	Commissioned Yeocheon SAN plant
Jun 1985	Commissioned Cheongju injection-molding plant
Jun 1986	Developed epoxy molding compound
May 1987	Commissioned Naju acrylate plant
Apr 1988	Commissioned Yeocheon PBT plant
May 1988	Commissioned Yeocheon EPS plant
Mar 1989	Established Korea's first polymer application technology center
Feb 1990	Commissioned Yeocheon epoxy plant with Dow Chemical
Dec 1990	Established LG MMA with Sumitomo Chemical and Nippon Shokubai
Mar 1991	Commissioned P.T. Sinar LG Plastics Industry PVC plant in Barat, Indonesia
Apr 1991	Commissioned Onsan phosphor plant
Oct 1992	Commissioned Yeocheon PA plant
Apr 1993	Developed world's first HCFC-resistant resin
Jul 1993	Commissioned IPA plant in Yeocheon, Korea
Oct 1994	Commissioned 1st phase of LG Chem Research Park in Daejeon, Korea
Jan 1995	Renamed LG Chemical Ltd.
May 1997	Commissioned acrylate, EDC/CA, and VCM II plants in Yeocheon, Korea
Aug 1997	Established LG Polymers India with the acquisition of Hindustan Polymer
Nov 1997	Commissioned LG Vina Chemical plasticizer plant in Vietnam
	Named one of Asia's best-managed companies by *Asiamoney*

May 1998	Commissioned Tianjin LG Dagu Chemical PVC plant in China
	Commissioned Tianjin LG New Building Materials flooring plant in China
	Commissioned Ningbo LG-Yongxing Chemical ABS plant in China
Aug 1998	Developed advanced metallocene catalyst for PE production
Nov 1998	Established LG-Dow Polycarbonate
Feb 1999	Launched 2 million global depository receipt issue
Aug 1999	Commissioned LG-Dow Polycarbonate plant in Yeocheon, Korea
Mar 1999	Commissioned lithium-ion battery, phosphor, and copper-clad laminate plants in Cheongju, Korea
	Commercialized color filter photoresist
Jul 2000	Developed phosphors for plasma displays
Oct 2000	Developed overcoat photoresist for TFT-LCD panels
	Commissioned color filter photoresist plant in Cheongju, Korea
	Commissioned Ningbo LG-Yongxing Chemical ABS plant expansion in China
Nov 2000	Acquired Hyundai Petrochemical's PVC business
Feb 2001	Acquired KOSHA 2000 health and safety certification for Ulsan complex
Mar 2001	Participated in founding of Compact Power Inc. (U.S.A.), a joint venture lithium-ion polymer battery developer
	Commissioned transparent ABS plant in Yeocheon, Korea
Apr 2001	Demerged into three separate companies: LG Chem, LG Chem Investment, and LG Household & Health Care
	Acquired OHSAS 18001 health and safety certification for Ulsan plant
May 2001	Marked 10th operational anniversary of Iksan ABS compound plant
	Formed strategic alliance with M. Dohmen (Germany) to create world's 5th largest dyestuffs producer
	Won IR52 Jang Young-Shil Award for plasma display panel phosphor technology
	Spun off powder coatings business into joint venture with Ferro Corporation (U.S.A.)
Jun 2001	Developed Korea's first thermal conductive plastic
Aug 2001	Won IR52 Jang Young-Shil Award for TFT-LCD color photoresist technology
	Commissioned LG-Dow Polycarbonate plant in Yeosu, Korea
Oct 2001	Commissioned LG Dagu Chemical PVC plant expansion in Tianjin, China
Nov 2001	Won grand prize in Korea Management Association Consultants TPM competition with Ulsan plant
	Signed MOU to build joint venture EDC plant in Queensland, Australia
Dec 2001	Global depositary receipts relisted on London Stock Exchange



Board of Directors



1 Ki-Ho No
CEO of LG Chem

2 Kuk-Hwan Chun
Former Head of
Industrial Products
Division of 3M Korea

3 Han-Yong Cho
Executive Vice President
CFO of LG Chem

4 Jong-Hyun Jang
President of Booz Allen &
Hamilton Korea

5 Yu-Sig Kang
Vice Chairman
LG Executive Office for
Corporate Restructuring

6 Kyung-Hee Yoo
International Lawyer

Executives

Ki-Ho No
President & CEO

Jong-Kee Yeo
President & CTO
President of LG Chem
Reaserch Park

Han-Yong Cho
Executive Vice President
CFO

Yoon-Ki Bae
Executive Vice President
Chief of Industrial Materials
Business Unit

Jong-Pal Kim
Executive Vice President
Chief of Information &
Electronic Materials
Business Unit

Churl-Ho Yoo
Executive Vice President
Chief of Petrochemicals
Business Unit

Sung-Dam Lim
Executive Vice President
Chief of Performance
Polymers Business Unit

FINANCIAL STATEMENTS

Report of Independent Accountants

> **To the Shareholders and Board of Directors of LG CHEM, LTD.**

We have audited the accompanying balance sheet of LG Chem, Ltd. ("the Company") as of December 31, 2001, and the related statement of income for the nine-month period from April 1, 2001(date of spin-off) to December 31, 2001, appropriation of retained earning and cash flows for the period 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, the appropriation of its retained earning and its cash flows for the period then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Notes 1 and 22 to the financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed a registration process on April 3, 2001. Transactions incurred after the spin off are recorded by the Company. The Company took over the business of petrochemicals, performance polymers, industrial and building materials and information and electronic materials from LG Chem Investment Ltd. The Company's paid-in capital, including preferred stock was ₩365,432 million as of April 1, 2001. The Company filed with the Korea Stock Exchange for stock listing on April 16, 2001 and was listed on the Korean Stock Exchange on April 25, 2001.

