



The Impetus of Innovation

LG Chem 2002 Annual Report

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Following its founding in 1947, LG Chem led the domestic chemical industry with its advanced technical capabilities resulting from unrelenting efforts and investments in research and development. Then through a major restructuring into an independent chemical firm in April 2001, the company set a solid foundation for continued momentum and dynamic growth as an innovative, advanced specialist for the global market—the impetus of innovation.

The company now concentrates on four major business activities: Petrochemicals, Performance Polymers, Industrial Materials, and Information & Electronic Materials. As a result, LG Chem maintains steady profitability and keen competitiveness with the production and sale of such major products as PVC, ABS, and interior and exterior construction materials. Simultaneously, LG Chem remains a step ahead of its competitors in technology development so as to foster advanced industrial efforts in selected value-added production areas like next-generation battery cells, display materials, and other promising products and materials.

During 2002, LG Chem augmented its established momentum for ever-advanced innovation while preparing to grow into a global industry leader by strengthening its managerial infrastructure and sharpening its globalization strategies.

CEO's Message



To Our Shareholders, Clients and Friends,

On behalf of everyone at LG Chem, let me extend my sincere gratitude to you all for your continued interest and support during the past year.

The year 2002 was a highly meaningful one for LG Chem. Despite such potential obstacles to growth as delayed global economic recovery, appreciation of the Korean won, and rises in oil prices, LG Chem reaped its most impressive results since founding in 1947 and, in the process, affected a most noticeable improvement in shareholders value.

Results for the Year

At the beginning of the year, we had set the goal of becoming an industry leader and as a result of

the unified and intensive efforts of LG Chem employees, we recorded total sales of 5,433.1 billion KRW and ordinary income of 479.1 billion KRW. Additionally, we improved our financial structure by centering managerial activities around cash flow and reduced our debt ratio from 186% in late 2001 to 164% at the end of 2002.

While the Korean stock market in general suffered a rather unimpressive year, LG Chem met shareholder expectations by scoring an 87% growth in the value of its stock, from 21,750 to 40,600 KRW per share over the course of the year.

Results by Business Units

After five years of innovative efforts, revolutionary

advanced

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

productivity improvements, and establishment of a solid client base in the futuristic area of Information & Electronic Materials, LG Chem scored a profit for the year for the first time in this field. In batteries, to exemplify its advanced technical capabilities, the company became first in the world to introduce high-performance, next-generation 2,200mAh products. At the same time, we also strengthened our technical expertise in TFT-LCD polarizer film and phosphor while increasing supply capacities to guarantee a base for steady profitability in the years and decades to come. And in December of 2002, we held ground-breaking for a new specialty production facility in the Ochang Science & Industrial Complex in Chungbuk Province as a foundation for our leap into global prominence in the field of Information & Electronic Materials.

In Industrial Materials, we continued to promote rationalization programs, concentrated on high performance industrial materials such as artificial marble and high-gloss sheet, and thanks to a solid domestic market during the year, we were able to greatly improve performance.

Additionally, with establishment of marketing subsidiaries for high-performance materials in the U.S. and Europe, we strengthened capabilities for global sales and expanded market share in strategic regions.

In Petrochemicals and Performance Polymers, we honed in on establishing an business base in the high-growth Chinese market and in responding to a restructuring of the domestic industry, we made intensive efforts to expand opportunities to guarantee future growth. By increasing PVC

and ABS production capabilities in China, we are able to further augment our global market competitiveness. We doubled annual ABS production capacity to 300,000 mtpa and are positioned to expand PVC production capacity there from 240,000 to 340,000 mtpa by June 2003. We also began construction of an Engineering Plastics production plant with an annual capacity of 20,000 tons as we expand activities in the Chinese market.

On January 30, 2003 we reached an agreement in a consortium with Honam Petrochemical Corp. to acquire Hyundai Petrochemical Co., Ltd., thereby setting the stage for a leap into prominence as a global name in petrochemicals. This step will greatly increase our market share in major products and provide us with a readily available supply of raw materials for our PVC and ABS pro-

duction. This translates into even greater product and market competitiveness.

Concerning our managerial infrastructure for 2002, in July we implemented a company-wide ERP management system for integrated managerial resources and information, and thus made a major stride towards maximum managerial efficiency. Our plans for 2003 include augmenting the ERP with overseas management and procurement control systems to further increase managerial and operational results.

In revolutionizing corporate culture, we expanded programs in rewards and incentives as part of our efforts for maximum employee performance, and we activated additional communication channels between executives and staff as we aim for a completely open organizational culture.



2002 Financial Highlights

innovative

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

And finally, in striving to become industry leader, we have placed top priority on expanding core human resources, particularly in R&D and marketing, so as to maximize global competitiveness.

Plans for 2003

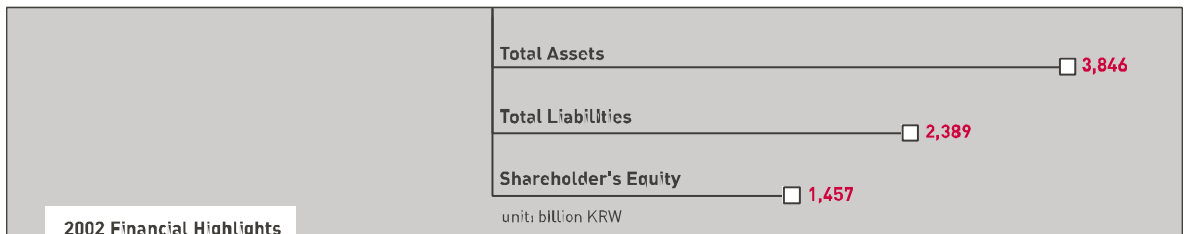
Despite our own hopes, prospects for economic recovery in general in 2003 are clouded by a number of domestic and international considerations. Increasing tensions in the Middle East and on the Korean Peninsula, and the continuing rise in crude oil prices are contributing to a rather depressing business climate. Difficulties are expected to continue to mount. The construction industry is stagnating both at home and abroad and domestically, increasing household debt is rapidly dampen-

ing consumer spending.

To cope with such an unfavorable business environment, LG Chem has set the goal of “Accelerating Efforts to Lead the Industry” for 2003.

To accomplish this, the company is promoting three managerial priorities in setting a solid framework for achieving maximum results regardless of the business climate and for stepping into position as a global industry leader.

First, we will emphasize strengthened internal operations for profitability. Despite the rather gloomy outlook for the year, LG Chem has set targets higher than those achieved in 2002. In order to achieve these, the company will reduce unnecessary investments and effectively utilize working capital and expenses to help maximize profitability. Temporarily however, investments



in the takeover of Hyundai Petrochemical and in Information & Electronic Materials will increase and this will necessitate further efforts in improving the cash flow situation.

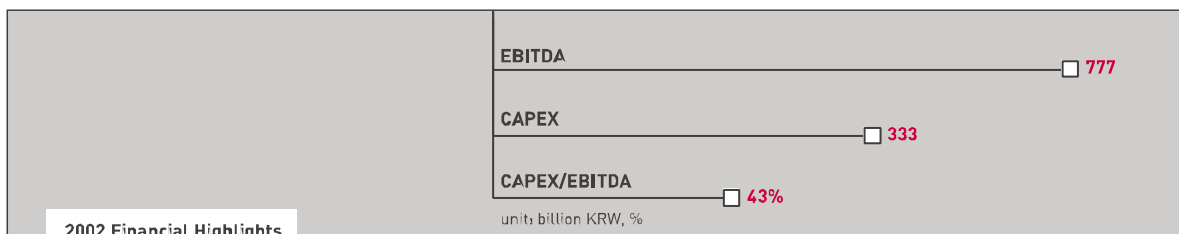
Second, we should strive to expand business capabilities to those of a global industry leader. Last year we selected core business activities to foster maximum market share and profitability, and in 2003 we plan to actualize our rise to position as a global leader. In order to do so, we will expand R&D capabilities for development of superb products, develop truly global leader capabilities, and strengthen our "Six Sigma" corporate campaign to refine our basic strengths.

In R&D, we require upgrading core technological competitiveness to international standards in basic business areas, and grafting such promis-

ing and futuristic nano-, bio- and environmental technology to our existing core technology so as to develop a continuous flow of first-in-the-world products.

In augmenting global capabilities, we must more decisively expand our overseas local production and sales facilities in strategic business for the future. With quantitative improvements in production, we must achieve qualitative growth as well through added efforts in marketing, technical services, and distribution systems to further improve market share and to assure continued growth.

Our "Six Sigma" campaign, which has been centered on production efforts, will now be applied to sales, procurement, R&D, administration and all other facets of corporate operations at all lev-



trust

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

els so that we may conduct activities centered around strengthened core capabilities.

And third, we must achieve a corporate culture compatible with ranking as an industry leader. We must swing open all doors and eliminate all barriers to full communication among all personnel, while emphasizing empathy and eliminating conflicts. Personnel programs will feature greater rewards and incentives as we deepen employee understanding and dedication to achieving an advanced corporate way of life.

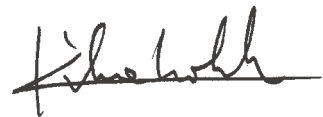
In our quest to become the finest in the industry, we will foster and expand human resources filled with passion for success and excellence, diligence, and the spirit of challenging the impossible. In becoming a global industrial leader, we will affect a literal revolution in corporate cul-

ture through passionate commitment and unbri-dled enthusiasm.

We have developed strategies to overcome any and all trials and tribulations that the domestic and international business climates may present us. Armed with stronger internal activities and with an emergency business plan to cope with the business environment, I can assure all of you that we will do our utmost to achieve our business goals for 2003.

In the process, I once again look forward to your continued support and encouragement. Let me also wish you and all of those dear to you the best of health and happiness for the year.

Ki-Ho No
President & CEO



2002 Overview

LG Chem President Receives Golden Tower Industrial Merit Award



LG Chem President No, Ki-Ho received the highest commercial award possible, the Golden Tower Industrial Merit Award, on May 20 at the 37th Annual Inventors Day Ceremony. President No joined LG Chem in 1973 and assumed position as CEO in January 2001. He is credited with leading development of globally competitive new products by establishing a world-class R&D system during his long career at LG Chem.

ERP System Goes into Operation



LG Chem put its new ERP System into operation on July 3. The company expects to reap such benefits from the system as 30 billion in savings in expenses, speedier decision-making and greater managerial transparency, and greater corporate credibility as a result. The company is now planning an Extended ERP project that will include overseas sites and offices.

LG Chem Enters Chinese PVC Window Frame Market

On August 26, LG Chem held a ground-breaking ceremony for a new PVC Window Frame production subsidiary in Tianjin, China. The US\$20-million investment will have an annual production capacity of 50,000 tons per year by 2005 and this will be expanded to 100,000 tons by 2010, thereby positioning LG Chem as a major player in the Chinese market.



Engineering Plastics in Chinese Market

LG Chem plans a new Engineering Plastics Compounding Production subsidiary, with annual production capacity of 50,000 tons, in Guangdong Province, China. The company plans to expand production to 100,000 mtpa by 2010 with an additional investment of US\$50 million; and by actualizing total solutions and strategic marketing plans, LG Chem expects to eventually join the ranks of the world's top five manufacturers.



Major Investment at Ochang Techno Park



LG Chem is planning an integrated, state-of-the-art Information & Electronic Materials production plant on a 330,00-sq.-meter site at the new Ochang Techno Park in Chungbuk Province, Korea. LG Chem plans to turn the facility into a global center for advanced production of Information & Electronic Materials with a total investment of 1 trillion KRW by 2010.

World's 3rd Largest ABS Producer



LG Chem has stepped into position as the world's third largest manufacturer of ABS by expanding annual production capacity to 800,000 tons. In the process, the company expanded production in Korea by 90,000 tons and in China by 100,000 tons, thereby taking the lead in both nations. LG Chem plans to increase annual global production capacity to one million tons by 2005.

EDC Plant in Australia

On Dec. 23, LG Chem announced plans to establish an EDC production subsidiary in Queensland, Australia to secure a steady supply of the basic raw material for PVC production. Construction at the US\$193-million investment is scheduled for completion by the end of 2005 and annual production in 2006 will reach 300,000 tons.

Epoxy Business Sold

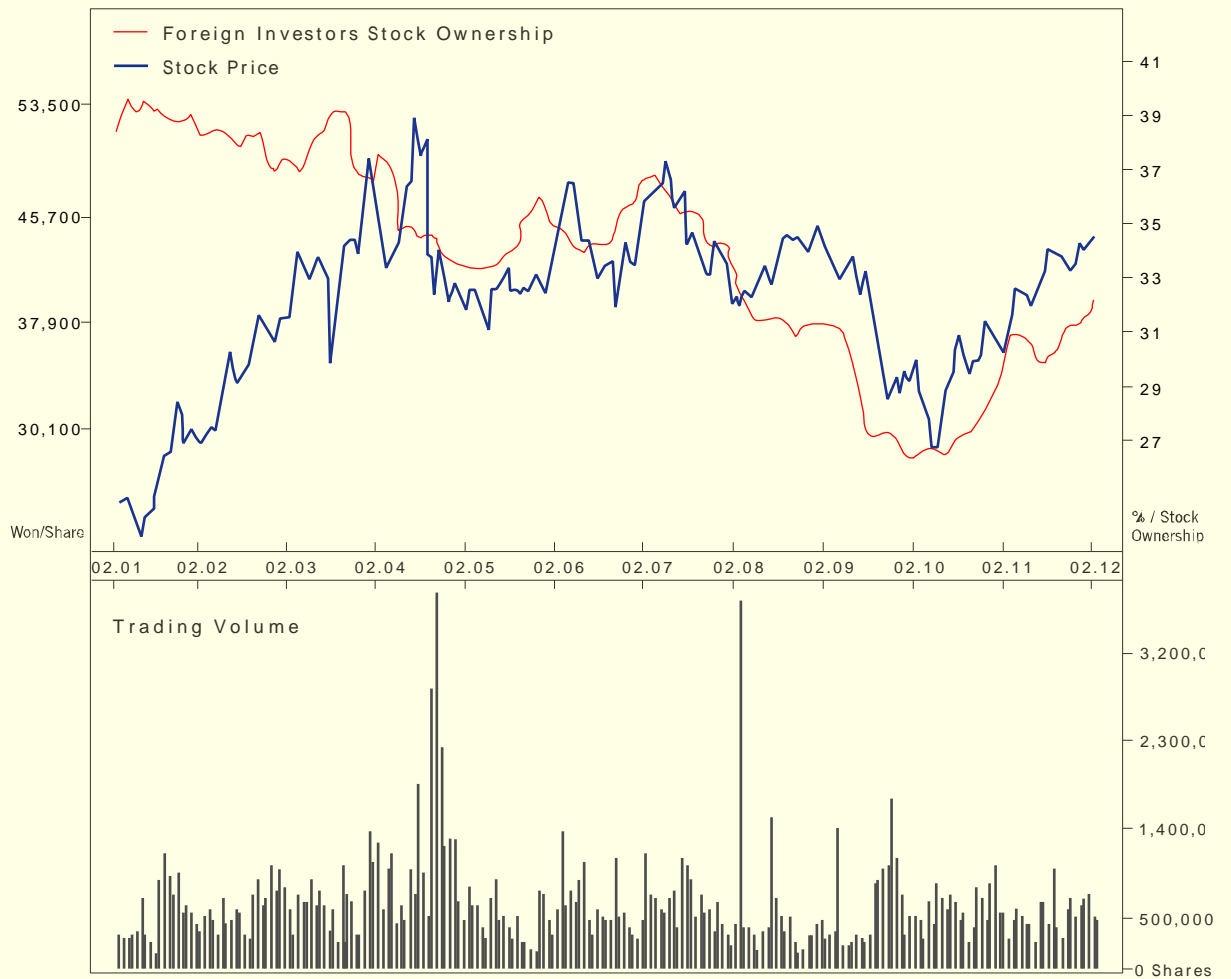
On April 10, LG Chem announced sale of its non-core epoxy production business to Bakelite of Germany for US\$17 million. The sale was a strategic move in the company's efforts to reorganize and streamline its industrial activities into core areas alone. The sale will contribute considerably to an improved financial structure and to fostering futuristic business areas.

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

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

2002 Stock Price Performance

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



Vision & Strategy

LG Chem took a giant step towards specialization by becoming independent from other business activities on April 1, 2001. The company appointed a new CEO and Corporate Operating Committee (COC) and by doing so forged a new path in managerial culture centered on factual evaluation and decision making by the COC. Additionally, in announcing a new corporate vision, the company began to affect sweeping changes in across-the-board managerial policies and corporate organization. The new vision is taking sure-fire aim at advanced technology, managerial reliability and global corporate positioning as it establishes a solid reputation for overall excellence.

Vision

LG Chem's vision for the world of tomorrow is to exceed client expectations through advanced technologies, innovative solutions, and outstanding products, and to solidify our credibility with shareholders.



Global Leader

- LG Chem plans to become a global leader and specialist through world-class business operations as the finest firm in the industry
- fostering strategic high-performance, high value-added business areas to lead the global market
- providing consistently superior value to domestic and overseas investors

Advanced Technologies & Innovative Solutions

- LG Chem will continue to offer outstanding technologies, products and solutions through relentless innovation
- The company will also exceed client expectations by defining their needs in advance and offering them the finest value possible

Credibility for Shareholders, Employee Enthusiasm

- By affecting totally transparent operations, LG Chem aims to provide clients, shareholders and employees

total credibility as a trusted partner.

- LG Chem is fostering new employee enthusiasm through respect for all personnel and efforts to actualize an ideal work environment

Core Values

The Client Comes First

- We anticipate client needs in advance to provide satisfaction beyond expectations

Innovation

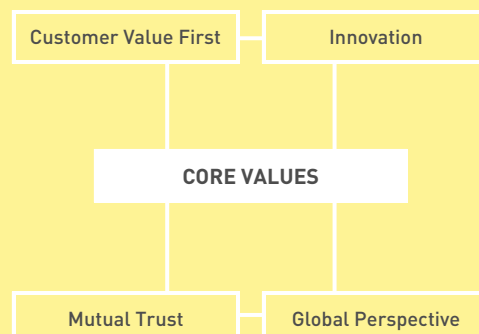
- LG Chem challenges the unlimited possibilities of product and technological development by flexing its innovation-oriented mentality.

Mutual Trust

- LG Chem builds trust and reliability by fulfilling commitments to clients, shareholders, and personnel with total integrity and ethical standards.

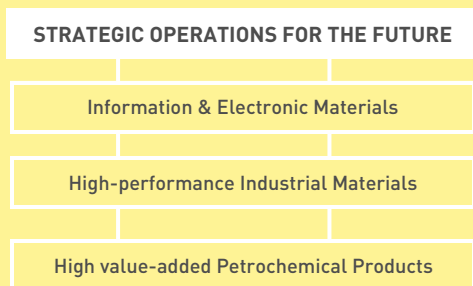
Global Perspective

- LG Chem conducts operations by cherishing and actualizing a totally global perspective.



During 2002, LG Chem augmented its basic vision and operational framework with the goal of becoming a global leader. This means that LG Chem is developing a top-rate, completely open corporate culture to serve as a springboard for developing the finest world-class standards through strength, diligence, and the determination to succeed. Initially, the company expects to progress into the ranks of Asia's top three specialty firms through efforts in three facets of operations:

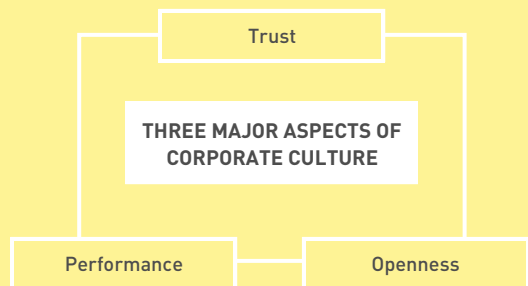
First, we will strategically maintain a specialty portfolio in our four major areas of operations. Currently our operations in Petrochemicals and Performance Polymers are solidly enduring; our Industrial Materials feature high profitability; and our Information & Electronics Materials feature high-speed growth. Thus we will be able to offer clients, shareholders and personnel steady profits while simultaneously offering them full potential for future growth with LG Chem by fostering and concentrating on strategic high-performance, high value-added business operations for the future.



Second, we will forge into the global market by concentrating on strategic, futuristic business operations. By 2010, LG Chem expects to reap more than 50% of total sales from overseas markets. To achieve this, we will focus our strategies on high value-added products. These strategies will feature superior technology, superior value and superior marketing.



Third, we are developing strategies to become a global leader in each field of business operations. To achieve this, we will conduct impressive organizational restructuring and M&A activities while also making epochal investments in strategic R&D areas. We will continue to increase R&D investments to match our requirements for fostering futuristic operations and global strategies. To increase our supply of outstanding human resources, we will provide work environments, rewards and incentives that guarantee exceptional performance for a first-rate organizational culture. This corporate culture will feature three major aspects: trust, openness, and performance.



Thus, by actualizing its visions and core values, LG Chem will provide true value for clients and affect a managerial atmosphere based on respect for all. And with increased product competitiveness, we will spring into position as a truly world-class business entity.

Management Innovation



Developing Core Capabilities for the Future

LG Chem's impressive dedication to total management innovation derives from imperatives to meet the requirements of rapidly growing demands for digitalization and globalization to maintain maximum competitiveness. The company has taken a number of steps in its march towards becoming a global industry leader, including raising productivity levels, reducing production and operational costs, and introducing high value-added products and services. Additionally, accelerated technology innovation parallels these managerial efforts in order to outpace even client expectations.



Management Innovation

Open Operations



One of the most essential components of managerial innovation is a corresponding transformation of corporate culture, and this in turn depends greatly on elimination of all barriers to free-flowing communications, an open atmosphere, and transparent operations.

Consequently, the company continues to promote free-flowing, on-site communications among all levels of management and all other personnel. Any and all types of innovation require action above theory and a company's human resources are necessarily the implementers of company-wide innovation. And a continuous flow of responsible human resources can only blossom out of such an innovative corporate atmosphere. So the cycle is complete: corporate cultural innovation results in greater human resources who in turn contribute to managerial innovation.

The Client Must Come First

Through relentless innovation, LG Chem plans to further expand its broad spectrum of solutions to meet the distinctive requirements and expectations of clients, and the results so far from such efforts have been rewarding. Product innovation resulted in 19 new products in 2001 and this figure jumped to 26 products for 2002. These now account for 25.8% of all products and reflect our capabilities and motivation to meet a variety of client requirements with products of excellence. This "client first" mentality will give further impetus to our technology and service efforts as we continue to grow and grow.

Process Innovation: "Six Sigma"



LG Chem introduced a company-wide "Six Sigma" managerial campaign for innovation beginning in 1999 which expanded into R&D and which was successfully combined with a TPM (Total Productive Management) campaign for impressive results. The continued application of the "Six Sigma" campaign will now extend to more than 300 projects, with non-production projects accounting for more than half of the programs involved.

Simultaneously, the program for fostering core human resources who are responsible for the Six Sigma movement will also emphasize the movement in its own activities. We expect the number of MBB to grow from 11 personnel in 2002 to 40 by 2005, and the number of BB will leap from 153 to 400 during the same period. Thus, we expect to witness financial savings of 180 billion KRW in 2005 for a cumulative total of 800 billion KRW.

Enterprise Resource Planning (ERP)

Infrastructure for Transparent Management and Work Efficiency Our ERP system is the very center of our management innovation program since it targets improved productivity, scientific operational efficiency and superior service as basics for corporate performance. LG Chem put its ERP system into operation on July 3, 2002 to provide integrated, real-time administration. The system has also contributed to speedy decision-making along with greater managerial transparency and corporate credibility.

Objectives of ERP Application



LG Chem expects to reap three major results from application of the ERP System. First, the system improves managerial transparency since it provides real-time transactions that meet global standards for transparency. Second, the system contributes to qualitative managerial improvements and work efficiency since it solves problems in core change processes and by sorting management information; thus, it offers greater speed and accuracy. And third, the system contributes to the building of an infrastructure for eventual company-wide e-Business operations. It integrates a total of 65 different infrastructure systems into a single one, and thereby provides standardization in information and systems.

Features of ERP System



Above all, the ERP System maximizes solid results in revolutionizing work methods. Specific features include, first, a "big bang approach" in all operational areas, including 51 business levels and 205 profit-and-loss centers. Second, along with system building, the ERP offers greater accuracy in sales planning, reduces the rate of emergency orders, increases operational efficiency for affiliates, and solves problems related to such processes as procurement, equipment, etc. And third, the newly applied ERP System compiled master data on 2.15 million pieces of information, and through a 3-stage verification process, provided 96% BOM accuracy and 95% routing accuracy.

Results and Future Applications

Through the ERP System, LG Chem has already increased profits by 18 billion KRW through reduced inventories, improved productivity, and reduced IT expenses. Additionally, by meeting global standards in work transactions, we have also witnessed other major results: greater transparency, increased client satisfaction, qualitative and quantitative improvements in management information, increased efficiency of information sharing among departments, and improved work efficiency. With the current ERP system serving as a backbone for operations, LG Chem is now promoting a program to integrate the system with all interior and exterior functions. Our plan is to apply an Extended ERP project, including SCM, CRM and SEM for our overseas affiliates.



R&D



"R&D is a challenge in itself. Thanks to its technical prowess, LG Chem has led the domestic industry but now we are faced with the challenge of becoming a leader on the global market. Although there will be numerous difficulties involved in undertaking new areas of operations, the eventual rewards will be well worth the effort, and I sincerely believe that we can in fact become global leader.

We can directly attribute the startling results that we reaped in Information & Electronic Materials in 2002 to our R&D efforts in that field. Research & Development can be described as battle of speed. In other words, success depends on how quickly a company can develop new technology and new products. Up until now, we have demonstrated our advanced technology capabilities and value while leading the domestic petrochemical industry but that is no longer enough. We now have to compete on the world market. In order to achieve our goal of global prominence, we are fostering some of the world's finest and most competitive human resources, not only at home, but abroad as well; not only in petrochemicals, but in physics, biology, electronics and a variety of other essential areas. And these people are responsible for LG Chem's R&D efforts. In the belief that a global leader's competitiveness comes from bold, intensive and continuous R&D investments, LG Chem is concentrating capabilities on next-generation display systems, optoelectronics, bioengineering, environmental studies and other advanced areas."

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



Selective, Intensive Development of Advanced Technology Efforts that Bear Fruit

The year 2002 was a very fruitful one for LG Chem R&D as well as for business activities as we continue to reap results from our efforts to become a global leader. In Information & Electronics Materials, we had initiated lithium-ion battery development in 1997 and sales in 2002 were triple those of the previous year. In addition, TFT-LCD polarizers took the stage as a core business area with sales for the year exceeding 140 billion KRW. During the year we also stabilized these production lines and developed a new low light leakage TFT-LCD for LCD manufacturers, our major clients. In Petrochemicals, we newly developed and introduced such specialty products as self-dispersive ABS, eco-friendly plasticizer, and high-performance transparent ABS. In a newly-named "e-process" effort, we scored promising results at our VCM Plant, and we plan to apply this new e-process in tandem with CFD, which is applied to the solution of engineering problems, to all LG Chem business areas as new technology platforms. In Industrial Materials, we developed a host of new high-performance products including compounded window profiles and sports floors.

Paving Roads to the Future

On the basis of these highly promising R&D results, we plan to increase R&D investments 14% to 150 billion KRW for 2003. Such investments will reinforce our technology platforms and contribute to a further increase in our technology leadership value.


In early 2003, we restructured our R&D organization in order to reinforce technology platforms and foster greater involvement in advanced, futuristic industrial activities. To these ends we established a new organization, Corporate R&D, or CRD. This clearly defines the roles at our Research Park between CRD and Business Units (BU) R&D: CRD is responsible for readying LG Chem's future activities while BU R&D is now responsible for strengthening the competitiveness of existing products and operations. Simultaneously, the two entities will conduct close cooperative efforts in support of each other. LG Chem is now conducting extensive research into nanotechnology, biotechnology and other advanced technology areas, and through leading technology in such areas as next-generation display components, semiconductor materials, optical materials, and functional materials, the company will step into the global forefront in product development as we pave roads to the future with experience, expertise, and excellence.

Research Facilities	Key Resear Development Areas	Location
Corporate R&D	Core Technology Platforms (Catalysis, Process, Analysis, Modeling & Simulation, Adhesive, Coating) New Business (Semiconductor materials, Organic microelectronics, Optical materials, Functional materials, etc)	Daedeok
Battery Research Institute	Lithium batteries (LiLB, LiPB)	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), Acrylates	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 processing Modeling	Maryland, USA
Compact Power Inc.	Lithium battery module for electric vehicles	Colorado, USA





PETROCHEMICALS IS A GLOBAL INDUSTRY AND IN THE GLOBALIZATION PROCESS, SPECIALIZATION AND CONCENTRATION ARE ESSENTIAL TO SUCCESS. OUR PETRO-CHEMICALS BUSINESS UNIT INTENDS TO FURTHER CONSOLIDATE ITS GLOBAL POSITIONING IN ALL MARKETS, INCLUDING THE CHINESE MARKET WHICH ANTICIPATES A GDP INCREASE OF 8%.



In Petrochemicals,
LG Chem produces PVC and
PE, as well as acrylates,
plasticizer and alcohol.
The company's position as
a global market leader is
testimony to superior prod-
uct quality that is the result
of accumulated expertise
and outstanding product
development capabilities.

Review of Operations Petrochemicals

“We intend to

establish and execute a distinctive management program to maximize profits in the ever-growing petrochemicals industry. We'll accomplish this first by maximizing profits as a result of strengthened R&D efforts for the development of core technology and high value-added profits. Second, we'll build a solid foundation

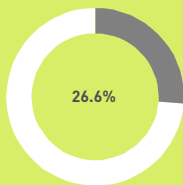


as global leader by increasing our presence in the huge Chinese market and by promoting greater added value in technology and products in the fields of acrylates and PE. And third, we'll strengthen our organizational capabilities by developing a global value chain and by attracting the very best overseas human resources available.”

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



Portion of Total Sales



Key Financials in billions of won



THE YEAR IN REVIEW

During 2002, we conducted and promoted further progress in a business climate considerably different from that of the previous year. There was a recovery in domestic consumer confidence during the first half of the year, thanks to a revitalized construction industry, Korea's co-hosting of the 2002 World Cup, and policies aimed at economic recovery as part of political platforms for the December presidential election. During the latter half of the year, however, the nation was beset by a host of obstacles to growth, including a stagnating construction industry due to real estate stabilization, sluggish economic growth, seasonal slack, and a sudden rise in the cost of raw materials. Fortunately, however, the situation began to improve towards the end of the year.

LG Chem Petrochemicals witnessed a 6.5% growth in sale of PVC for the year to 1,667 billion KRW, thanks to increases in sales and product prices following recovery in the construction industry. However, due to the sudden rise in the cost of such basic raw materials as EDC and VCM, operating profit for the year grew 6.6% over the previous year to 148.3 billion KRW.

THE YEAR AHEAD

At this time, war clouds on the horizon in the Middle East are contributing to instability and uncertainty with the global economy and a continued rise in the cost of oil. Domestically, the construction industry shows few signs of recovery and the local economy continues to flounder. However, a quick end to a war in Iraq would remove the uncertainties and obstacles to growth and we could expect a gradual rise in economic recovery during the second half of the year.

For 2003 in the Petrochemicals Business Unit, we are currently forecasting 1.7% growth in total sales to 1,696 billion KRW with a rise in operating profit to 159 billion KRW. To achieve these targets for the year, we plan to actualize three managerial directives.

First, we plan to maximize profits, largely through intensive development of high-value added products as a result of R&D efforts. While targeting niche markets, we will also transform our profit orientation to a high value-added industry structure centered on general market products. We also plan to increase innovative profit-oriented activities and to reduce costs wherever possible.

Second, we will set a stronger foundation for LG excellence everywhere. We will complete addi-



“A good company is a company with a solid base. And it has to know how to be dynamic when the time is right. From that perspective, LG Chem is certainly capable of becoming a global leader. LG Chem continues to generate a higher rate of profitability than its competitors and that is because the company, in addition to its solid profit base in petrochemicals, is also focusing on developing and manufacturing high value- added industrial and electronic material products. I believe LG Chem will continue to focus on improving shareholder value and, through the development of more specialized products, continue to generate healthy returns for its shareholders.”

Mark K. Barclay, CFA _ Senior Analyst, ING Financial Markets Research Dept.



tional facilities for another 100,000 mtpa at our Chinese PVC production company, LG DAGU Chemical, in the first half of 2003 and rise to prominence as market leader as a result. To increase our competitiveness in raw materials scale of economy in acrylates, we will promote debottlenecking through minimal investments at the third acrylates production line, improve productivity levels, and secure greater in-house process technology. We will also promote upgrading the value of existing commodity products in PE.