As discussed in Note 18 to the financial statements, the Company sells its products to and purchases certain materials from related companies, including LG Petrochemical Co., Ltd. For the nine-month period ended December 31, 2001, total sales to and purchases from related companies are ₩492,498 million and ₩782,450 million, respectively. Related accounts receivable and payable are ₩65,825 million and ₩133,529 million, respectively, as of December 31, 2001, As discussed in Note 21 to the financial statements, on May 31, 2001, the Company disposed of its powder segment to LG Ferro Powder Coatings Ltd., of which the Company owns 29.90% and realized a gain on the disposal of the segment amounting to ₩1,313 million. Furthermore, on August 31, 2001, the Company invested ₩43,203 million (US$ 33,700 thousand) for 49.00% ownership of M. Dohmen GmbH and disposed of its dyestuff assets and shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated Company of M. Dohmen GmbH and realized a gain on the disposal of the segment amounting to ₩9,788 million.

Without qualifying our opinion, we draw attention to Note 11 of the financial statements which states that the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea future and in the Asia Pacific region. The ultimate effect of these uncertainties of the financial position of the Company as of the balance sheet date cannot presently be determined.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the readers and have been translated on the basis set forth in Note 3 to the financial statements.

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

Samil Accounting Corporation

Seoul, Korea
February 1, 2002

Balance Sheets

December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
ASSETS		
Current assets:		
Cash and cash equivalents	₩ 89,977	$ 67,851
Short-term financial instruments	4,880	3,680
Trade accounts and notes receivable, net (Notes 5, 12 and 18)	280,802	211,750
Other accounts receivable, net (Note 5)	28,857	21,761
Inventories (Note 6)	253,842	191,420
Accrued income	802	605
Advance payments	3,062	2,309
Prepaid expenses	11,118	8,384
Other current assets	641	483
Total current assets	673,981	508,243
Property, plant and equipment, net (Note 7)	2,356,414	1,776,950
Investment securities (Note 8)	448,394	338,130
Other investments	40,146	30,274
Long-term financial instruments (Note 4)	307	231
Long-term prepaid expenses	22,310	16,824
Long-term trade accounts and notes receivable, net (Note 5)	2,364	1,783
Long-term guarantee deposits (Note 12)	14,702	11,087
Intangible assets (Note 2)	77,708	58,599
Total assets	₩ 3,636,326	$ 2,742,121

Continued;

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

Balance Sheets

December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 9)	₩ 299,082	$ 225,535
Current maturities of long-term debt, net (Note 9)	237,803	179,325
Trade accounts and notes payable (Note 18)	305,499	230,374
Other account payable	234,082	176,519
Accrued expenses	94,789	71,480
Income taxes payable	24,201	18,250
Dividend Payable (Note 17)	55,236	41,652
Other current liabilities	22,549	17,005
Total current liabilities	1,273,241	960,140
Long-term debt, net (Note 10)	1,030,081	776,774
Accrued severance benefits, net	47,809	36,053
Deferred income tax liabilities (Note 15)	5,781	4,359
Other long-term liabilities	7,126	5,374
Total long-term liabilities	1,090,797	822,560
Total liabilities	₩ 2,364,038	$ 1,782,700
Commitments and contingencies (Note 11)		
Shareholders' equity (Note 1):		
Capital stock, ₩5,000 par value; authorized 292,000,000 shares		
Common stock, issued:64,425,064 shares	₩ 322,126	$ 242,912
Preferred stock, issued:8,661,251 shares	43,306	32,657
	365,432	275,569

Continued;

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

Balance Sheets

December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
Capital surplus (Note 13):		
Paid-in capital in excess of par value	532,002	401,178
Asset revaluation surplus	206,770	155,923
	738,772	557,101
Retained earnings (Note 13):		
Legal reserve	5,523	4,165
Other reserve	71,690	54,061
Unappropriated retained earnings	10	8
(Net income ₩132,459 million for the nine-month period ended December 31, 2001)	77,223	58,234
Capital adjustment :		
Treasury stock (Note 14)	(178)	(135)
Gain on valuation of investment securities (Note 8)	91,039	68,652
	90,861	68,517
Total shareholders' equity	1,272,288	959,421
Total liabilities and shareholders' equity	₩ 3,636,326	$ 2,742,121

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

Income Statement

for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
Sales (Notes 18 and 19) :		
Domestic	₩ 2,108,285	$ 1,589,839
Export	1,507,651	1,136,906
	3,615,936	2,726,745
Cost of sales (Note 18)	2,925,222	2,205,883
Gross profit	690,714	520,862
Selling expenses	305,028	230,019
Administrative expenses	116,598	87,926
Operating income (Note 20)	269,088	202,917
Non-operating income (expenses)		
Interest expenses, net	(95,028)	(71,660)
Foreign exchange gain, net	3,544	2,672
Gain on foreign currency translation, net	2,874	2,168
Loss on disposal of investment, net	(9,015)	(6,798)
Gain on valuation of investments using the equity method of accounting (Note 8)	16,116	12,153
Loss on disposal of property, plant and equipment, net	(5,815)	(4,385)
Others, net	8,123	6,125
	(79,201)	(59,725)
Income before income taxes	189,887	143,192
Income taxes (Note 15)	57,428	43,306
Net income	₩ 132,459	$ 99,886
Basic and diluted ordinary income per share (Note 16) (In Won and U.S. Dollars)	₩ 1,949	$ 1.47
Basic and diluted earnings per share (Note 16) (In Won and U.S. Dollars)	₩ 1,949	$ 1.47

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

Statement of Appropriation of Retained Earnings

for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
Date of appropriations : March 8, 2002		
Net income	₩ 132,459	$ 99,886
Appropriations :		
Transfer to legal reserve	5,523	4,165
Transfer to other reserve	71,690	54,061
Cash dividends (Note 17)		
(common stock : 15%		
preferred stock : 16%)	55,236	41,652
	132,449	99,878
Unappropriated retained earnings		
carried over to subsequent year	₩ 10	$ 8