And third, we will strengthen our organization through formation of a global value chain and securing outstanding human resources at overseas sites. We will also strengthen our Six Sigma managerial campaign in nonproduction areas and overhaul our sales organization.

As a result of all these efforts, we expect to further solidify our position as a leading player on the global market in the highly important field of petrochemicals.

out, began to recover at the end of 2001 and although the recovery is slow, recovery is expected to continue. The Petrochemical Business Unit is working towards a solid foundation for maximum profitability in anticipation of a solid market advance in the petrochemical industry.

To assure a long-range, steady supply of VCM, a basic material for PVC, we will begin expansion up to a 350,000-mtpa addition to our Daesan Plant and plan to complete this by 2005. Simultaneously, we are promoting establishment of a joint-venture EDC production subsidiary in Australia. Consequently, upon completion of these projects we should have a vertical integration system to further increase our cost competitiveness. Currently, annual PVC production stands at one million tons -- 760,000 in Korea and 240,000 in China -- and through a series of facility additions, we expect to have domestic production of 950,000 mtpa and Chinese production of 1.1 million mtpa, for an annual production capacity of 2.05 million mtpa by the year 2010.

ON THE HORIZON

Petrochemicals, following a cyclical bottoming

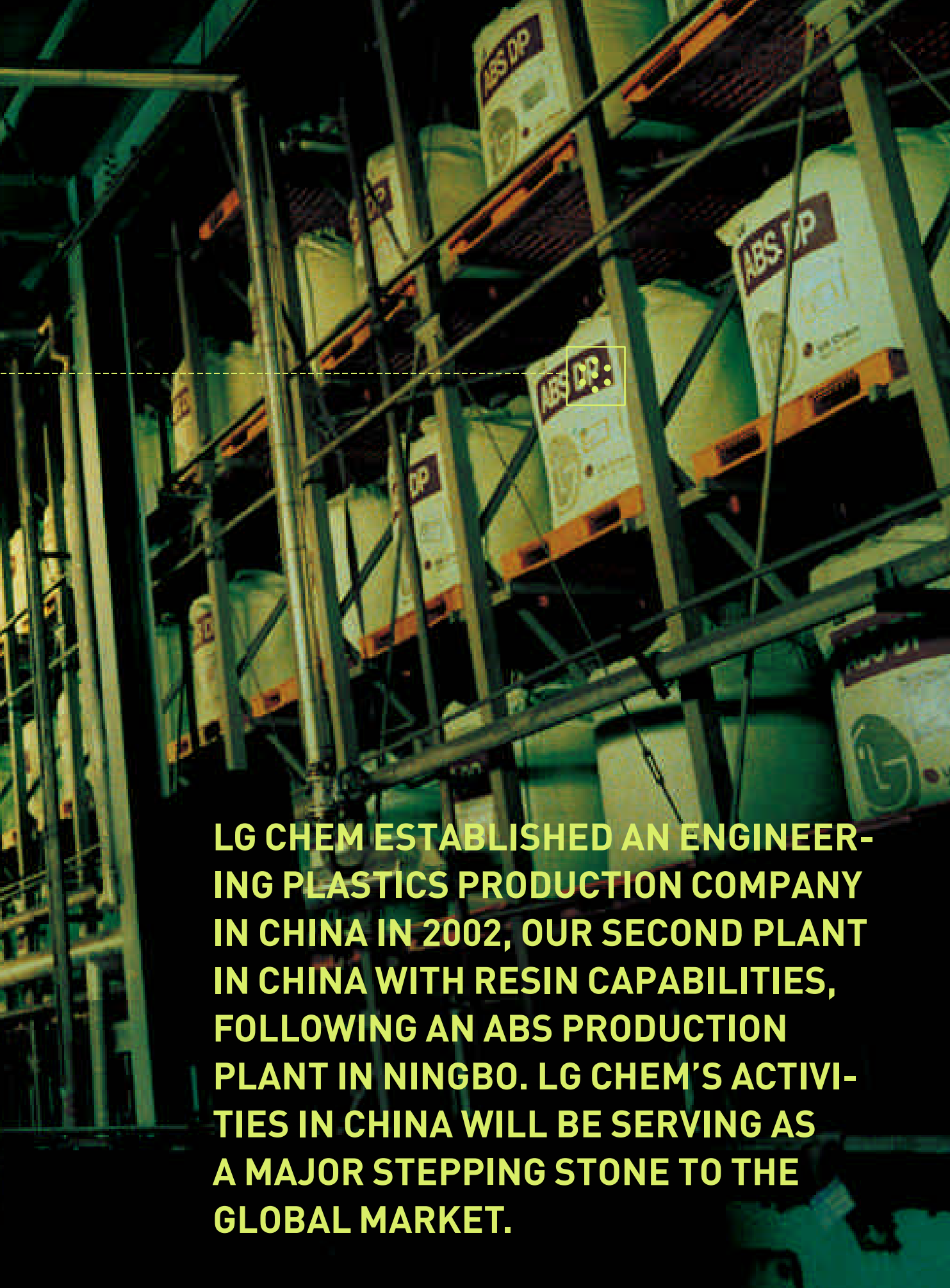


2,050,000 mtpa
total PVC annual production including overseas by 2010



Our Performance Polymers Business Unit, with the world's third largest ABS operations, features high performance engineering plastics that include outstanding compound technology and development capabilities. Additionally, the Business Unit, which prides itself on diversified product capabilities and quality excellence, manufactures outstanding special resins that are recognized at home and abroad for superb quality.





LG CHEM ESTABLISHED AN ENGINEERING PLASTICS PRODUCTION COMPANY IN CHINA IN 2002, OUR SECOND PLANT IN CHINA WITH RESIN CAPABILITIES, FOLLOWING AN ABS PRODUCTION PLANT IN NINGBO. LG CHEM'S ACTIVITIES IN CHINA WILL BE SERVING AS A MAJOR STEPPING STONE TO THE GLOBAL MARKET.

Review of Operations Performance Polymers

“The year 2003

will be an important year in our leap into position as a world leader in Performance Polymers, following on the heels of our highly satisfactory results in profit and growth rates in 2002. For 2002, we scored total sales of 1,386 billion KRW and operating income of 114 billion KRW, a rather remarkable performance in com-

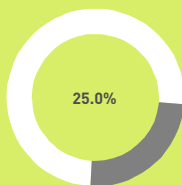


parison to other domestic leaders. In ABS, we romped into place as the world's third largest manufacturer and for 2003 we will concentrate on our capabilities for more outstanding managerial results. By strengthening our Six Sigma campaign, we will further solidify our global positioning while also fostering the finest in truly professional resources. We will also create an outstanding, credible work environment wherein personnel can take both pride and fun in their activities. In all aspects of operations, we will continue to build a solid foundation for reaching the global summit in the field.”

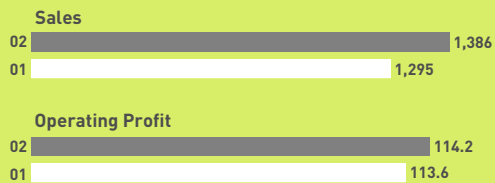
Sung-Dam Lim _ Executive Vice President, Chief of Performance Polymers Business Unit



Portion of Total Sales



Key Financials in billions of won



THE YEAR IN REVIEW

During 2002, we utilized our stance as domestic market leader to augment our increasingly active efforts on the Chinese market. At our LG Yongxing ABS resin plant, our facility investments doubled annual production capacity to 300,000 mtpa by the end of the year.

In Engineering Plastics, we also recorded considerable growth on the basis of materials diversification and value upgrading. With rapid growth in the IT industry, we scored 252 billion KRW in sales of basic alloys for PC and PBT, a 13% increase over the previous year.

Sales in Specialty Resins reached 176 billion KRW with a recurring profit rate of 10% and we set the stage for rapid growth in higher margin specialty resins. In systemizing our business operations and portfolio, we strove to improve production technology and to expand sales operations in MBS, SBS and UV stabilizers. We also stepped into line with top manufacturers by flexing our in-house technology development muscles for upgraded product quality.

THE YEAR AHEAD

Having set a solid foundation to become market leader in ABS operations in China during 2002, LG

Chem plans to actively expand its global marketing strategies and programs in 2003. The company will center activities on securing a market leadership position and on expanded specialty products sales. In securing market leader positioning, the company will intensify client bonding programs while overseas activities will include a number of important programs: establishing market leadership and a Compound production base in China; conducting differentiated marketing programs in Europe and the U.S.; and promoting establishment of a new Dahej production facility in India. To expand specialty products sales, the company will target end users and in the process establish greater credibility, while also devoting efforts to continued new product development. Through all of these activities, the company expects to reach its 2003 goals of capturing 15% of the global market share and reaching total ABS business sales of 1,000 billion KRW.

In Engineering Plastics, the division expects growth of at least 10% over sales for 2002, and consequently has set a target of 270 billion KRW in total sales. In fostering strategic operations, the division will expand domestic applications to overseas markets; develop the world's first leading products in such areas as thermal conductive, Nano



“LG Chem is a very well-known company in China. When I was there, I was really proud to be working for LGYX. Since coming to Korea, I've been working with people in the Performance Polymers Business unit and I've come to see where LG Chem's competitiveness comes from. They are both dedicated and fast in their work. And it's built into them to conserve wherever they can. I expect to learn a great deal here about Korean culture and LG Chem's management culture so that when I return to China, I'll be able to spread LG's Six Sigma and other managerial innovation programs to the personnel there so that they will really work with a sense of mission for the company.”

Huang Yu Yang _ Manager, Admin. & HR Dept. LG Yongxing Chemical



materials, new alloys, etc.; expand outsourcing programs in materials and technology through strategic alliances; and promote advancement into the new business field of nylon. Also in overseas activities, we will establish regular operations at our 20,000 mtpa plant in Guangzhou, China and we also plan to promote OEM production in Shanghai and Beijing areas, activities that reflect the importance of the Chinese market to our operations.

In Specialty Resins, we plan to set a firm base for an eventual leap into position as one of the global top three manufacturers. Plans also include further expansion of sales in high value-added products developed with our in-house technology, and concentration on quality and technical competitiveness as we aim for market leadership. We will establish further credibility and pioneer new markets through development of such products as high impact-absorbing engineering plastics and transparent MBS as we concentrate on capabilities to meet expected growth and demand in the construction industry.

We also can secure market leadership with investment support for distribution systems and

facilities, and we anticipate continued sales growth by diversifying sales regions. For 2003, we look forward to a 10% global market share with sales of 200 billion KRW (a 10% increase), and greater profitability with operating profit of 17%.


ON THE HORIZON

We plan to expand annual ABS production capacity at the Chinese plant from the current 300,000 mt to 500,000 mt by 2005. In addition, our Chinese company has already begun sales of engineering plastics there and we expect to expand production in China to 100,000 mtpa by 2010, bringing out total domestic and overseas annual production to 400,000 mtpa as we actualize plans to become one of the world's top three manufacturers with annual sales of 1,000 billion KRW. A sudden rapid increase in sales of high-performance SBL in China and Southeast Asia provides us with the prospect of capturing 25% of the market there by 2005.



500,000 mtpa
 ABS production in China by 2005





LG Chem pioneered domestic extruded plastic production in 1947 as it initiated business operations in industrial materials, and since then the company has expanded its list of quality products to include plastic window frames, floor coverings, wallpaper, and a variety of other interior and exterior construction products, as well as surface finishes, high-gloss sheet, automotive skins, reflective sheets, flexible sign faces, artificial marble and other advanced industrial materials.

LG CHEM HAS BEEN THE CONSISTENT DOMESTIC MARKET LEADER IN INDUSTRIAL MATERIALS AND NOW THE COMPANY IS FORGING INTO PROMINENCE ON THE GLOBAL MARKET THROUGH THE PROLIFERATION OF WORLD-CLASS OPERATIONS IN ARTIFICIAL MARBLE, HIGH-GLOSS SHEET, ADVERTISING & SAFETY MATERIALS AND OTHER PRODUCTS OF EXCELLENCE.

Review of Operations Industrial Materials

“Over the last decade,

Industrial Materials have provided consistent, stable profitability as a result of average annual growth in sales of more than 10%. In 2002, sales grew 16% to 2,175 billion KRW and operating profit leapt 39% to 210 billion KRW. The impetus behind such formidable growth includes the continuous promotion of devel-

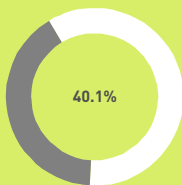


oping a high value-added, high-performance business portfolio and innovative activities to strengthen core capabilities. The Industrial Materials Business Unit's ambitions continue to grow, however, and we're planning to achieve an average annual sales growth rate of 12% until 2010 with an average annual operating profit rate of more than 13% during the same period.

Yoon-Ki Bae _ President, Chief of Industrial Materials Business Unit



Portion of Total Sales



Key Financials in billions of won



THE YEAR IN REVIEW

The domestic construction and finishing materials markets grew during 2002, thanks largely to governmental policy to activate the construction-related sector and to consumer procurement patterns centered on functionalism rather than fancy. In particular, the window frame market greatly expanded, due mainly to a rapid transition from demand for aluminum to PVC window frames. All related industries benefited from market growth in such forefront product areas as home appliances, furniture, and motor vehicles. Despite an unfavorable market in the U.S. due to European economic stagnation, we further activated global marketing efforts, resulting in a 15% increase in total overseas sales over the previous year.

During 2002, the Industrial Materials continued with development and introduction of high-performance, high value-added products as it further fosters growth as a world-class operation. As a result of such efforts, the sale of high-margin products jumped 47% over the previous year, accounting for 24% of total sales. Sales of new products took a 40% share of all products. We also strengthened innovations in our CRM program and through our Six Sigma campaign we made solid improvements in cost reductions and produc-

tivity levels. We established sales subsidiaries in the U.S., Europe and China and secured positioning as a global competitor through PMS activities.

THE YEAR AHEAD

We expect a less than favorable short-term business climate due to a number of factors including declining consumer confidence and uncertainties in the global economy. However, we are optimistic about the second half of the year, since recovery is expected both at home and abroad following the resolution of current local and global uncertainties.

We expect total sales of Industrial Materials to climb 9.5% to 2,152 billion KRW during 2003, as well as 16% increases in both on operating and ordinary income.

We anticipate steady growth in the sale of construction materials due to increasing demand in remodeling projects. With more than 40% of sales in high-gloss sheet, safety materials and finishing materials going to the export market, we expect a steady increase in these sales following recovery from global market stagnation. In particular, we are looking forward to high-speed growth at our Chinese subsidiaries as well as



“LG Chem’s attention to products extends to meticulous design as well as to quality. As a result, the company has received wide consumer recognition for overall excellence in patterns and materials for both interior and industrial products. That’s because while leading the market, the company also devotes efforts to setting new trends in interior design. Last year, a full 31% of products designed at the Design Institute captured at least a 20% market share in their respective categories. During the last two years, newly developed designs have accounted for 48% of all sales, and within the next two-to-three years, we’ll be introducing at least 33 new creative design ideas. Our expertise as domestic leader in both quality and design is rapidly advancing our competitiveness on the global stage.”

So JaeKoo _ Manager, Chief Designer, LG Chem Design Institute



high profitability from our sales subsidiaries in Europe and the U.S. The motor vehicle market expects 2-5% growth per annum and although we are looking for better-than-average growth we are also wary of possible large cost increases in basic materials, which would of course worsen our basic cost structure.

During 2003, we will further strengthen the innovation programs that we have been promoting and aim for greater growth by overcoming the uncertainties of the domestic market and by activating greater marketing programs on the global scene. To increase our global competitiveness, we will strengthen sales capabilities and continue to develop first-rate products as part of our product leadership program.

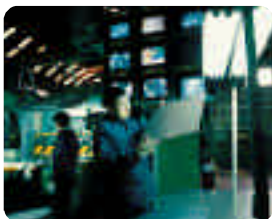
We will continue fostering first-class products in finishings, high-gloss sheets, and safety materials, and by augmenting R&D capabilities, we'll formulate and foster new areas of high potential growth for the future. To overcome the anticipated worsening of the basic cost structure, we will strive for even greater improvements in productivity and affect the Six Sigma campaign in all

areas. We will also further innovate existing programs and concentrate on development capabilities for differentiated products.

ON THE HORIZON

LG Chem has established new visions and managerial operations to lead the company into position as a world-class producer of industrial materials. While maintaining the leading position on the domestic market, the company will strengthen its industrial structure and expand growth potential so as to eventually take prominent positioning on the global market.

The division will further distinguish itself from domestic competitors by introducing a continual flow of new products to lead the market. The division will also make greater inroads into the international market with high value-added, high-performance products that are born out of concentration and dedication to intensive R&D efforts.



50,000 tons
 2005 production target for PVC window production plant in Tianjin, China: 50,000 tons



TOTALS 2002 SALES IN INFORMATION & ELECTRONIC MATERIALS LEAPED 108 PERCENT OVER SALES FOR THE PREVIOUS YEAR. THE COMPANY IS NOW SPRINGING TOWARDS GREATER PROMINENCE ON THE GLOBAL MARKET IN THIS KEY AREA OF OPERATIONS AND EXPECTS A CONTINUATION OF FORMIDABLE ANNUAL GROWTH RATES IN THE YEARS TO COME.



With world-class technology and product capabilities in Information and Electronic Materials, LG Chem is producing a growing range of next-generation products, ranging from lithium-ion to lithium polymer batteries as well as new display materials, toner, and printed circuit materials.

Review of Operations Information & Electronic Materials

“In 2002,

we confirmed the full growth potential of Information & Electronic Materials as a major LG Chem operational area for the future. Total sales grew more than 108% while both operating income and ordinary income also were in the black. During the year, we also increased battery production to four million cells per

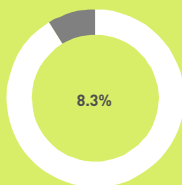


month with establishment of our mass production systems. In addition, early in the year we achieved steady production of world-class TFT-LCD polarizers. During 2003, while taking aim at total annual sales of 1,500 billion KRW by 2005, we will augment the competitiveness of existing products and begin commercialization of a number of newly developed products.”

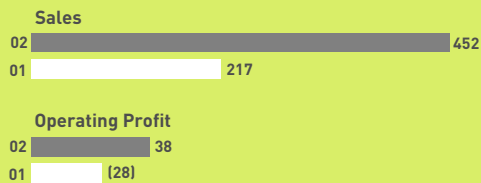
Jong-Pal Kim _ Executive Vice President, Chief of Information & Electronic Materials Business Unit



Portion of Total Sales



Key Financials in billions of won



THE YEAR IN REVIEW

In batteries during 2002, competition with top tiers was greater than ever. Nevertheless we were able to keep atop the market by providing consistently high quality and timely production of high-energy density capacity products. We improved productivity levels and promoted capacity expansion in efforts to cope with increasing demands. As a result of these and numerous other efforts, we tripled total sales over the previous year's level, turning around a loss of 21.7 billion KRW in 2001 into profit for the year.

In TFT-LCD polarizers, during 2002 we set a firm foundation for a leap into position as a global player through solid growth in that market. Early in the year, we put a wider line into full operation to insure sufficient supply capabilities for expanding sales. We were also able to greatly improve profitability by implementing a new in-house-developed mass production system that realizes world-class productivity rates and production performance. We also developed high-functional products through our consistent, intensive R&D operations. On the basis of such strategic activities, we captured a 15% share of the global market, and approached our goal of ranking among the world's top three manufacturers.

We introduced new color toner and this set a

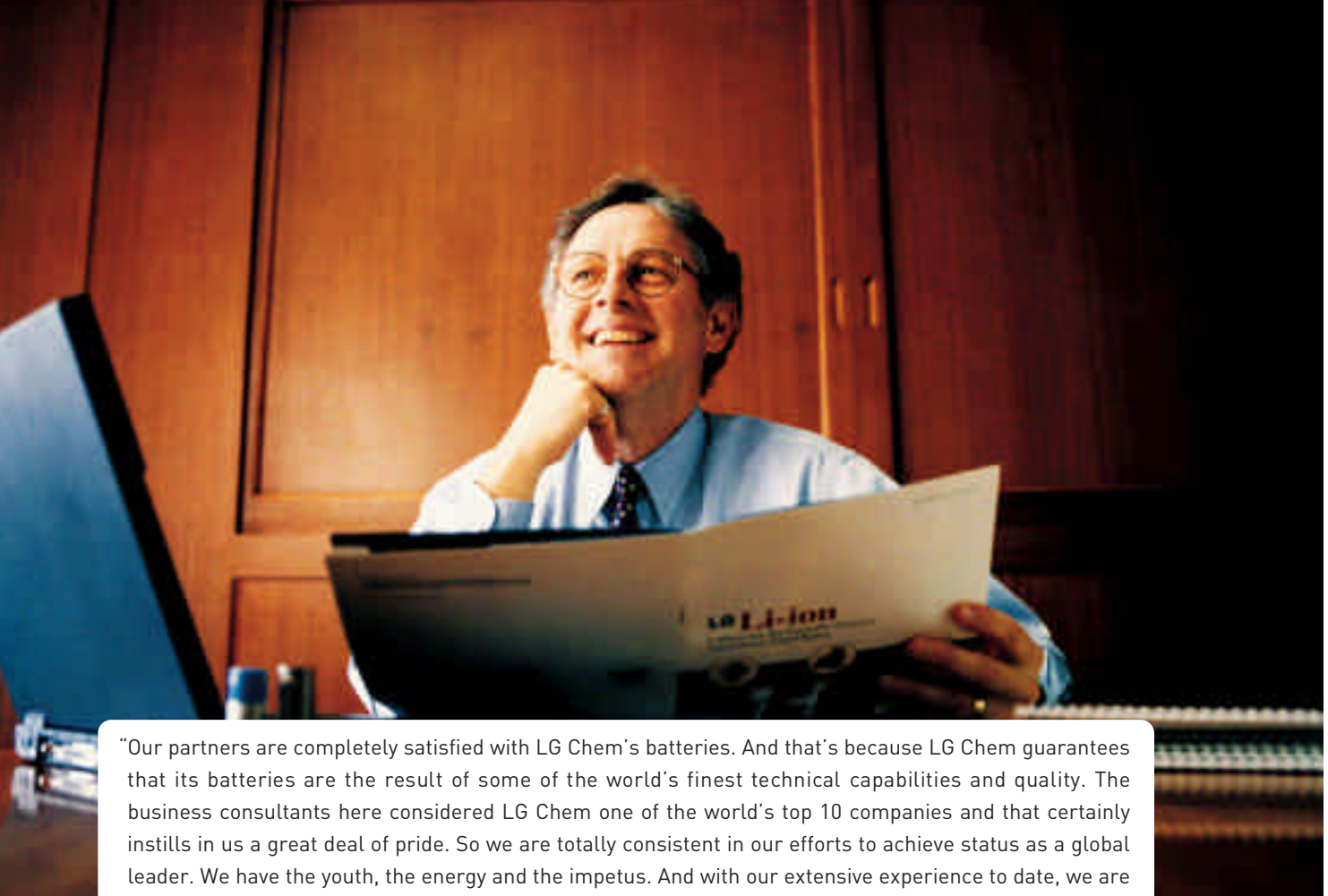
base for positioning ourselves as a top competitor in the field. As a result, we scored a 38% increase in total sales over the previous year. Additionally, our operating profit more than doubled and our high operating profit margin gives us solid footing as a global leader.

Despite ferocious competition as a result of stagnation in the Printed Circuit Material market, we increased actual production a full 70%.

THE YEAR AHEAD

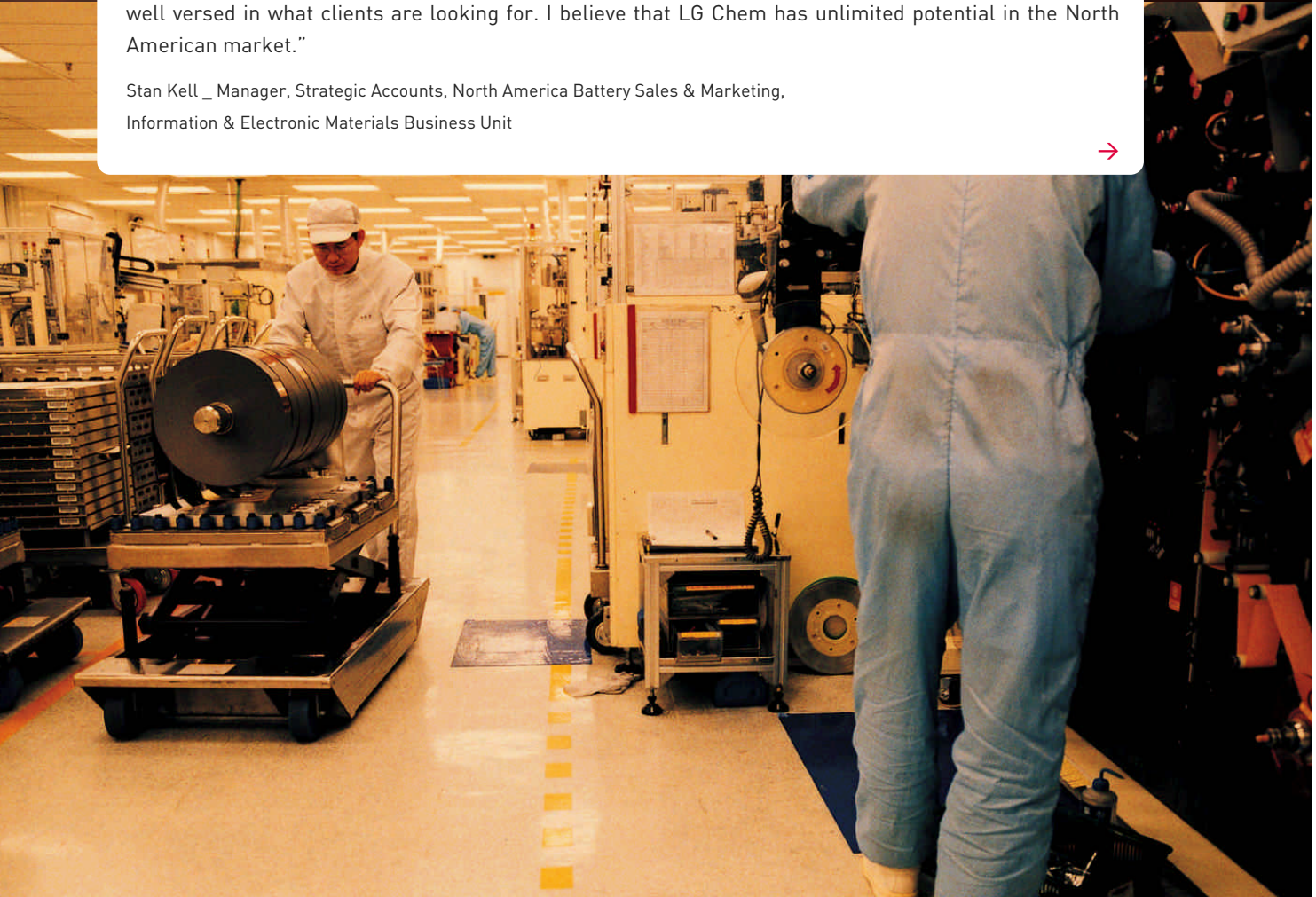
Basic business strategies for 2003 in the Information & Electronic Materials Division include further expanding supply capabilities, increasing first-in-the-field product development capabilities, and solidifying our client bases. As a first stage project in these activities, we began construction at the new Techno Park in Ochang, North Chungcheong Province. Also, our initial expansion of battery and Polarizer production lines are the beginning of a major 1,000 billion KRW investment project to be completed by 2010 that will center around the production of mid- and large- sized rechargeable batteries and other materials related to display devices.

Concerning batteries, we expect a continually steady increase in market demand for mobile devices, particularly with eventual introduction



“Our partners are completely satisfied with LG Chem’s batteries. And that’s because LG Chem guarantees that its batteries are the result of some of the world’s finest technical capabilities and quality. The business consultants here considered LG Chem one of the world’s top 10 companies and that certainly instills in us a great deal of pride. So we are totally consistent in our efforts to achieve status as a global leader. We have the youth, the energy and the impetus. And with our extensive experience to date, we are well versed in what clients are looking for. I believe that LG Chem has unlimited potential in the North American market.”

Stan Kell _ Manager, Strategic Accounts, North America Battery Sales & Marketing,
Information & Electronic Materials Business Unit



of the next-generation IMT-2000. Thus, by expanding our battery production lines to meet these growing demand for batteries.

In the TFT-LCD polarizer market, domestic manufacturers have already put 5th generation production lines into operation and Taiwanese manufacturers are investing heavily in such facilities, all in anticipation of large-scale growth in demands. Consequently, we are making timely investments in order to put our third production line of TFT-LCD polarizers into operation by the end of the year at the Ochang Techno Park as part of our efforts to cope with rapid growth in that market. Therefore, annual production should reach 9 million square meters by the end of 2003; and with additional investments into a fourth line, production should again increase to 15 million square meters in 2004. To accommodate rapidly rising demands for high-performance monitors and televisions, we are now mass producing general grade polarizer for notebook computers as well as wide view polarizer with distinctive quality for monitors. We are now approaching full development of polarizers with improved enhanced brightness for next-generation TVs as well as VA mode polarizers.

Plans also include centering greater activity around color toner, another high growth area and

we are promoting entry into the world's largest toner market in the U.S.

In printed circuit materials, following business diversification into new Flexible CCLs by PCB manufacturers, we will complete the development of FCCL materials and PBGA, and now plan commercialize these advanced products during 2003.

ON THE HORIZON

Following epoch-making managerial advances in 2002 in the field of batteries, we will accelerate competition with such global top tier firms. As we continue with development of mid- and large-sized rechargeable batteries, we anticipate becoming the world's major supplier to automotive manufacturers around the globe and foresee solid possibilities in the mid- and large- sized rechargeable and fuel cell markets as well.

With completion of the Ochang Techno Park by 2010, LG Chem will move into the specialty production zone for the manufacture of materials for such lead items as mid- and large- sized rechargeable batteries, fuel cells and OLED. The site will serve as the company's specialty production base for its Information & Electronic Materials Business Unit.



4 million cells

Average monthly production capacity for batteries in 2002

Management's Discussion & Analysis

Introduction

With roots going all the way back to 1947, LG Chem has led the Korean chemical and petrochemical industry for more than half a century. On April 1, 2001, the company took a giant step towards further specialization by demerging from other corporate activities to concentrate on four major business activities: Petrochemicals, Performance Polymers, Industrial Materials, and Information & Electronic Materials. Thus the company is devoting total efforts for advanced technology, superior products and quality, and superb solutions as it aims for strengthened positioning as a global leader.

The following analyses, outlooks and results may differ over time due to the number of dangers and uncertainties facing the domestic and international economic climates at the time of this writing.

2002 Overview

For the year 2002, LG Chem made impressive strides in both total sales and sales profits. Retail prices of major products increased, the domestic construction and motor vehicle industries were more active and sales of core products such as batteries and polarizers in Information & Electronic Materials demonstrated highly favorable stabilization.

Retail prices of such major products in Petrochemicals and Performance Polymers such as PVC and ABS increased during the year, contributing to a 7% growth in sales. With greater domestic construction activity, including rising demands for remodeling, and with growth in the motor vehicle industry, total sales in Industrial Materials grew 16% for the year, setting a new record in the process. Additionally, through greater global marketing efforts, overseas sales increase 15% for the year. Sales in Information & Electronic Materials grew a full 108% thanks to a number of factors including favorable markets for handsets, an increased number of new clients for batteries and polarizers, improved rates of supply, and improved productivity. Total company

sales for the year reached 5,433 billion KRW, a 15% growth over sales for 2001.

Operating profits in Petrochemicals and Performance Polymers grew 6% due to export price increases and favorable market conditions. The petrochemical industry in general began a recovery in the first half of the year but began to slacken off during the second half due to a reduced price spread and to seasonal sluggishness. Sales of Industrial Materials grew 39% thanks to increased sales in high value-added products. Information & Electronic Materials posted its first year in the black in operating profits thanks to greater product and cost competitiveness. Total operating profits reached 516.4 billion KRW for the year.

Such performance is due largely to projects promoted in a number of fields to expand production as well as to make continuous, intensive R&D investments in advanced batteries and other strategic, futuristic fields. We also actualized PVC and ABS production expansion projects in China ahead of schedule and this resulted in both increased market share and greater client and consumer recognition.