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

Statement of Cash Flows

for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
Cash flows from operating activities :		
Net income	₩ 132,459	$ 99,886
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	184,060	138,826
Provision for doubtful accounts	17,054	12,832
Provision for severance benefits	35,185	26,533
Gain on foreign currency translation, net	(2,846)	(2,146)
Amortization of discounts	12,455	9,392
Loss on disposal of trade receivables	2,292	1,729
Loss on disposal of property, plant and equipment, net	5,815	4,385
Loss on disposal of investment, net	9,015	6,798
Gain on valuation of investment under the equity method of accounting	(16,116)	(12,153)
Changes in :		
Trade accounts and notes receivable	132,738	100,097
Other accounts receivable	(9,689)	(7,306)
Accrued income	14,018	10,571
Inventories	73,353	55,315
Advance payments	1,362	1,027
Prepaid expenses	1,728	1,303
Other current assets	1,415	1,067
Trade accounts and notes payable	9,794	7,386
Other accounts payable	2,080	1,568
Accrued expenses	5,622	4,240
Income taxes payable	24,202	18,250
Other current liabilities	(10,033)	(7,566)
Others	17,702	13,349
Payment of accrued severance benefits	(28,593)	(21,562)
Net cash provided by operating activities	₩ 615,072	$ 463,821

Continued;

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

Statement of Cash Flows

for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	Millions of Korean Won	Thousands of U. S. Dollars (Note 3)
Cash flows from investing activities :		
Decrease in long-term financial instrument	₩ 39,735	$ 29,963
Increase in other investments, net	(3,578)	(2,698)
Decrease in long-term guarantee deposits, net	7,300	5,505
Disposal of property, plant and equipment	9,226	6,957
Dividends income	8,999	6,786
Increase in short-term financial instrument	(4,383)	(3,305)
Acquisition of investment securities, net	(56,941)	(42,939)
Acquisition of property, plant and equipment	(207,769)	(156,676)
Increase in intangible assets	(30,377)	(22,907)
Others	(318)	(239)
Net cash used in investing activities	(238,106)	(179,553)
Cash flows from financing activities :		
Decrease (increase) in short-term borrowings, net	(861,411)	(649,582)
Increase in long-term debt	547,775	413,072
Acquisition of treasury stock	(178)	(135)
Others	615	464
Net cash used in financing activities	(313,199)	(236,181)
Net increase in cash and cash equivalents	63,767	48,087
Cash and cash equivalents at April, 1, 2001 (date of spin-off)	26,210	19,765
Cash and cash equivalents at end of the period (Note 19)	₩ 89,977	$ 67,851

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

Notes to Financial Statements

December 31, 2001

Note 1
The Company:

As discussed in Note 22 to the financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed a 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, 2001, the Company has outstanding capital stock of ₩365,432 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, 2001, 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.

Note 2
Summary of Significant Accounting Policies:

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

Basis of Financial Statement Presentation –

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the 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 financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Some information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operation or cash flows, is not presented in the accompanying financial statements.

The financial statements represent financial position as of December 31, 2001 and results of its operations for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001 and appropriation of its retained earning and cash flows for the period then ended.

Use of Estimates –

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Spin off –

Upon a resolution of the stockholders of LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on December 28, 2000, the Company was spun off from LG Chem Investment Ltd. on April 1, 2001. The significant accounting policies followed by the Company in the spin off are as follows:

- Assets and liabilities are transferred using book value.
- Asset revaluation surplus and gain on valuation of investment securities, which are directly related to assets or liabilities transferred to the Company, are also transferred to the Company.
- The difference between the Company's net assets transferred from LG Chem Investment Ltd. and capital, after adjustment of capital surplus and capital adjustments, is credited to paid-in capital in excess of par value.
- Adjustments resulted from transactions prior to spin-off are settled using cash transaction.

Allowance for Doubtful Accounts –

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

Asset-backed Securities –

In accordance with Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade receivables and ₩30,369 million of rental deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively (See Note 12). The company recognized interests and issuance expenses amounting ₩2,028 million and ₩5,604 million as losses on disposition of trade receivable and losses on disposition of investments, respectively, in 2001.

Investments –

All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by each type of securities.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Companies, proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company directly exerts significant influence on the investees' decision making through representation on the board of directors, share of managerial personnel, or material intercompany transactions or holds over 20% of total outstanding common shares of investees directly or indirectly (controlled investees) are recorded using the equity method of accounting.

Differences Between the Purchase Price and the Net Book Value of Investments –

Difference between the purchase price and the company's proportionate ownership of the net book value of the invested companies are amortized over 10 years using the straight-line method.

Elimination of Intercompany Unrealized income –

Unrealized income included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized income arising from sales by the Company to equity method companies is fully eliminated. Unrealized income arising from sales by equity method companies to the Company is charged to the equity of the Company to the extent of the Company's pro rate ownership.

Translation of Foreign Currency Financial Statements –

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity method companies have been translated at exchange rates as of the balance sheet date for the balance sheets and the current year's average exchange rate for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in the capital adjustments.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in 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.

Declines in fair value of Investments which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes.

Inventories –

Inventories are stated at the lower of cost or market value, cost being determined by the weighted average method except for materials in-transit for which cost is determined by the specific identification method.

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 estimated useful lives of the assets as described below.

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

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. For the nine-month period ended December 31, 2001, capitalized interest expense amounts to ₩12,822 million.

Maintenance and Repairs –

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.

Intangible Assets –

Intangible assets at December 31, 2001 are as follows (Millions of Won) :

		Amounts
Intellectual proprietary rights	₩	14,105
Exclusive facility use rights		427
Development costs		61,729
Others		1,447
	₩	77,708

Intellectual proprietary 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.
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 period that they are first identified. For the nine-month period ended December 31, 2001, the Company capitalized ₩25,231 million of development costs as intangible assets and recorded ₩27,962 million of development costs as current expenses.