During the year, the company's financial structure also made impressive improvements. Such outside influences as increased financial market stability contributed to this but more importantly we carefully scrutinized R&D investment areas and amounts, and achieved stabilized business results for the year. Such efforts advanced the creation of cash reserves. In the process, we also reduced our debt-equity ratio from 186% at the end of 2001 to 164% at the end of 2002.

Financial Structure

Liabilities

By the end of 2002, we reduced debt by 286 billion KRW to 1,291.4 billion KRW. Over the same period, we reduced long-term debts from 66% to 41% of

total debts, with short-term debts increasing correspondingly from 34 to 59%. Such an increase in short-term debt was the result of scheduled repayment of loans worth 680 billion KRW in by 2003.

Debt at the end of 2002 consisted of 1,030 worth of corporate bonds and general loans of 60.3 billion KRW for a total KRW debt of 1,090.3 billion, or 84% of all liabilities. Foreign liabilities accounted for the remaining 16% and included 144.1 billion KRW worth of Floating Rate Notes and 57 billion KRW worth of general debt.(Debt structure resulting from the takeover of Hyundai Petrochemical is dealt with separately.)

Major Financial Indicators

	Dec 2001	Dec 2002
Debt to equity ratio	186%	164%
Net debt to equity ratio	124%	89%
Interest coverage ratio	2.7	5.2
Return on assets	4.6%	8.8%
Return on equity	14.0%	25.3%

Debt by Currency		billion KRW	
	Dec 2001	Dec 2002	Change
Korean won	1,349.9	1,090.3	(259.6)
Foreign	227.5	201.1	(26.4)
Total	1,577.4	1,291.4	(286.0)

Debt by Maturity		billion KRW	
	Dec 2001	Dec 2002	Change
Long term	1,040.7(66%)	533.8(41%)	506.9
Short term	536.7(34%)	757.6(59%)	220.9

Equity

As of the end of 2001, LG Chem Investment held 23.34% of equity, with foreign shareholders accounting for 38.32% and individual Korean shareholders and institutional investors holding the remainder. The equity structure had changed somewhat by the end of 2002, with LG Chem

investment stock to 30.00%, with foreign investors holding a lower 33.98%, and local investors holding the remaining 36.02%.

According to current Korean fair trade regulations, LG Chem Investment is required to hold at least 30% of the company's outstanding shares by March 31, 2003. As of March 11, 2003, LGCI held 21,926,000 common shares, or 34.03%, thereby the company more than meet fair trade requirements.



Funding Strategy

LG Chem's basic funding strategy is based on minimizing liquidity risk and enhancing profitability through a combination of long/short 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

Management's Discussion & Analysis

US\$200 million, about 50% of unhedged cash flow.

Cost of Capital	billion KRW		
	2002 Results	2003 Target	Change
Interest paid	118.4	111.2	(7.2)
Interest rate	7.24%	6.36%	(0.88%)

* Includes asset-backed securities financing costs

Debt by Currency	billion KRW		
	Dec 2002	Dec 2003 (Est)	Change
Korean won	1,090.3	1,314.6	224.3
Foreign	201.1	299.7	98.6
Total	1,291.4	1,614.3	22.9

* Figures are calculated taking into consideration the takeover of Hyundai Petrochemical

Dividends and Dividend Policy

LG Chem determines dividends on the basis of net income and total earning available for distribution. For a three year period, 1999-2001, the company granted a dividend of 15% on the face value for common stock and 16% for preferred stock. For 2002, due to the fact that the company scored its greatest results ever, LG Chem planned to double dividends on common stock to 30% of face value and nearly double dividends on preferred stock from 16 to 31%. As the company continues to improve its financial structure and corporate profitability, it expects to provide corresponding increases in profit and value to shareholders.

Dividend Summary	million KRW, EPS in KRW		
	2000	2001	2002
Net income	324,821	130,176	345,277
EPS	3,385	1,913	5,152
Earnings avail. for distrib.	78,842	55,245	110,037
Total dividends	78,834	55,235	110,029
Dividends to net income	24.27%	41.70%	31.90%
Dividend payout, common	15%	15%	30%
Dividend payout, preferred	16%	16%	31%
Dividend yield ratio	6.61%	3.45%	3.69%

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

Globalization

LG Chem is executing a number of overseas activities to actualize its goal of becoming a leading global petrochemical company. Major strategies include increasing the number of overseas production subsidiaries, R&D facilities and branch offices as it builds a global network for growth and efficiency. As of the end of 2002, LG Chem had nine overseas production affiliates, four overseas sales subsidiaries; one R&D center; five investment firms; and 10 overseas branch offices in China, Indonesia, India, Vietnam, North America and Europe. Overseas sales for the year 2002, including both exports and subsidiary sales, totaled 2,000 billion KRW.

In particular, we are concentrating major efforts in the strategic Chinese market where we have already reaped considerable results in PVC and ABS, and we continue to expand production facilities and produce first-rate products there. A newly established PVC window frame plant in Tianjin, EP Compounding production plant in Guangzhou, a sales subsidiary in Shanghai, and an artificial marble sales subsidiary for Europe in Switzerland are serving as additional bases for our globalization activities.

In mid-term plans, LG Chem expects to increase overseas sales to 50% of the projected total company sales of 8,000 billion KRW in 2005. In achieving this target, we plan to increase production capabilities at our Chinese facilities to upgrade competitiveness in major products. This plan includes increasing PVC production there from 240,000 mpta at end of 2002 to 640,000 mpta and increasing ABS production from 300,000 to 500,000 mpta, all by 2005. Also in China, we will expand our business and technical service infrastructures, and secure and train the best in core human resources.

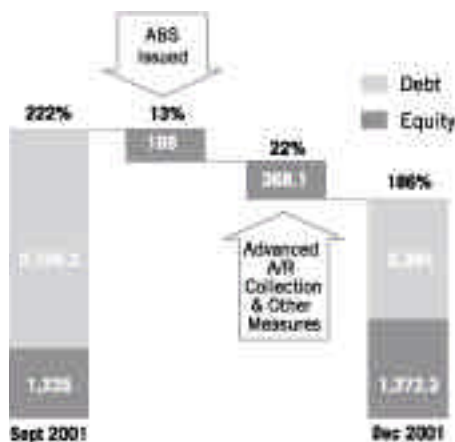
Additionally, we are preparing to introduce other

first-rate products with global competitiveness, including high-gloss sheet, HI-MACS artificial marble, TFT-LCD polarizers, and phosphors.

In other plans for 2003, we expect to establish an EDC production company in Australia to guarantee a steady supply of basic production materials. We also plan to establish new Industrial Materials sales subsidiaries in the U.S. and Polarizer and phosphor subsidiaries in China during 2003 and to begin regular research into EV and other next-generation batteries at our battery R&D center in the U.S. All of



these efforts will build further impetus for our leap China Business Prospects



into position as a global expert in our fields.

EDC Project

In order to provide clients with steady supplies of our quality PVC, we plan to establish a joint-venture EDC production company in Gladstone, Queensland, the largest industrial city in northeastern Australia. Total investment between April 2003 and the end of 2005 will be US\$193 million, and the production facility should swing into operation in 2006 with an annual production capacity of 300,000 mt of EDC and 240,000 mt of Caustic Soda. LG Chem is footing 80% of the investment with Cheetam Salt of Australia and others assuming the remaining 20%.

There are a number of reasons for this investment in Australia. The facility will provide a steady, low-cost supply of materials as well as easier procurement of salt, the basic material for EDC. In addition, there is a ready, proximate market for Caustic Soda to be derived from a nearby alumina smelter. And infrastructure in the city, including the port, is outstanding.

Currently we have a 250,000 mtpa capacity at our Yeosu, Korea EDC plant; yet we still depend on imports for 66% of our EDC supply. The new plant in Australia will guarantee a reliable, steady supply for PVC production. A full 95% of EDC, a basic material for VCM that goes into PVC can be used for production purposes, and Caustic Soda can be derived from the electrolysis process of salt.

Acquisition of Hyundai Petrochemical

Details of Acquisition

LG Chem intends to acquire, in a 50:50 joint venture with Honam Petrochemical of Korea, Hyundai Petrochemical Co., Ltd., manufacturer of ethylene, SM, BD, EG and a variety of other petrochemical products. Agreement for the acquisition with Honam Petrochemical was reached last December and the acquisition contract was

Management's Discussion & Analysis

Financing Methods for Acquisition			100 million KRW
Type	Amount	Conditions	
Investment	6,000	LG Chem/Honam Petro. 50:50	
Loans	8,000	In Hyundai Petrochemical name	
Acquisition debt	3,400	5-year repayable acquisition debt	
Total	17,400		

Acquisition Schedule

- Late Feb. 2003: Creditor approval, application for approval by Fair Trade Commission; establishment of management plan (formation of executive team and Board of Directors)
- Late March 2003: Dispatch of fund control group at closing time and business monitoring team; additional survey and review by Hyundai Petrochemical, and reevaluation of Hyundai Petrochemical assets
- Late April 2003: Expected approval by Fair Trade Commission; closing preparations: acquisition funds/new loans/Usance
- Late May 2003: Payment of acquisition funds and operation of joint venture upon completion of closing

LG Chem Financial Structure Benefits			billion KRW
Category	Plan for 2003	Including Hyundai Petro	
Loans	1,331	1,631 (increase of 300 bil. KRW)	
Debt ratio	130.3%	146.6% (increase of 16.3%)	

Production Capacity

unit: KTM, %

Product		Plant Capacity	Market Presence(%)	
			* Capa Share	Market Share
Basic Chemicals	Ethylene	1,050	19.0	17.4
	Propylene	500	13.6	14.5
	BZ	290	10.9	14.3
	BD	145	19.7	19.5
	SM	390	17.0	11.1
	MTBE	100	-	-
Synthetic Resin	LDPE	275	30.5	23.8
	LLDPE	240	18.2	23.5
	HDPE	140	11.4	9.8
	PP	500	18.3	14.6
Synthetic Fiber	EO/EG	375	42.4	35
Synthetic Rubber	BR	40	18.3	17.4
	SBR	60	25.0	24.3
	NBR	16	44.0	-

*Domestic market share as of Oct 2002

signed on January 30, 2003. The takeover was completed with the acquisition of Hyundai Petrochemical stock, with the final closing at 1,740 billion KRW, although there could a slight variation in this figure. We expect to complete acquisition by the end of May 2003.

Background and Benefits

LG Chem aims to strengthen vertical development of core business operations by expanding the reliable supply of basic materials such as ethylene, SM(Styrene Monomer), Butadien(BD), etc. for the production of our strategic products PVC and ABS, and simultaneously stabilize the company's business structure. With the acquisition of Hyundai Petrochemical, we should be able to achieve an improved synergy effect that will strengthen SM, BD, LDPE and other strong activities, further increase our market share, and augment our positioning as a petrochemical leader. LG Chem perceives the takeover as low risk in consideration of both the potential benefits and the current low business cycle. We expect the petrochemical industry to rebound during 2003, with resulting corporate benefits as a result of the acquisition.

The total cost of the acquisition is 1,740 billion KRW and it will be financed with a 600 billion KRW investment -- 300 billion KRW by both LG Chem and Honam Petrochemical. The remainder will be covered by an 800 million KRW loan in the name of Hyundai Petrochemical and 340 billion KRW in five-year repayable acquisition debt.

Risk Management

Due to increasing uncertainties both at home and abroad, companies are facing rapidly changing and complex business climates internally and externally. The goal of risk management is to reduce and control such degrees of uncertainty so that businesses may have more confidence in planning and may deliver maximum profitability and

shareholder value.

The corporate world is well aware of that appropriate risk management is essential to corporate stability. Risk is also a two-sided coin, offering the possibilities of both loss and gain. LG Chem believes in meeting risk head-on and coping with all potentialities with as much wisdom and innovation as possible. Once LG Chem undertakes a risk, it pours itself headlong into it with unbridled zeal and determination.

LG Chem has specialist risk management teams that report directly to the CFO. The company has defined its major risk areas as investment and strategy, financial, and legal. These areas are further subdivided by additional risk factors, with risk management teams handling each factor by monitoring risks involved and applying appropriate analytic methods. When a risk exceeds a predetermined threshold and is deemed to be a serious threat to company operations, the teams refer the situation to the Risk Management Committee, which after thorough deliberation, formulates and executes a plan and strategy appropriate to the situation.

Financial Risk Management

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

Foreign Exchange Risk

For 2003, LG Chem anticipates a foreign exchange cash inflow of US\$1.5 billion and foreign exchange outflow of US\$1.0 billion, leaving a surplus of US\$500 million. The company is maintaining the same level of foreign exchange loads in order to preserve this surplus as reserve. In order to stabilize future cash flow, the company has, since six months

ago, been actively hedging a regular amount of surplus foreign exchange into futures trading. This minimizes foreign exchange risk through maximum short-term exposure and matching outflow.

Interest Risk Management

In order to cope with the impact of fluctuations in the market, LG Chem strives to maintain an ideal balance between fixed and floating interest rates. The company generally bases policies on the principle of financing facility investments with long-term loans and operational cash with short-term loans. The company also tries to maintain an ideal balance between fixed and floating load interest rates within a range that would assure stability in the corporate financial structure, and at the same time strives to minimize interest costs wherever possible.

Liquidity Risk

LG Chem considers future cash flow prospects and balances debt maturity dates over the broadest possible range of time so as to prevent a prevalent factor in corporate liquidity risk, i.e. a convergence of repayment dates. Additionally, the company tries to maintain the size of short-term loans at an 80-90% level of total operating costs.

Capital Expenditures

LG Chem continues to make impressive investments into strategic business areas and in 2002 such investments totaled 332.6 billion KRW. The company concentrated these investments in second-generation batteries and other information & electronic materials, value added industrial materials, and specialty petrochemical product areas.

In 2003, LG Chem plans to increase heavily its investments into the strategic futuristic area of Information & Electronic Materials. As part of these efforts, the company will begin construction of a new integrated Industrial & Electronic Materials

Management's Discussion & Analysis

production facility at the Ochang Techno Park, and business operations will be increasingly centered in this area. In particular, total new investments for the year will total 206.8 billion KRW and will include 34.3 billion for plant site acquisition, 52.5 billion for a third polarizer production line, 35 billion for a third battery plant, 25 billion for a third electrode plant, and 60 billion for addition of 6th and 7th lines for a variety of battery production.

Capital Expenditures		billion KRW	
	2002 Results	2003 Plan	Change
Total	3,326	5,783	2,457
Petrochemicals	407	635	228
Performance Polymers	653	718	65
Industrial Materials	813	943	130
Information &			
Electronic Materials	755	2,521	1,766
Common Expenses	698	966	268

The investment plan for 2003 does not include the anticipated investment of 300 billion KRW for acquisition of Hyundai Petrochemical Co., Ltd. Consequently, there may be changes in investment amounts in some areas—except for Information & Electronic Materials—once the acquisition of Hyundai Petrochemical is confirmed.

Change in Profitability Standards

LG Chem expects a 3% increase in total sales for 2003, considerably lower than the sales growth rate for 2002. This is a result of changes in accounting standards for recognition of sales revenue. Specifically, total sales each year up through 2002 included sales of raw materials outsourcing related sales but these will no longer be included beginning in fiscal 2003. Were these figures to be included, total sales growth rate for 2003 would be projected at 9.4%.

Holding Company Structure

Sales Forecast

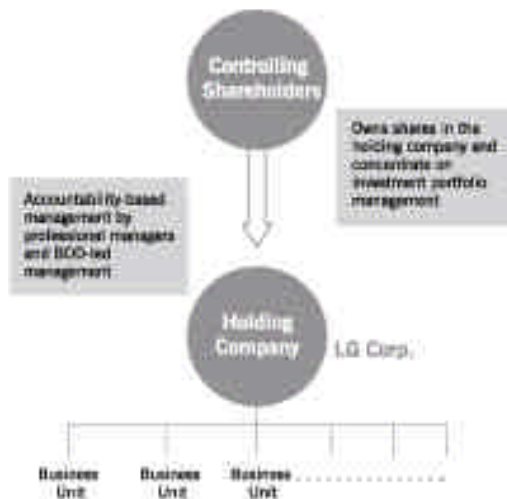


Raw material sales by Unit	billion KRW	
	2002	2003
Petrochemicals	3	13
Performance Polymers	100	103
Industrial Materials	210	230
Information &		
Electronic Materials	20	21
Total	330	370

LG has launched its holding company LG Corp. for the group on March 1, 2003, the first holding company ever for a major conglomerate. The company will include 34 subsidiaries of the LG's total 49 units, including LG Chem, LG Electronics, LG-Caltex Oil, and LG Home Shopping. LG Corp. will be responsible for managing the investment portfolios of subsidiary companies, assisting subsidiaries to improve business outcomes and strategically promoting LG's brand and corporate image. The new holding company's framework will improve management transparency, strengthen competitiveness and maximize shareholder and corporate value.

LG aimed at simplifying its ownership and governance structure, which had rendered complex due to multiple cross investments among affiliates, and rearranging the affiliates under the control of a holding company. Under the holding company system, investment will be made by the holding company and business will be conducted by the affiliates. Then, the business companies will be able to concentrate their efforts on their business,

without worrying about investment and corporate competitiveness and value will be enhanced to a great extent. This "accountability-based management by professional managers" will grant the managers full authority and responsibility concerning management of their respective companies and the strict "management led by the Board of Directors" will enable the companies to focus on their own business areas.



Outlook for 2003

With changes in accounting standards that now do not include sales revenue on raw materials in total sales (est. at 370 billion KRW for 2003), LG Chem now expects total sales for the coming year to reach 5,574.8 billion KRW, a 3% increase over total sales for 2002. Operating profit on sales are expected to increase 18% to 608.6 billion KRW.

With an expected recovery in the area of petrochemicals, the company looks forward to improved performance in Petrochemicals and in Performance Polymers. Additionally, with acquisition of Hyundai Petrochemical, we expect systematic horizontal strengthening of activities, stable

materials supplies, and greater cost competitiveness as a result. In Industrial Materials, the domestic construction industry is expected to be sluggish but as market leader in this area we are confident of maintaining the same profit level as in 2002. In Information & Electronic Materials, production volume will increase following expansion of facilities but due to the rather unfavorable industrial outlook for the year, we anticipate a considerable drop in profitability.

Rising oil prices as a result of the uncertain situation in the Middle East, the potential North Korean nuclear risk, and other factors are converging to present a rather bleak and foggy outlook for the year. Nevertheless, through continual growth in the sale of high-performance, high value-added products, we are looking forward to improved profitability. Improved productivity in such core areas as batteries, ABS, and construction materials will contribute to greater growth in profits on sales rather than in total sales.

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 Yecheon PVC resin plant
- Oct 1978 Commissioned Ulsan FRP plant
- Nov 1978 Commissioned Yecheon 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 Yecheon SAN plant
- Jun 1985 Commissioned Cheongju injection-molding plant
- Jun 1986 Developed epoxy molding compound
- May 1987 Commissioned Naju acrylate plant
- Apr 1988 Commissioned Yecheon PBT plant
- May 1988 Commissioned Yecheon EPS plant
- Mar 1989 Established Korea's first polymer application technology center
- Feb 1990 Commissioned Yecheon 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 Yecheon PA plant
- Apr 1993 Developed world's first HCFC-resistant resin
- Jul 1993 Commissioned IPA plant in Yecheon, 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 Yecheon, 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*

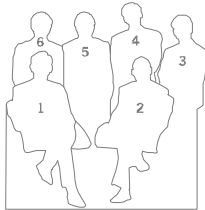


- May 1998 Commissioned Tianjin LG Dagu Chemical PVC plant in China
Commissioned Tianjin LG New Building Materials flooring plant in China
Commissioned Ningbo LG-Yongxing Chemical ABS plant in China
- Aug 1998 Developed advanced metallocene catalyst for PE production
- Nov 1998 Established LG-Dow Polycarbonate
- Feb 1999 Launched 2 million global depository receipt issue
- Aug 1999 Commissioned LG-Dow Polycarbonate plant in Yecheon, Korea
- Mar 1999 Commissioned lithium-ion battery, phosphor, and copper-clad laminate plants in Cheongju, Korea
- 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
- 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 Yecheon, Korea
- Apr 2001 Demerged into three separate companies: LG Chem, LG Chem Investment,
and LG Household & Health Care
- 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
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
- 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
- Apr 2002 Epoxy business sold
- July 2002 ERP system goes into operation
- Aug 2002 Established EP Compounding company in China
- Dec 2002 Major investment at Ochang Techno Park
- Dec 2002 Established EDC plant in Australia
- Dec 2002 World's 3rd largest ABS producer





Board of Directors



- | | | |
|---|--|--|
| <p>1 Ki-Ho No
CEO of LG Chem</p> <p>2 Kuk-Hwan Chun
Former Head of
Industrial Products
Division of 3M Korea</p> | <p>3 Han-Yong Cho
Executive Vice President
CFO of LG Chem</p> <p>4 Yu-Sig Kang
Vice Chairman
LG Executive Office for
Corporate Restructuring</p> | <p>5 Jong-Hyun Jang
President of Booz Allen &
Hamilton Korea</p> <p>6 Kyung-Hee Yoo
Lawyer</p> |
|---|--|--|

Executives

Ki-Ho No
President & CEO

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

Yoon-Ki Bae
President
Chief of Industrial Materials
Business Unit

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

Han-Yong Cho
Executive Vice President
CFO

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

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

Independent Auditor's Report

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

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. ("the Company") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem Ltd. as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, in conformity with financial accounting standards generally accepted in the Republic of Korea. without qualifying our opinion we draw attention to the following matters.

As discussed in Notes 1 and 21 to the non-consolidated financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed the registration process for new companies 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 was listed on the Korean Stock Exchange on April 25, 2001.

As discussed in Note 17 to the non-consolidated financial statements, the Company sells its products to and purchases certain materials from related companies, including LG Petrochemical Co., Ltd. During the year ended December 31, 2002 and the nine-month period ended December 31, 2001, total sales to related companies amounted to ₩913,351 million and ₩492,498 million, respectively, and total purchases from related companies amounted to ₩1,125,435 million and ₩782,450 million, respectively. As of December 31, 2002 and 2001, related accounts receivable amounted to ₩91,011 million and ₩65,825 million, respectively, and related accounts payable amounted to ₩154,747 million and ₩133,529 million, respectively.

Further, the Company has guaranteed the payment of various obligations of affiliated companies. The outstanding balances of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million (related outstanding bank borrowings: ₩128,485 million) and 251,516 million (related outstanding bank borrowings : ₩159,375 million), respectively. As of December 31, 2002, short-term financial instruments of ₩5,522 million are deposited in connection with borrowings of related parties.

As discussed in Note 7 to the non-consolidated financial statements, upon a resolution of the Board of Directors on April 24, 2002, the Company disposed of its investment in LG Investments and Securities Co., Ltd. of 5,265,650 shares (per share ₩19,000) for ₩100,047 million and recognized a gain on disposal of investment amounting to ₩37,669 million on April 25, 2002. In addition, the Company acquired 6,320,000 common shares of LG Petrochemical Co., Ltd. in the amount of ₩94,990 million (per share ₩15,030)

As discussed in Note 20 to the non-consolidated financial statements, on May 8, 2002, the Company disposed of its epoxy polymers segment to Bakelite Korea, a subsidiary of Bakelite Co., Ltd. at ₩22,402 million and realized a gain on the disposal of the segment amounting to ₩3,807 million.

On May 31, 2001, the Company disposed of its powder segment to LG Lucoat Powder Coatings Ltd. (formerly, LG Ferro Powder Coatings Ltd.) of which the Company owns 28.33% 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 a 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.

As discussed in Note 2 to the non-consolidated financial statements, the Company implemented the ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during the period of fluctuating prices, there by reflecting a more realistic picture of the Company's financial position. The change increased (decreased) inventory by ₩2,710 million and (2,283) million, and net income by ₩4,993 million and ₩(2,283) million for the year ended December 31, 2002 and the nine-month period from April 1, 2001 to December 31, 2001, respectively.

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



Seoul, Korea
January 29, 2003

This report is effective as of January 29, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	₩ 143,761	₩ 89,977
Short-term financial instruments (Note 3)	5,789	4,880
Trade accounts and notes receivable, net (Notes 4, 5 and 17)	311,138	280,802
Other accounts receivable, net (Note 5)	54,815	28,857
Inventories (Note 6)	332,045	251,559
Accrued income	743	802
Advance payments	3,572	3,062
Prepaid expenses	8,595	11,118
Other current assets	2,277	640
Total current assets	862,735	671,697
Property, plant and equipment, net (Note 8)	2,259,795	2,356,414
Investment securities (Note 7)	508,435	448,394
Other investments	37,596	40,146
Long-term financial instruments (Note 3)	256	307
Long-term prepaid expenses	21,715	22,310
Long-term trade accounts and notes receivable, net (Note 4)	2,223	2,364
Long-term guarantee deposits	16,184	14,702
Deferred gain on derivative financial instruments	51	-
Intangible assets (Note 2)	137,152	77,708
Total assets	₩ 3,846,142	₩ 3,634,042

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

Continued;

Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 9)	₩ 59,361	₩ 299,082
Current maturities of long-term debt (Note 9)	703,388	237,803
Trade accounts and notes payable (Note 17)	405,196	305,499
Other accounts payable	345,853	316,592
Accrued expenses	15,860	12,278
Income taxes payable (Note 14)	95,088	24,202
Dividends Payable (Note 16)	110,037	55,236
Others current liabilities	38,272	22,549
Total current liabilities	1,773,055	1,273,241
Long-term debt, net of current maturities(Note 10)	521,325	1,030,081
Accrued severance benefits, net(Note 2)	63,514	47,809
Deferred income tax liabilities (Note 14)	23,905	5,781
Other long-term liabilities	7,157	7,126
Total liabilities	<u>₩ 2,388,956</u>	<u>₩ 2,364,038</u>

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

Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
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	322,126
Preferred stock, issued : 8,661,251 shares	43,306	43,306
	<u>365,432</u>	<u>365,432</u>
Capital surplus (Note 12):		
Paid in capital in excess of par value	532,002	532,002
Asset revaluation surplus	206,769	206,769
	<u>738,771</u>	<u>738,771</u>
Retained earnings (Note 12)		
Legal reserve	16,526	5,523
Other reserve	284,751	71,690
Unappropriated retained earnings (Net income ₩345,277 million in 2002 and ₩130,176 million in 2001)	8	(2,273)
	<u>301,285</u>	<u>74,940</u>
Capital adjustment :		
Treasury stock (Note 13)	(438)	(178)
Gain on valuation of investment securities (Note 7)	52,136	91,039
	<u>51,698</u>	<u>90,861</u>
Total shareholders' equity	<u>1,457,186</u>	<u>1,270,004</u>
Total liabilities and shareholders' equity	<u>₩ 3,846,142</u>	<u>₩ 3,634,042</u>

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

Income Statements

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	In Millions of Korean Won	
	2002	2001
Sales (Notes 17 and 19) :		
Domestic	₩ 3,101,857	₩ 2,092,399
Export	2,331,203	1,507,651
	<u>5,433,060</u>	<u>3,600,050</u>
Cost of sales (Note 17)	4,313,909	2,927,505
Gross profit	1,119,151	672,545
Selling expenses	393,512	289,143
Administrative expenses	209,253	116,143
Operating income (Note 19)	<u>516,386</u>	<u>267,259</u>
Non-operating income (expenses)		
Interest expenses, net	(87,503)	(95,028)
Foreign exchange gain, net	2,380	3,544
Gain on foreign currency translation, net	5,805	2,874
Gain (loss) on disposal of investment, net	37,513	(8,973)
Gain on valuation of investments using the equity method of accounting (Note 7)	42,291	16,116
Loss on disposal of property, plant and equipment, net	(16,289)	(7,127)
Impairment loss on inventory	(5,889)	-
Impairment loss on intangible asset	(4,185)	-
Others, net	(11,454)	8,939
	<u>(37,331)</u>	<u>(79,665)</u>
Income before income tax	479,055	187,604
Income tax expense (Note 14)	133,778	57,428
Net income	<u>₩ 345,277</u>	<u>₩ 130,176</u>
Basic and diluted ordinary income per share (Note 15)	<u>₩ 5,152</u>	<u>₩ 1,913</u>
Basic and diluted earning per share (Note 15)	<u>₩ 5,152</u>	<u>₩ 1,913</u>

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

Statements of Appropriation of Retained Earnings

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

Dates of appropriations: March 7, 2003 and March 8, 2002

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, respectively

	In Millions of Korean Won	
	2002	2001
Retained earnings before appropriations:		
Unappropriated retained earnings		
carried forward from prior year	₩ (2,273)	₩ -
Changes in retained earnings resulting from the use of the equity method on investments (Note 12)	(8,864)	-
Net income	345,277	130,176
	<u>334,140</u>	<u>130,176</u>
Appropriations :		
legal reserve	11,003	5,523
other reserves	213,060	71,690
Cash dividends (Note 16)	110,029	55,236
(common stock : 30% and 15% in 2002 and 2001, respectively preferred stock : 31% and 16% in 2002 and 2001, respectively)		
Loss on disposal of treasury stock	40	-
	<u>334,132</u>	<u>132,449</u>
Unappropriated retained earnings		
carried forward to the subsequent year	<u>₩ 8</u>	<u>₩ (2,273)</u>

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

Statements of Cash Flows

For the year ended December 31, 2002 and for nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	In Millions of Korean Won	
	2002	2001
Cash flows from operating activities :		
Net income	₩ 345,277	₩ 130,176
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	251,221	184,060
Impairment loss on intangible asset	4,185	-
Provision for doubtful accounts	15,571	17,054
Loss on valuation of inventory	5,889	-
Provision for severance benefits	46,630	35,185
Gain on foreign currency translation, net	(7,127)	(2,846)
Amortization of discounts	6,548	12,455
Loss on disposal of investment, net	10,238	2,292
Loss on disposal of property, plant and equipment, net	16,289	7,127
Loss (gain) on disposal of investment, net	(37,513)	8,973
Gain on valuation of investments using the equity method of accounting	(42,291)	(16,116)
Changes in operating assets and liabilities:		
Trade accounts receivable	(48,025)	132,738
Other accounts receivable	(26,379)	(9,689)
Accrued income	(1,012)	14,018
Inventories	(77,642)	75,636
Advance payments	(511)	1,362
Prepaid expenses	2,923	1,729
Other current assets	(1,486)	1,415
Trade accounts payable	99,783	9,794
Other accounts payable	29,251	2,080
Accrued expenses	3,582	5,622
Income taxes payable	70,886	24,202
Other liabilities	35,129	1,896
Payment of accrued severance benefits	(31,462)	(24,090)
Net cash provided by operating activities	₩ 669,954	₩ 615,073

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

Statements of Cash Flows

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

In Millions of Korean Won

	2002	2001
Cash flows from investing activities :		
Decrease in long-term financial instrument, net	₩ 51	₩ 39,734
Increase in other investments, net	(1,194)	(3,578)
Increase (decrease) in long-term guarantee deposits, net	(1,482)	7,300
Disposal of property, plant and equipment	69,900	9,226
Dividend income	20,539	8,999
Increase in short-term financial instruments	(910)	(4,383)
Acquisition of investment securities, net	(48,542)	(56,941)
Acquisition of property, plant and equipment	(281,636)	(207,768)
Increase in intangible assets	(30,398)	(30,377)
Others	(2,269)	(319)
Net cash used in investing activities	(275,941)	(238,107)
Cash flows from financing activities :		
Decrease in short-term borrowings	(477,709)	(861,411)
Increase in long-term debt, net	192,978	547,774
Acquisition of treasury stock, net	(299)	(178)
Dividends payment	(55,228)	-
Others	29	616
Net cash used in financing activities	(340,229)	(313,199)
Net increase in cash and cash equivalents	53,784	63,767
Cash and cash equivalents as of January 1, 2002 and April 1, 2001	89,977	26,210
Cash and cash equivalents aa of December 31, 2002 and 2001	₩ 143,761	₩ 89,977

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

Notes to Financial Statements

December 31, 2002 and 2001

Note 1

The Company:

As discussed in Note 21 to the financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, performance polymers, industrial and building materials, and information and electronic materials. The Company has manufacturing facilities located in Yeosoo, Chungju, Ulsan, Naju, Onsan, Iksan and Daesan.

As of December 31, 2002 and 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, 2002 and 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 shares of common stock and 8,661,251 shares of preferred stock. 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 non-consolidated financial statements in accordance with Financial Accounting Standards of the Republic of Korea 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 financial accounting standards generally accepted in the Republic of Korea. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. 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. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying financial statements.

The preparation of the 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, which resulted from transactions incurred prior to the spin-off are settled by cash.

Asset-backed Securities –

In accordance with the Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade receivables and ₩30,369 million of guarantee deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively (see Note 4). The Company recognizes interest and issuance expenses as losses on disposition of trade receivable and losses on disposition of investments, respectively.