The details of changes in development costs are as follows (Millions of Won) :

		Amounts
April 1, 2001	₩	41,233
Increase		25,231
Amortization		4,735
December 31, 2001	₩	61,729

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 currently.
Monetary assets and liabilities denominated in foreign currency, excluding items referred to in Notes 9 and 10, at December 31, 2001 comprise the following :

	Foreign Currency (In Thousands)		Millions of Won	
Cash and cash equivalents	US$	1,367	₩	1.812
Trade accounts and notes receivable	US$	38,288		51,724
	DM	61		
	EU	384		
Other investments	US$	9,683		12.840
Trade accounts and notes Payable	US$	29,372		54,788
	DM	108		
	EU	182		
	NK	122		
	SF	5		
	¥	1,108,138		
Other accounts payabl	¥	4,241,130		42,810
Accrued expenses	US$	4,406		5,843

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.

Accrued Severance Benefits –

As discussed in Note 22 to the financial statements, LG Chem Investment Ltd. transferred its employees and the related accrued severance benefit for them to the Company on April 1, 2001. Employees and directors with one year or more of employment with the Company and LG Chem Investment Ltd. are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

Accrued severance benefits are funded approximately 66.8% of December 31, 2001, through a severance insurance plan. The Company accounts for the amounts funded under the plan as a deduction item to accrued severance benefits.

In accordance with the National Pension Act, accrued severance benefits were deposited with the National Pension Fund and deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees and directors on their retirement.

Asset Impairment Loss –

If the expected recoverable amounts of certain assets, except for marketable securities, accounts receivable, inventories, investments in equity securities and investments in debt securities, are less than the book value of those assets due to obsolescence, physical damage or sudden decline in market value, the impaired amount is accounted for as loss on impairment of assets in the period identified.

Income Tax Expenses –

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 comprises corporate income tax and tax surcharges payable for the nine-moth period from April 1, 2001 (date of spin-off) to December 31, 2001. 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.

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 as a component of current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows, which are a capital adjustment. The Company recognized ₩3,450 million of gain on hedging transaction in 2001.

Note 3
United States Dollar Amounts:

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the readers. Won amounts are expressed in U.S. Dollars at the rate of ₩1,326.1 : US$1.00, the rate in effect on December 31, 2001. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

Note 4
Restricted Bank Deposits:

At December 31, 2001, long-term financial instruments of ₩44 million are deposited in connection with short-term borrowings. The withdrawal of these deposits is restricted (see Note 9).

Note 5
Receivables:

Receivables and allowances for doubtful accounts at December 31, 2001 comprise the following (Millions of Won):

	Trade Accounts and Notes Receivable	Other Accounts Receivable	Long-term Trade Accounts and Notes Receivable	Total
Balance as of December 31, 2001	₩ 304,808	₩ 30,315	₩ 3,491	₩ 338,614
Less : Allowance for doubtful accounts	(23,343)	(1,458)	-	(24,801)
Present value adjustment	(663)	-	(1,127)	(1,790)
	₩ 280,802	₩ 28,857	₩ 2,364	₩ 312,023

Note 6
Inventories:

Inventories at December 31, 2001 comprise the following (Millions of Won) :

	Amounts
Finished products	₩ 122,736
Work-in-process	67,659
Raw materials and supplies	46,043
Materials in-transit	17,404
	₩ 253,842

At December 31, 2001, inventories are insured against fire and other casualty losses up to ₩299,954 million.

Note 7
Property, Plant and Equipment:

Property, plant and equipment at December 31, 2001 comprise the following (Millions of Won) :

	Amounts
Buildings	₩ 553,650
Structures	229,286
Machinery and equipment	2,526,755
Vehicles	19,597
Tools and furniture	383,184
	3,712,472
Accumulated depreciation	(2,018,856)
	1,693,617
Land	349,147
Construction in-progress	260,121
Machinery in-transit	53,529
	₩ 2,356,414

At December 31, 2001, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩6,865,268 million. In addition, at December 31, 2001, the Company has business interruption insurance policies. The Company's certain property, plant and equipment at December 31, 2001 have been pledged as collateral for certain bank loans, up to a maximum of ₩387,155 million.
As of December 31, 2001, fair value of land as assessed by the Korean Government was ₩420,880 million.

Note 8
Investments:

Investment securities at December 31, 2001 comprise the following (Millions of Won) :

	Reference	Amounts
Bonds	(1)	₩ 32,076
Stocks	(2)	416,138
		₩ 448,394

(1) Bonds at December 31, 2001 comprise the following (Millions of Won) :

	Annual Interest Rate(%)	Acquisition Cost	Book Value
Government bonds	3.0 ~ 6.0	₩ 428	₩ 428
Beneficiary certificates*	-	29,883	29,883
Subordinate note*	11.0	1,765	1,765
		₩ 32,076	₩ 32,076

* The Company acquired beneficiary certificates and subordinate note through the asset-backed securitization of trade receivables and rental deposit, respectively (see Note 12). In case of beneficiary certificates, amounts are changed every month in accordance with difference between collection and transfer of trade receivables.

(2) Stocks at December 31, 2001 comprise the following (Millions of Won)

	Ownership Percentage (%)	Acquisition Cost	Book Value	Fair Value or Net Asset Value ***
Listed Stocks				
LG Securities Co., Ltd*	4.30	121,286	78,458	78,458
		121,286	78,458	78,458
Unlisted Stocks				
Wuxi LG Chemical Co., Ltd.**	25.00	275	275	77
N&L Mable	10.00	169	169	134
HASIU	12.10	576	576	511
TECWIN	19.90	139	139	262
CRP	1.40	784	784	419
Kemizen. Com Ltd.	2.62	300	300	165
LG Mozel Ltd.	9.75	195	195	195
EIC	9.20	2,298	2,298	2,440
CPI**	61.00	3,732	3,732	958
		8,468	8,468	5,161

Continued;

	Ownership Percentage (%)	Acquisition Cost	Book Value	Fair Value or Net Asset Value ***
Investments Using the Equity Method				
LG Sports Ltd.	20.00	1,200	1,001	988
LG Petrochemical Co., Ltd.	26.02	58,800	126,597	127,154
Tianjin LG Dagu Chemical Co., Ltd.	75.00	17,498	37,728	37,698
Tianjin LG New Building Materials Co., Ltd.	90.37	12,399	8,632	8,512
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	46,507	67,998	68,023
LG India Holdings., Ltd.	100.00	31,467	37,203	37,203
LG Chemical Hong Kong Ltd.	100.00	254	4,248	4,152
LG Vina Chemical Co., Ltd.	40.00	1,194	362	362
LG Chemical America Inc.	100.00	9,596	-	-
P.T. Sinar LG Plastics Ind.	95.00	4,779	-	-
LG FERRO Powder Coatings Ltd.	29.90	2,329	2,420	2,390
M. Dohmen GmbH	49.00	43,204	43,204	11,349
		229,227	329,392	297,831
		₩ 358,981	₩ 416,318	₩ 381,450

* In accordance with financial accounting standards generally accepted in the Republic of Korea (Interpretation 2000-21), the Company valued the investment at its fair value although the investments had previously been valued using the equity method of accounting.

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

*** Net asset values were calculated based on recent available financial statements of the investees.

As of December 31, 2001, the investment securities valued using the equity method are as follows (Millions of Won) :

	As of April 1, 2001	Changes for the nine-month period ended December 31, 2001				As of December 31, 2001
		Acquisition (disposal)	Dividends	Valuation Gain (Loss)*	Increase (Decrease) in Capital Adjustment	
LG Sports Ltd.	₩ 1,387	₩ -	₩ -	₩ (386)	₩ -	₩ 1,001
LG Petrochemical Co., Ltd.	114,250	-	-	11,818	529	126,597
Tianjin LG Specialty Chemical Co., Ltd.	5,541	(5,541)	-	-	-	-
Tianjin LG Dagu Chemical Co., Ltd.	34,340	-	-	1,513	1,87	37,728
Tianjin LG New Building Materials Co., Ltd.	9,164	-	-	(982)	450	8,632
Ningbo LG Yongxing Chemical Co., Ltd.	56,494	4,891	(8,999)	14,359	1,253	67,998
LG India Holdings., Ltd.	40,177	-	-	(3,333)	359	37,203
LG Chemical Hong Kong Ltd.	3,057	-	-	1,005	186	4,248
LG Vina Chemical Co., Ltd.	290	-	-	54	18	362
LG Chemical America Inc.	9,272	-	-	(8,017)	(1,255)	-
P.T. Sinar LG Plastics Ind.	-	6	-	(6)	-	-
LG FERRO Powder Coatings Ltd.	-	2,329	-	91	-	2,420
M. Dohmen GmbH	-	43,204	-	-	-	43,204
	₩ 273,972	₩44,889	₩ (8,999)	₩ 16,116	₩ (3,415)	₩329,392

* Gain on valuation of investments using the equity method of accounting is summarized as follows (Million of Won) :

		Amounts
Proportionate net income of investees	₩	14,944
Amortization or reversal of equity method adjustment debit or credit		(928)
Elimination or realization of unrealized gains or losses from inter-company transactions, net		2,100
	₩	16,116

At December 31, 2001 ₩1,230 million of unrealized gains incurred from inventories were eliminated.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, along with changes in such amounts for the nine-month period ended December 31, 2001, are as follows (Millions of Won) :

	Equity Method Adjustment			
		Debit		Credit
April 1, 2001	₩	317	₩	381
Increase		1,271		-
Amortization (Reversal)		1,309		381
December 31, 2001	₩	279	₩	-

Changes of gain on valuation of investment securities accounted as capital adjustment for the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

		Gain		Loss		Net
April 1, 2001	₩	74,476	₩	6,454	₩	68,022
Decrease		4,186		(6,454)		(2,268)
Increase		20,749		-		20,749
December 31, 2001	₩	91,039	₩	-	₩	91,039

Note 9
Short-term Borrowings:

Short-term borrowings at December 31, 2001 comprise the following:

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)
Short-term borrowings :			
Overdrafts	-	₩	194
General term loans	5.8 - 6.8		56,000
Notes discounted at short-term financing companies	4.5 - 7.7		242,200
Usance	0.8 - 2.7		688
		US$	460
		¥	7,727
			299,082
Current maturities of long-term debt (see Note 10) :			
Debentures	Libor+0.5~10.9		91,718
Won currency loans	3.0 ~ 12.0		11,771
Foreign currency loans	Libor+0.4 ~ 1.7		134,365
			237,854
		US$	92,321
		EU	292
		¥	1,115,210
		SF	428
Less : Discount on debentures issued			(51)
			237,803
		₩	536,885

See Notes 4, 7 and 11 for collateral arrangements on the above borrowings.

Note 10
Long-term Debt:

Long-term debt at December 31, 2001 comprises the following:

	Reference		Millions of Won
Debentures	(1)	₩	979,584
Loans	(2)		50,497
		₩	1,030,081

(1) Debentures -

	Annual Interest Rate (%)		Millions of Won
Private offered debentures, payable through 2004	CD+0.7 ~ 16.9	₩	130,000
Non-guaranteed debentures, payable through 2004	Libor+1.5 ~ 9.0		951,718
			1,081,718
Less : Current maturities			(91,718)
Discount on debentures issued			(10,416)
		₩	979,584

(2) Loans -

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)
Won currency loans			
Energy fund loans	5.0 ~ 7.0	₩	2,911
General term loans	10.4		11,091
Housing loans	3.0~12.3		3,747
Loans for technology improvement	5.5~10.4		3,853
			21,602
Less : Current maturities			(11,771)
			9,831
Foreign currency loans			
Foreign loans	Libor+0.4~1.7		167,369
Payment by installment	Libor+1.5		1,349
Others	Libor+0.7~0.9		6,313
			175,031
		US$	121,961
		EU	730
		SF	1,499
		¥	1,115,210
Less : Current maturities			(134,365)
			40,666
		₩	50,497