Allowance for Doubtful Accounts –

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

Inventories –

Inventories are stated at the lower of cost or market value, with cost being determined by the moving average method except for materials in-transit for which cost is determined by the specific identification method. The Company recognized ₩5,889 million of impairment loss on inventory in 2002.

The Company implemented an ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during periods of fluctuating prices, thereby reflecting a more realistic picture of the Company's financial position. In compliance with financial accounting standards generally accepted in the Republic of Korea, the financial statements as of and for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, have been restated for the change in accounting method, which resulted in the decrease of ordinary income and net income for the nine-month period ended December 31, 2001 by ₩2,283 million.

The effects of the change in the inventory valuation method are summarized as follows (Millions of Won):

	2002			2001		
	Before	After	Effect	Before	After	Effect
	Change	Change		Change	Change	
Ordinary income	₩474,063	₩479,056	₩ 4,993	₩189,889	₩187,604	₩ (2,283)
Net income	₩340,284	₩345,277	₩ 4,993	₩132,459	₩130,176	₩ (2,283)
Ordinary income per share(Won)	₩ 5,110	₩ 5,152	₩ 42	₩ 1,949	₩ 1,913	₩ (36)
Earnings per share (Won)	₩ 5,110	₩ 5,152	₩ 42	₩ 1,949	₩ 1,913	₩ (36)

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 Company's

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.

The difference between the purchase price and the Company's proportionate ownership of the net book value of invested companies are amortized over the relevant years not to exceed twenty years using the straight-line method.

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 rata ownership.

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 period's average exchange rate for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in 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.

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(in years)
Buildings and structures	25 - 50
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 year ended December 31, 2002 and the nine-month period ended December 31, 2001, capitalized interest expense amounts to ₩11,913 million and ₩12,822 million, respectively.

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

The Company realized a loss on the disposal of non-operating fixed assets amounting to ₩19,923 million for the year ended December 31, 2002.

Intangible Assets –

Intangible assets as of December 31, 2002 and 2001 are as follows (Millions of Won):

	2002	2001
Intellectual proprietary rights	₩ 13,852	₩ 14,105
Exclusive facility use rights	364	427
Development costs	114,915	61,729
Others	8,021	1,447
	<u>₩ 137,152</u>	<u>₩ 77,708</u>

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 year ended December 31, 2002 and the nine-month period ended December 31, 2001, the Company capitalized ₩66,333 million and ₩25,231 million of development costs as intangible assets and recorded ₩34,440 million and ₩27,962 million of development costs as current expenses, respectively.

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

	2002	2001
Beginning balance	₩ 61,729	₩ 41,233
Increase	66,333	25,231
Amortization	(8,962)	(4,735)
Impairment loss	(4,185)	-
Ending balance	<u>₩ 114,915</u>	<u>₩ 61,729</u>

Revaluation of Receivables –

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

Premiums or Discounts on Debentures –

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

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

Foreign Currency Translation –

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

Monetary assets and liabilities denominated in foreign currency, excluding the items referred to in Notes 9 and 10 as of December 31, 2002 and 2001, comprise the following:

	Foreign Currency (In Thousands)				Millions of Won	
		2002	2001	2002	2001	
Cash and cash equivalents	USD	9,369	USD 1,367	₩ 11,246	₩ 1,812	
Trade accounts and notes receivable	USD	71,446	USD 38,288	109,010	51,724	
	EU	1,120	DM 61			
	GBP	114	EU 384			
	SGD	261				
	JPY	2,116,578				
Other investment	USD	113	-	135	-	
Other investments	USD	5,082	USD 9,683	6,101	12,840	
Trade accounts and notes payable	USD	77,209	USD 29,372	120,618	54,788	
	EUR	394	EUR 182			
	NK	221	DM 108			
	CHF	27	NK 221			
	JPY	2,703,171	SF 5			
			JPY 1,108,138			
Other accounts payable	USD	13,705	JPY 4,241,130	43,411	42,810	
	JPY	2,631,980				
Accrued expenses		-	USD 4,406	-	5,843	

Accrued Severance Benefits –

As discussed in Note 21 to the financial statements, LG Chem Investment Ltd. transferred its employees and the related accrued severance benefit due 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 which would be payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

Accrued severance benefits are funded approximately 62.3% and 66.8% as of December 31, 2002 and 2001, respectively, through a severance insurance plan. The Company accounts for the amounts funded under the plan as a deduction from 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.

Income Taxes –

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

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year ended December 31, 2002 and the nine-month period ended 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.

Impairment Loss –

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

Derivative Financial Instruments –

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized as a component of current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows, which are recorded as a capital adjustment. The Company recognized ₩621 million of loss on hedging transaction in 2002.

Application of the Statements of Korean Financial Accounting Standards –

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

Note 3

Restricted Bank Deposits:

As of December 31, 2002, short-term financial instruments of ₩5,522 million (equivalent to US\$ 4,600 thousand) are deposited in connection with borrowings of related parties. Further, long-term financial instruments of ₩46 million and ₩44 million, are deposited in connection with bank overdraft agreements as of December 31, 2002 and 2001, respectively. The withdrawal of these deposits is restricted (See Note 17).

Note 4

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 guarantee deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively.

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

The Company has the obligation to collect the trade receivables transferred and for payments of the special purpose Company's expenses, such as interests and operating expenses as described above.

As of December 31, 2002 and 2001, trade accounts receivable transferred to the Asset Securitization Companies amounted to ₩171,612 million and 172,883 million, respectively.

Note 5

Receivables :

Receivables and allowance for doubtful accounts as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Trade accounts and notes receivable	₩ 339,100	₩ 304,808
Less : Allowance for doubtful accounts	(27,245)	(23,343)
Present value adjustment	(717)	(663)
	<u>₩ 311,138</u>	<u>₩ 280,802</u>
Other accounts receivable	₩ 56,273	₩ 30,315
Less : Allowance for doubtful accounts	(1,458)	(1,458)
	<u>₩ 54,815</u>	<u>₩ 28,857</u>
Long-term trade accounts and notes Receivable	₩ 3,414	₩ 3,490
Less : Present value adjustment	(1,191)	(1,126)
	<u>₩ 2,223</u>	<u>₩ 2,364</u>

Note 6

Inventories :

Inventories as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Merchandise	₩ 15,101	₩ 11,354
Finished products	166,966	109,099
Work-in-process	31,675	67,659
Raw materials	78,771	31,721
Supplies	16,567	14,322
Materials in-transit	22,965	17,404
	<u>₩ 332,045</u>	<u>₩ 251,559</u>

As of December 31, 2002 and 2001, inventories are insured against fire and other casualty losses up to ₩308,856 million and ₩299,954 million, respectively.

Note 7

Investments :

Investment securities as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Reference	2002	2001
Bonds	(1)	₩ 30,378	₩ 32,076
Stocks	(2)	478,057	416,318
		<u>₩ 508,435</u>	<u>₩ 448,394</u>

(1) Bonds as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Annual		Acquisition Cost		Book Value	
	2002	2001	2002	2001	2002	2001
Government bonds	3.0-6.0	3.0-6.0	₩ 1	₩ 428	₩ 1	₩ 428
Beneficiary certificates (*)	-	-	28,612	29,883	28,612	29,883
Subordinated note	11.0	11.0	1,765	1,765	1,765	1,765
			<u>₩30,378</u>	<u>₩32,076</u>	<u>₩30,378</u>	<u>₩32,076</u>

(*) The Company acquired the subordinated note through the asset-backed securitization of trade receivables and guarantee deposits (see Note 4). Beneficiary certificates amounts vary every month in accordance with the difference between the collection and transfer of trade receivables.

(2) Stocks as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Ownership		Acquisition Cost		Book Value		Fair Value or Net Asset Value (*6)	
	Percentage (%)							
	2002	2001	2002	2001	2002	2001	2002	2001
Listed Stocks								
LG Investment and Securities								
Co., Ltd. (*1)	-	4.30	-	121,286	-	78,458	-	78,458
				124,025	-	78,458	-	78,458
Unlisted Stocks								
Wuxi LG Chemical Co., Ltd. (*2)	25.00	25.00	275	275	275	275	-	77
N&L Marble	10.00	10.00	169	169	169	169	138	134
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	491	511
TECWIN	19.90	19.90	139	139	139	139	591	262
ChemRound Pte. Ltd.	-	1.40	-	784	-	784	-	419
Chemizen. Com Ltd.	3.33	3.33	300	300	300	300	167	165
LG Mozel Ltd	19.50	19.50	195	195	195	195	-	195
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	2,298	2,298	3,601	2,440
Compact Power Inc. (*2)	61.00	61.00	3,732	3,732	3,732	3,732	1,325	958
LG Chem Europe (*3)	100.00	-	1,568	-	1,568	-	228	-
Tianjin PVC & Doors (*3)	100.00	-	9,820	-	9,820	-	9,820	-
LG Holdings (H.K.)	18.18	-	13,401	-	13,401	-	13,063	-
LG Chemical (Guangzhou) (*3)	100.00	-	5,278	-	5,278	-	5,278	-
LG Chemical Trading (*3)	100.00	-	1,202	-	1,202	-	1,202	-
			38,953	8,468	38,953	8,468	35,904	5,161
Investments Using the Equity Method								
LG Sports Ltd.	20.00	20.00	1,200	1,200	989	1,001	977	988
LG Petrochemical Co., Ltd.	40.00	26.02	153,790	58,800	226,265	126,597	205,118	127,154
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	35,249	37,728	35,249	37,698
Tianjin LG New Building Materials Co., Ltd.	90.37	90.37	12,399	12,399	8,652	8,632	8,548	8,512
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	63,638	46,507	77,510	67,998	77,509	68,023
LG India Holdings., Ltd.	100.00	100.00	31,467	31,467	41,276	37,203	41,287	37,203
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	4,803	4,248	4,804	4,152
LG Vina Chemical Co., Ltd.	40.00	40.00	1,194	1,194	1,041	362	1,041	362
LG Chemical America Inc.	100.00	100.00	9,596	9,596	-	-	1,084	-
P.T. Sinar LG Plastics Ind.	95.00	45.00	16,172	4,779	-	-	-	-
LG Lucoat Powder Coatings Ltd. (*4)	28.33	29.90	2,207	2,329	2,328	2,420	2,301	2,390
M. Dohmen S.A. (*5)	49.00	49.00	43,203	43,204	40,991	43,204	23,372	11,349
			352,618	229,227	439,104	329,392	401,290	297,831
			<u>₩391,571</u>	<u>₩358,981</u>	<u>₩478,057</u>	<u>₩416,318</u>	<u>₩437,194</u>	<u>₩381,450</u>

(*1) On April 25, 2002, the Company disposed of its investment in LG Investments and Securities Co., Ltd. of 5,265,650 shares (per share ₩19,000).

(*2) 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.

(*3) Since the investees were established in 2002, the equity method of accounting was not used.

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

(*5) M. Dohmen Holding S.A. became a consolidated controlling company. Consequently, the Company acquired M. Dohmen Holding S.A. through M. Dohmen GmbH. the exchange of their share.

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

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

As of December 31, 2002 and 2001, the investment securities valued using the equity method are as follows (Millions of Won):

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

(*1) The Company discontinued using the equity method of accounting and investments in these affiliates are stated at ₩0, because the affiliates' net asset value is negative. However, there is no unrecognized loss during the year.

(*2) The change in the retained earnings of LG petrochemical Co., Ltd. resulted from the accumulated effects of the change in the inventory valuation method used by LG Petrochemical Co., Ltd. while the change in the refrained earnings of P.T. Sinar LG Plastics Ind. resulted from the accumulated unrecognized losses incurred after the discontinuation of the use of the equity method of accounting reflected in the current year due to the capital increase of P. T. Sinar LG Plastics Ind.

	Changes for the nine-month period ended December 31, 2001					
	As of April 1, 2001	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease)	As of December 31, 2001
					in Capital Adjustment	
LG Sports Ltd.	₩ 1,387	₩ -	₩ -	₩ (386)	₩ -	₩ 1,172
LG Petrochemical Co., Ltd.	114,250	-	-	11,818	529	115,817
Tianjin LG Specialty Chemical Co., Ltd.	5,541	(5,541)	-	-	-	-
Tianjin LG Dagu Chemical Co., Ltd.	34,340	-	-	1,513	1,875	35,971
Tianjin LG New Building Materials Co., Ltd.	9,163	-	-	(982)	450	8,093
Ningbo LG Yongxing Chemical Co., Ltd.	56,495	4,891	(8,999)	14,359	1,253	65,316
LG India Holdings., Ltd.	40,177	-	-	(3,333)	359	38,612
LG Chemical Hong Kong Ltd.	3,057	-	-	1,005	186	4,064
LG Vina Chemical Co., Ltd.	290	-	-	54	18	337
LG Chemical America Inc. (*1)	9,272	-	-	(8,017)	(1,225)	-
P.T. Sinar LG Plastics Ind. (*1)	-	6	-	(6)	-	-
LG Lucoat Powder Coatings Ltd.	-	2,329	-	91	-	2,329
M. Dohmen Holding S.A.	-	43,203	-	-	-	43,203
	<u>₩ 273,972</u>	<u>₩ 44,889</u>	<u>₩ (8,999)</u>	<u>₩ 16,116</u>	<u>₩ 3,415</u>	<u>₩ 329,392</u>

(*1) The Company discontinued using the equity method of accounting and investments in these affiliates are stated at ₩0, because the affiliates' net asset value is negative. The accumulated unrealized loss incurred after the discontinuation of the application of the equity method of accounting of LG Chemical America Inc. and P. T. Sinar LG Plastics Ind. is ₩2,400 million and ₩3,533 million, respectively.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

	2002				2001			
	Beginning	(Decrease)	Increase (Reversal)	Amortization Ending	Beginning	(Decrease)	Increase (Reversal)	Amortization Ending
LG Sports Ltd.	₩ 14	₩ -	₩ 2	₩ 12	₩ 15	₩ -	₩ 1	₩ 14
LG Petrochemical Co., Ltd.	68	25,740	1,939	23,869	114	-	46	68
Tianjin LG New Building Materials Co., Ltd.	167	-	21	146	188	-	21	167
LG LUCOAT powder Coatings Ltd.	30	3	6	27	-	33	3	30
M. Dohmen S.A.	-	19,578	1,958	17,620	-	-	-	-
Ningbo LG Yongxing Chemical Co., Ltd.	-	-	-	-	-	1,238	1,238	-
	<u>₩ 279</u>	<u>₩ 45,321</u>	<u>₩ 3,926</u>	<u>₩ 41,674</u>	<u>₩ 317</u>	<u>₩ 1,271</u>	<u>₩ 1,309</u>	<u>₩ 279</u>

The unrealized gains (losses) resulting from transactions with equity method investees incurred and eliminated as of December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

	2002				2001			
	Tangible or Intangible			Total	Tangible or Intangible			Total
	Inventory	Investments	asset		Inventory	Investments	asset	
LG Petrochemical Co., Ltd.	₩2,722	₩ -	₩ -	₩2,722	₩1,153	₩ -	₩ -	₩1,153
LG Chemical Hong Kong., Ltd.	1	-	-	1	4	-	-	4
Tianjin LG New Building Materials Co., Ltd	42	-	-	42	47	-	-	47
LG India Holdings., Ltd	11	-	-	11	-	-	-	-
LG Chemical America Inc.	1,397	-	-	1,397	-	-	-	-
	<u>₩4,173</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩4,173</u>	<u>₩1,204</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩1,204</u>

In case of using the non-audited financial statements due to the difference of year-end closing dates and other differences in the application of the equity method, no adjustments were made.

Changes in gain on valuation of investment securities accounted for as capital adjustment for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

	2002			2001		
	Gain	Loss	Net	Gain	Loss	Net
Beginning	₩ 91,039	₩ -	₩ 91,039	₩ 74,476	₩ 6,454	₩ 68,022
Decrease	(40,491)	-	(40,491)	(4,186)	(6,454)	(2,268)
Increase	1,588	-	1,588	20,749	-	20,749
Ending	<u>₩ 52,136</u>	<u>₩ -</u>	<u>₩ 52,136</u>	<u>₩ 91,039</u>	<u>₩ -</u>	<u>₩91,039</u>

Note 8

Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Buildings	₩ 557,996	₩ 553,650
Structures	232,543	229,286
Machinery and equipment	2,624,053	2,526,755
Vehicles	19,473	19,597
Tools and furniture	414,787	383,184
	<u>3,848,852</u>	<u>3,712,472</u>
Accumulated depreciation	(2,154,161)	(2,018,855)
	<u>1,694,691</u>	<u>1,693,617</u>
Land	309,487	349,147
Construction in-progress	231,022	260,121
Machinery in-transit	24,595	53,529
	<u>₩ 2,259,795</u>	<u>₩ 2,356,414</u>

As of December 31, 2002 and 2001, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩7,836,850 million and ₩6,865,268 million, respectively. In addition, as of December 31, 2002 and 2001, the Company has business interruption insurance policies.