The annual maturities of long-term debt, excluding discounts and premiums on debentures at December 31, 2001 are as follows (Millions of Won) :

Year	Debentures	Won Currency Loans	Foreign Currency Loans	Total
2003.1.1 thereafter	₩ 740,000	₩ 5,695	₩ 21,656	₩ 767,351
2004.1.1 "	250,000	457	15,443	265,900
2005.1.1 "	-	193	3,567	3,760
2006.1.1 "	-	128	-	128
2007.1.1 "	-	3,358	-	3,358
	₩ 990,000	₩ 9,831	₩ 40,666	₩ 1,040,497

See Notes 7 and 11 for collateral arrangements on long-term debt.

Note 11
Commitments and Contingencies:

At December 31, 2001, the Company provides joint guarantee for the obligations before the spin-off, which are assumed by LG Chem Investment Ltd. and. LG Household & Health Care Ltd. as of April 1, 2001 (see Note 22) and provides financial guarantee to customers.
At December 31, 2001, the Company receives guarantee from Seoul Guarantee Insurance for execution of Supplying contracts.
At December 31, 2001, in the normal course of business, the Company has provided as collateral for creditors and guarantors, a number of promissory notes having face values totaling ₩2,602 million.
At December 31, 2001, the Company is contingently liable for notes from export sales and discounted through financial institutions in the ordinary course of business approximating ₩95,124 million.
The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balance of such guarantees at December 31, 2001 approximated ₩251,516 million. In addition, at December 31, 2001, outstanding loans provided by financial institutions on behalf of the Company's obligations, are ₩159,375 million. The details are as follows (millions of Won) :

Guarantee	Guarantee Amount	Financial Institution	Loan Outstanding Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 17,239	Hana Bank	₩ 13,261
"	53,044	IBJ	15,914
"	15,913	EXIM Bank	15,913
Tianjin LG New Building Materials Co., Ltd.	2,387	KEB	1,989
"	2,652	ICBC	2,406
"	4,464	Fuji Bank	4,464
"	6,630	Chohung Bank	6,630
LG Vina Chemical	7,559	KDB	3,341
SINAR LG	17,637	KDB	17,637
LG CAI	9,282	Bank One	7,138
"	25,196	HVB	22,329
"	13,261	KDB	5,717
"	6,631	BOA	-
LG CHK	26,522	BOA	26,522
"	19,892	HSBC	3,928
LG India Holdings	5,967	BOA	4,749
"	17,240	ANZ	7,437
	₩ 251,516		₩ 159,375

As of December 31, 2001, the Company has been named as defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions outstanding at December 31, 2001, 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.

The Company has entered into forward exchange contracts for hedging against foreign exchange rate fluctuation. The amount of currency forward is ₩18,239 million (equivalent to $14,000 thousand) as of December 31, 2001.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and uncertainty exists with regard to the continued availability of financing. The Company may be either directly or indirectly affected by the situation described above.

Note 12
Asset-Backed Securitization :

In accordance with Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade receivables and ₩30,369 million of rental deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively. The maturity dates of these securities are November 28 and 29, 2004.

Through the asset-backed securitization of trade receivables and rental deposit, the Company acquired beneficiary certificates and subordinate note. The senior-tranche securities has the priority claim rights of the principal and interests recourse and operating expenses of Special Purpose Companies, the Company has the obligation of trade receivable collection and all payment such as interests and operating expenses described above.

Note 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.

The details of paid-in capital in excess of par value are sa foiiows :

	Millions of Won
Book value of net asset	₩ 1,172,226
Less:	
Capital stock	365,432
Other capital accounts	274,792
	₩ 532,002

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 –

Other reserves at December 31, 2001 comprise the following (Million of Won) :

		Amount
Reserve for business rationalization	₩	4,000
Reserve for technology development		67,690
	₩	71,690

The Korean Special Tax Treatment Control Law requires the Company to appropriate, as a reserve for business rationalization, an amount equal to the tax reduction. This reserve is not available for the payment of dividends but may be transferred to capital stock or may be used to offset accumulated deficit, if any, through a suitable shareholders' resolution.

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earning 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.

Note 14
Treasury Stock :

As of December 31, 2001, the Company retains 12,200 shares of common stock and 3,657 shares of its preferred stock carried at ₩178 million. The treasury stock was recorded as a capital adjustment and will be sold subject to stock market conditions.

Note 15
Income Taxes :

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%. However, as a result of tax reconciliation, tax credits and other items, the effective tax rate of the Company is 29.7% for the nine-month period ended December 31, 2001.

Income taxes for the nine-month period ended December 31, 2001 comprise the following (Millions of Won) :

		Amounts
Current income taxes under the tax law	₩	39,992
Changes in deferred income tax assets (liabilities) *		(17,436)
Income taxes	₩	57,428

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

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)
April 1, 2001	38,705	₩	11,921
Transfer-from LG Chem			
Investment Ltd. after spin-off	(865)		(266)
December 31, 2001	(19,465)		(5,781)
		₩	(17,436)

Current income taxes under the tax law for the nine-month period ended December 31, 2001 are calculated as follows (Millions of Won) :

			Amounts
Income before income taxes		₩	189,887
Addition to pretax income			
Permanent differences	8,955		
Temporary differences	79,803		88,758
Deduction to pretax income			
Temporary differences	137,108		137,108
Taxable income		₩	141,537

The changes of temporary differences for the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

	April 1, 2001	Transfer	Increase	Decrease	December 31, 2001
Accrued severance benefits	₩ 113,525	₩ -	₩ -	₩ -	₩ 113,525
Group Refinement Deposits	(106,279)	-	(6,389)	-	(112,668)
Allowance for doubtful accounts	-	9,793	21,665	7,563	23,895
Accrued income	(12,914)	-	(686)	(12,866)	(734)
Research and development cost	-	(39,105)	(25,194)	(4,367)	(59,932)
Present value discount account		1,583	-	-	1,583
Depreciation	-	-	16,648	-	16,648
Gain on valuation of investments using the equity method of accounting	43,804	-	(19,102)	(8,999)	33,701
Others	569	26,864	(48,218)	14,698	(35,483)
	₩ 38,705	₩ (865)	₩ (61,276)	₩ (3,971)	₩ (19,465)

Among the above temporary differences and related income tax effect arising from the cumulative effects on accounting changes is ₩91,039 million and ₩27,039 million respectively, resulted from loss on valuation of valuation of investment securities (using the equity method of accounting).

Income tax rate applicable to deferred tax liabilities as of April 1, 2001 and December 31, 2001 are 30.8% and 29.7%, respectively. As a result of change in tax rate, deferred income tax liabilities as of December 31, 2001 is approximately ₩214 million less than that which would have been applied at April 1, 2001 (date of spin-off).

Note 16
Earnings Per Share:

Basic ordinary income per share and earnings per share for the nine-month period ended December 31, 2001 are as follows :

	Amount
Net income after deducting preferred stock dividends :	
Net income	₩ 132,459 million
Preferred stock dividends	(6,926)
Net income and ordinary income of common stock	125,533 million
Weighted average number of shares of outstanding common stock *	64,414,017 shares
Basic earnings per share and ordinary income per share	₩ 1,949

* Treasury stock is deducted from outstanding common stock.

There are no outstanding convertible bonds or other dilative securities as of December 31, 2001. Accordingly, basic and ordinary income per share are equal to fully diluted earnings per share.

Note 17
Dividend :

- Dividend calculation

Dividend shares (par value 5,000 Won) (A)		
Common shares		64,412,864 shares
Preferred shares		8,657,594 shares
Dividend per share (ratio) (B)		
Common shares : cash		750 Won (15%)
Preferred shares : cash		800 Won (16%)
Dividend amount (A × B)		
Common shares	₩	48,310 million
Preferred shares (A/B)		6,926
	₩	55,236 million

- Dividend payout ratio

Dividend (A)	₩ 55,236 million
Net income (B)	132,459 million
Dividend payout ratio (A/B)	41.70%

- Dividend yield ratio

	Common shares	Preferred Shares
Dividend per share (A)	750 Won	800 Won
Market value at the end of the year (B)	21,750 Won	11,000 Won
Dividend yield ratio (A/B)	3.45%	7.27%

Note 18
Related Party Transactions:

Significant transactions which occurred in the ordinary course of business with related companies for the nine-month period ended December 31, 2001 and related account balances as of that date are summarized as follows (Millions of Won):

Description		Amounts
Sales	₩	492,498
Purchases		782,450
Receivables		65,825
Payables		133,529

Note 19
Supplemental Cash Flow Information :

		Amounts
Transfer to current positions of long term trade receivables	₩	1,751
Transfer to property, plant and equipment		195,361
Transfer to machinery and equipment		28,266
Transfer to development costs		7,291
Gain on valuation of investment using the equity method of accounting (capital adjustment)		23,479
Transfer to current maturities of long-term debts		146,136
Transfer to current maturities of debentures		40,000
Dividend declaration		55,236

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

Note 20
Segment Information:

The Company defines its segments by the nature of 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, Epoxy 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. and others

Financial Information on Industry Segments for the nine-month period ended December 31, 2001 -

Millions of Won

	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
1. Sales						
External sales	₩ 1,015,772	₩ 93,405	₩ 1,492,100	₩ 170,095	₩ 3,917	₩ 3,615,936
Inter-segment sales	144,519	31,553	1,774	25	28,896	206,767
Total	₩ 1,160,291	₩ 95,605	₩ 1,493,874	₩ 170,120	₩ 32,813	₩ 3,822,703
2. Operating income	₩ 96,441	₩ 77,823	₩ 120,232	₩ (22,398)	₩ (3,011)	₩ 269,087
3. Fixed assets						
Tangible and intangible assets	₩ 706,978	₩ 455,696	₩ 463,978	₩ 322,689	₩ 484,761	₩ 2,434,122
Depreciation and amortization	₩ 77,376	₩ 38,914	₩ 47,677	₩ 16,940	₩ 3,153	₩ 184,060

(2) Geographical Segment Information

The sales of geographical segments for the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

Domestic*	China	North America	South America	South-East Asia	Western Europe	Others	Total
₩ 2,146,478	₩ 847,460	₩ 94,334	₩ 96,867	₩ 159,114	₩ 125,442	₩ 144,241	₩ 3,651,936

* Domestic sales include the exports made based on local letter of credit.

Note 21
Discontinued Operations :

(1) Powder Segment

The Company disposed of its powder segment to LG Ferro Powder Coatings Ltd. (the Company's ownership is 29.90%) on May 31, 2001. The rights of the property, plant and equipment and inventories as well as the workforce of the powder segment were transferred.

The gain on disposal of powder segment is as follows :

		Millions of Won
Book value	Inventories	₩ 2,800
	Property, plant and equipment	4,411
		7,211
Sales price		8,524
Gain on disposal		₩ 1,313

The financial status of the discontinued operation is as follows:

	Millions of Won			
	2000		2001.1.1 ~ 2001.5.31	
Sales	₩	12,368	₩	5,457
Cost of sales		10,655		4,794
Gross profit		1,713		663
Selling & Administration expenses		757		527
Operation income	₩	956	₩	136

(2) Dyestuff Segment

The Company invested ₩43,203 million (US$ 33,700 thousand) for 49.00% ownership of M. Dohmen GmbH and disposed of inventories, trade accounts and notes receivable of its dyestuff segment and shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated Company of M. Dohmen GmbH on August 31, 2001.

The gain and loss on disposal is as follows :

Ⅰ. Disposal of dyestuff segment

		Millions of Won	
Book value	Inventories	₩	17,934
	Trade accounts and notes receivable		12,478
			30,412
Sales price			40,696
Gain on disposal			10,284

Ⅱ. Disposal of shares of Tianjin LG Specialty Chemical Co., Ltd.

Book value	Equity method Value		5,540
	Gain on valuation of investment securities (capital adjustment)	△	2,932
			2,608
Sales price			2,567
Loss on disposal			(41)

Ⅲ. Additional severance payment and other payments		(455)
Ⅳ. Net gain on disposal of dyestuff business (Ⅰ + Ⅱ + Ⅲ)	₩	9,788

The financial status of the discontinued operation is as follows :

		Millions of Won
	2000	2001.1.1~2001.8.31
Sales	₩ 55,034	₩ 38,953
Cost of sales	46,428	34,372
Gross profit	8,606	4,581
Selling & Administration expenses	7,159	7,501
Operation income	₩ 1,447	₩ (2,920)

Note 22
Business Division:

Upon a resolution of the board of directors on November 15, 2000 and a resolution of the stockholders on December 28, 2000, the Company was spun off from LG Chem Investment Ltd. on April 1, 2001. On April 3, 2001, the Company has completed a registration process for new companies, according to the Commercial Code of the Republic of Korea.

According to provisions in the Commercial Code Article 530-2, LG Chem Investment Ltd. established two new companies, the Company, to engage in the business of petrochemicals, performance polymers, industrial and building materials and information and electronic materials and LG Household & Health Care Ltd., to engage in the business of household goods and cosmetics. In addition, LG Chem Investment Ltd. has transferred related assets and liabilities to the new companies.

The Company issued 73,086,315 shares and distributed its shares to the shareholders of LG Chem Investment Ltd. on a pro-rate basis.

The new companies, the Company and LG Household & Health Care Ltd., carried over assets and liabilities from LG Chem Investment Ltd. based on the spin-off plan, which was approved in a resolution of the stockholders on December 28, 2000. In addition, any increase or decrease in assets or liabilities up to the spin off date was also carried over to the newly established companies.

All assets, liabilities and obligations were transferred to the new companies from LG Chem Investment Ltd., effective April 1, 2001.

Accrued severance liabilities for employees working for the new companies were transferred effective April 1, 2001.

LG Chem Investment Ltd. and the two new companies hold joint guarantee for the obligations for the liabilities before the spin-off.

The summarized beginning balance sheet as of April 1, 2001 are as follows (Won) :

Accounts	Amounts	Accounts	Amounts
Ⅰ. Current Assets	(837,672,729,654)	Ⅰ. Current liabilities	(1,858,143,602,135)
(1) Quick Assets	(510,477,717,650)	1. Trade payables	294,867,344,474
1. Cash and cash equivalents	26,210,454,271	2. Short-term borrowings	370,884,682,650
2. Trade receivable, net	430,657,881,022	3. Other payables	233,839,425,565
3. Others	53,609,382,357	4. Current portion of long-term debts	836,802,664,628
		5. Others	121,749,484,818
(2) Inventories	(327,195,012,004)		
		Ⅱ. Long-term liability	(707,990,942,452)
Ⅱ. Fixed Assets	(2,900,687,574,951)	1. Debentures, net	571,598,431,470
		2. long-term borrowings	89,574,877,944
(1) Investment Asset	(490,929,688,439)	3. Accrued severance benefits, net	40,306,888,662
1. Long-term financial instruments	40,041,000,000	4. Others	6,510,744,376
2. Investment securities	349,134,972,039		
3. Guarantee deposits	27,606,102,985	Total liabilities	2,566,134,544,587
4. Others	74,147,613,415		
(2) Property, plants and equipment	(2,364,660,353,542)		
1. Land	330,913,387,932	Ⅰ. Shareholders' equity	(365,431,575,000)
2. Buildings, net	457,249,309,964		
3. Structures, net	140,205,536,640	1. Common stock	322,125,320,000
4. Machineries, net	963,811,328,338	2. Proffered stock	43,306,255,000
5. Vehicles, net	5,006,645,770		
6. Tools, net	78,930,527,568	Ⅱ. Capital surplus	(738,771,724,312)
7. Furniture, net	47,950,524,298		
8. Construction in progress	279,989,083,305	Ⅲ. Retained earnings	-
9. Machinery in-transit	60,604,009,727		
		Ⅳ. Capital Adjustment	(68,022,460,706)
(3) Intangible assets	(45,097,532,970)		
1. Development costs	41,233,030,746		
2. Others	3,864,502,224	Total shareholders' equity	1,172,225,760,018
Total asset	3,738,360,304,605	Total liabilities and shareholders' equity	3,738,360,304,605

The financial information of LG Chem Investment Ltd. and LG Household & Health Care Ltd. as of April 1, 2001 is as follows (Millions of Won):

	LG Chem Investment Ltd.	LG Household & Health Care, Ltd.
Current assets	₩ 344,019	₩ 209,083
Fixed assets	2,306,070	402,192
Total assets	2,650,089	611,275
Current liabilities	124,464	256,003
Long-term liabilities	1,329,873	163,441
Total liabilities	1,454,337	419,444
Paid-in capital	99,663	88,589
Capital surplus	213,996	97,263
Retained earnings and others	882,093	5,979
Total shareholders' equity	1,195,752	191,831
Total liabilities and Shareholders' equity	₩ 2,650,089	₩ 611,275

LG Chem Investment Ltd.(formerly, LG Chemical Ltd.) had listed its Global Depositary Receipts(GDR) of 2,482,725 shares on London Stock Exchange, among which 1,638,559 shares were transferred to the Company. At December 21, 2001, the Company relisted 1,638,559 shares of GDR on London Stock Exchange.

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