The Company's certain property, plant and equipment as of December 31, 2002 and 2001, have been pledged as collateral for certain bank loans, up to a maximum of ₩376,042 million and ₩387,155 million, respectively (see Notes 9 and 10).

As of December 31, 2002 and 2001, the fair value of land as assessed by the Korean Government amounted to ₩505,173 million and ₩420,880 million, respectively.

Note 9

Short-term Borrowings:

Short-term borrowings as of December 31, 2002 and 2001, comprise the following:

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)	
	2002	2001	2002	2001
Short-term borrowings :				
General term loans	1.6-5.8	5.8-6.8	₩ 58,665	56,000
Notes discounted	-	4.5-7.7	-	242,200
Usance	-	0.8-2.7	-	688
Bank overdrafts	-	-	564	194
Borrowings from related parties	-	-	132	-
			(USD 110)	(USD 460)
			(JPY 885,450)	(JPY 7,727)
			<u>₩ 59,361</u>	<u>₩ 299,082</u>
Current maturities of long-term debt :				
Debentures	Libor+0.6-0.9	Libor+0.5-0.9	680,000	91,718
Won currency loans	3.0-9.05	3.0-12.0	5,682	11,771
Foreign currency loans	1.1-3.46	Libor+0.4-1.7	19,724	134,365
			(USD 16,228)	(USD 92,321)
			(EUR 292)	(EUR 292)
			(SF 428)	(SF 428)
				(JPY1,115,210)
		Less : Discount on debentures issued	(2,018)	(51)
			<u>703,338</u>	<u>237,803</u>
			<u>₩ 762,749</u>	<u>₩ 536,885</u>

See Note 8 for collateral arrangements on the above borrowings.

Note 10

Long-term Debt :

Long-term debt as of December 31, 2002 and 2001 comprises the following:

	Reference	Millions of Won	
		2002	2001
Debentures	(1)	₩ 488,562	₩ 979,584
Loans	(2)	32,763	50,497
		₩ 521,325	₩ 1,030,081

(1) Debentures as of December 31, 2002 and 2001 are as follows :

	2002	Annual	Millions of Won	
		Interest Rate (%)	(Thousand of foreign currency)	
		2001	2002	2001
Public offered debentures, payable through 2005	5.0-9.0	6.0-9.0	₩ 940,000	₩ 951,718
Private offered debentures, payable through 2004	5.6-16.9	10.9-16.9	90,000	130,000
Foreign debentures, payable through 2005 (*)	Libor+0.6	-	144,048 (USD 120,000)	-
			1,174,048	1,081,718
Less : Current maturities			(680,000)	(91,718)
Discount on debentures issued			(5,486)	(10,416)
			₩ 488,562	₩ 979,584

(*) The Company issued floating rate notes (FRN) on June 21, 2002 with maturities on December 21, 2004, June 21, 2005 and December 21, 2005.

2) Loans as of December 31, 2002 and 2001 reprise the following :

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)	
	2002	2001	2002	2001
	Won currency loans			
Energy fund loans	5.0-7.0	5.0-7.0	₩ 1,360	₩ 2,911
General term loans	8.4	10.7	2,927	11,091
Housing loans	3.0-9.5	3.0-12.5	3,622	3,747
Loans for technology improvement	8.4	5.5-10.7	1,909	3,853
			9,818	21,602
		Less : Current maturities	(5,682)	(11,771)
			4,136	9,831
Foreign currency loans				
General term loans	Libor+0.4-1.7	Libor+0.4-1.7	₩ 45,796	₩ 167,369
Other loans	Libor+0.7	Libor+0.7-0.9	1,334	6,313
Payment by installment	Libor+1.5	Libor+1.5	1,221	1,349
			48,351	175,031
			(USD 29,639)	(USD 121,961)
			(EU 438)	(EU 730)
			(SF 1,071)	(SF 1,499)
			(JPY1,115,210)	(JPY 1,115,210)
		Less : Current maturities	(19,724)	(134,365)
			28,627	40,666
			₩ 32,763	₩ 50,497

See Note 8 for collateral arrangements on the above borrowings.

The annual maturities of long-term debt, excluding discounts and premiums on debentures, as of December 31, 2002 are as follows (Millions of Won) :

Year	Won		Foreign		Total
	Debentures	Currency Loans	Currency Loans		
2004	₩ 298,016	₩ 450	₩ 14,071	₩ 312,537	
2005	196,032	164	14,556	210,752	
2006	-	100	-	100	
2007 and there after	-	3,422	-	3,442	
	₩ 494,048	₩ 4,136	₩ 28,627	₩ 526,811	

Note 11

Commitments and Contingencies :

As of December 31, 2002, 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 21) and provides financial guarantee to customers.

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

As of December 31, 2002 and 2001, in the normal course of business, the Company has provided as collateral for creditors and guarantors, a number of blank promissory notes and promissory notes having face values amounting to ₩2,602 million.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million and ₩251,516 million, respectively (see Note 17).

As of December 31, 2002 and 2001, the Company is contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to approximately ₩158,553 million (including LG international Corp. agent sales) and ₩95,124 million, respectively. Further, the Company is contingently liable for trade receivables transferred to Asset Securitization Companies amounting to ₩171,612 million and 172,883 million, respectively as of December 31, 2002 and 2001 (See Note 4).

As of December 31, 2002 and 2001, the Company has been named as a defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions outstanding as of December 31, 2002 and 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 fluctuations. Outstanding currency forward as of December 31, 2002 and 2001 pertain to buying contracts of USD 5,000 thousand and USD 14,000 thousand, respectively. Further, the Company entered into an interest rate swap contract that pays fixed interest rate and receives variable interest rate, which will be effective on March 31, 2003.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

Note 12

Capital Surplus and Retained Earnings :

Paid-in capital in excess of par value –

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

Legal Reserve –

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

Other Reserves –

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

The Company deducted ₩8,864 million net of income tax amount due to the retained earnings adjustment of equity method investees (See Note 7)

Note 13

Treasury Stock :

Changes in treasury stock for the year ended December 31, 2002 and the nine-month period ended December 31, 2001, are as follows (Millions of Won) :

For the year ended December 31, 2002 –

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

For the nine-month period ended December 31, 2001 –

	Common Stock		Preferred Stock	
	Number of shares	Amounts	Number of shares	Amounts
As of April 1, 2001	12,200	₩ 158	3,657	₩ 20
Increase	-	-	-	-
Decrease	-	-	-	-
As of December 31, 2001	<u>12,200</u>	<u>₩ 158</u>	<u>3,657</u>	<u>₩ 20</u>

Note 14

Income Taxes :

Income taxes for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 comprise the following (Millions of Won):

	2002	2001
Current income taxes under the tax law	₩ 119,732	₩ 39,992
Changes in deferred income tax assets (liabilities) (*)	14,046	(17,436)
Income taxes	<u>₩ 133,778</u>	<u>₩ 57,428</u>

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

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2002	2001	2002	2001
Beginning balance (**)	₩ (33,195)	₩ 38,705	₩ (9,859)	₩ 11,921
Ending balance	₩ (80,489)	₩ (19,465)	(23,905)	(5,781)
			<u>₩ (14,046)</u>	<u>₩ (17,436)</u>

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

Current income taxes under the tax law are calculated as follows (Millions of Won):

	2002		2001	
Income before income taxes		₩ 479,056		₩ 189,887
Addition to pretax income				
Temporary differences	125,900		79,803	
Permanent differences	26,384	152,284	8,955	88,759
Deduction to pretax income				
Temporary differences	173,194		137,108	
Permanent differences	41,715	214,909	-	137,108
Taxable income		<u>₩ 416,431</u>		<u>₩ 141,538</u>

Changes in temporary differences for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

For the year ended December 31, 2002 –

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

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

For the nine-month period ended December 31, 2001–

	Beginning Balance	Take in after Spin-off	Increase	Decrease	Ending Balance
Accrued severance benefits	₩ 113,525	₩ -	₩ -	₩ -	₩ 113,525
Severance insurance plans	(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	-	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
Gain on foreign currency translation	-	26,921	-	1,742	12,179
Reserves for technology development	-	-	(50,000)	-	(50,000)
Others	569	(57)	1,782	(44)	2,338
	<u>₩ 38,705</u>	<u>₩ (865)</u>	<u>₩(61,276)</u>	<u>₩ (3,971)</u>	<u>₩ (19,465)</u>

Income tax rate applicable to deferred tax liabilities at December 31, 2002 and 2001 are 29.7% and 30.8%, respectively. However, as a result of the tax reconciliation, tax credits and other items, the effective tax rate of the Company for the year ended December 31, 2002 and for the nine-month period ended December 31, 2001 are 27.8% and 30.2%, respectively.

Note 15

Earnings Per Share :

Basic ordinary income per share and earnings per share for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows :

	<u>2002</u>	<u>2001</u>
Net income	₩ 345,277,200,055	₩ 130,176,106,989
Preferred stock dividends	(13,419,270,700)	(6,926,075,200)
Net income and ordinary income available for common stock (A)	₩ 331,857,929,355	₩ 123,250,031,789
Weighted average number of shares of outstanding common stock (B) (*)	<u>64,408,528 shares</u>	<u>64,414,017 shares</u>
Basic earnings per share and ordinary income per share (A/B)	<u>₩ 5,152</u>	<u>₩ 1,913</u>

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

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2002 and 2001. Accordingly, basic and ordinary income per share are equal to fully diluted earnings per share.

Note 16

Dividends :

Details of dividends for the years ended December 31, 2002 and 2001, are as follows :

	<u>2002</u>	<u>2001</u>
Shares issued and outstanding (par value 5,000 won)		
Common stock	64,406,670 Shares	64,412,864 Shares
Preferred stock	8,657,594 Shares	8,657,594 Shares
Dividend per share		
Common stock : cash	1,500Won (30%)	750Won (15%)
Preferred stock : cash	1,550Won (31%)	800Won (16%)
Dividend amount		
Common stock	₩ 96,610 million	₩ 48,310 million
Preferred stock	13,419 million	6,926 million
	<u>₩ 110,029 million</u>	<u>₩ 55,236 million</u>

Note 17

Related Party Transactions :

Significant transactions, which occurred in the ordinary course of business with related companies for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 and related account balances as of those dates are summarized as follows (Millions of Won):

	2002	2001
Sales	₩ 913,351	₩ 492,498
Purchases	1,125,435	782,450
Receivables (*)	91,011	65,825
Payables	154,747	133,529

(*) Loans to Tianjin LG New Building Materials Co., Ltd. and P. T. Sinar LG Plastics Ind. amounting to ₩6,101 million and ₩12,841 million, as of December 31, 2002 and 2001, respectively, are included .

The Company has guaranteed the repayment of the various obligations of subsidiaries. The outstanding balance of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million and ₩251,516 million, respectively. In addition, as of December 31, 2002 and 2001 outstanding loans provided by financial institutions to the Company's subsidiaries amounted to ₩128,485 million and ₩159,375 million, respectively. The details are as follows (Millions of Won):

As of December 31, 2002 –

Beneficiary	Loan Financial Amount	Outstanding Institution	Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 14,405	EXIM Bank	₩ 9,603
"	14,502	Fudong Bank	14,502
"	12,004	ABC	12,004
"	4,802	ICBC	4,802
Tianjin LG New Building Materials Co., Ltd.	1,440	KEB	1,200
"	2,175	ICBC	2,175
"	6,002	CHB	6,002
"	5,522	KDB	5,522
"	8,846	WOORI Bank	8,846
Tianjin PVC & Doors	4,786	"	1,305
"	4,802	ABC2,401	
LG Chem (Guangzhou)	6,962	ICBC	-
LG Vina Chemica	6,842	KDB	1,513
LG CAI	22,808	WOORI Bank	-
"	8,403	Bank One	-
"	12,004	KDB	-
"	6,002	BOA	-
LG Chem H.K.	36,012	BOA	24,234
"	18,006	HSBC	18,006
LG India Holdings	5,402	BOA	739
"	15,605	NAZ	14,342
"	6,002	CHB	-
LG Chem EURO	3,772	CL Bank	1,289
	<u>₩227,106</u>		<u>₩128,485</u>

As of December 31, 2001 –

Beneficiary	Guarantee	Financial	Loan
	Amount	Institution	Outstanding Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 53,044	IBJ	₩ 15,914
"	17,239	Hana Bank	13,261
"	15,913	EXIM Bank	15,913
Tianjin LG New Building Materials Co., Ltd.	4,464	FUJI Bank	4,464
"	2,387	KEB	1,989
"	2,652	ICBC	2,406
"	6,630	CHB	6,630
LG Vina Chemical	7,559	KDB	3,341
P.T.Sinar LG	17,637	KDB	17,637
LG CAI	25,196	WOORI Bank	22,329
"	9,282	Bank One	7,138
"	13,261	KDB	5,717
"	6,631	BOA	-
LG Chem H.K.	26,522	BOA	26,522
"	19,892	HSBC	3,982
LG India Holdings	5,967	BOA	4,749
"	17,240	ANZ	7,437
	<u>₩ 251,516</u>		<u>₩ 159,375</u>

Note 18

Supplemental Cash Flow Information :

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

	2002	2001
Transfer to current portion of long term trade receivables	₩ 420	₩ 1,751
Transfer to property, plant and equipment	169,091	195,361
Transfer to machinery and equipment	72,494	28,266
Transfer to development costs	7,950	7,291
Gain on valuation of investment using the equity method of accounting (capital adjustment)	22,824	23,479
Transfer to current maturities of long-term debts	25,405	146,136
Transfer to current maturities of debentures	680,000	40,000
Dividend declaration	110,029	55,236

Note 19

Segment Information :

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

(1) Industry Segment Information

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

Financial information on industry segments for the year ended December 31, 2002 and the nine-month period ended December 31, 2001

For the year ended December 31, 2002 –

	Millions of Won					
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
1. Sales						
External sales	₩ 1,667,252	₩ 1,385,754	₩ 2,174,824	₩ 452,001	₩ (246,771)	₩ 5,433,060
Inter-segment sales	56,479	47,021	198,767	11	(55,507)	246,771
Total	<u>₩ 1,723,731</u>	<u>₩ 1,432,775</u>	<u>₩ 2,373,591</u>	<u>₩ 452,012</u>	<u>₩ (302,278)</u>	<u>₩ 5,679,831</u>
2. Operating income	<u>₩ 148,263</u>	<u>₩ 114,156</u>	<u>₩ 210,313</u>	<u>₩ 37,978</u>	<u>₩ 5,677</u>	<u>₩ 516,386</u>
3. Fixed assets						
Tangible and intangible assets	<u>₩ 640,866</u>	<u>₩ 438,073</u>	<u>₩ 488,062</u>	<u>₩ 337,669</u>	<u>₩ 452,277</u>	<u>₩ 2,396,947</u>
Depreciation and amortization	<u>₩ 99,033</u>	<u>₩ 48,668</u>	<u>₩ 60,472</u>	<u>₩ 28,901</u>	<u>₩ 23,265</u>	<u>₩ 260,339</u>

For the nine-month period ended December 31, 2001 –

	Millions of Won					Total
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	
1. Sales						
External sales	₩ 1,015,772	₩ 934,052	₩ 1,476,214	₩ 170,095	₩ 3,917	₩ 3,600,050
Inter-segment sales	144,519	31,553	1,774	25	28,896	206,767
Total	<u>₩ 1,160,291</u>	<u>₩ 965,605</u>	<u>₩ 1,477,988</u>	<u>₩ 170,120</u>	<u>₩ 32,813</u>	<u>₩ 3,806,817</u>
2. Operating income	<u>₩ 96,441</u>	<u>₩ 77,823</u>	<u>₩ 120,232</u>	<u>₩ (22,398)</u>	<u>₩ (4,839)</u>	<u>₩ 267,259</u>
3. Fixed assets						
Tangible and intangible assets	<u>₩ 706,978</u>	<u>₩ 455,696</u>	<u>₩ 463,978</u>	<u>₩ 322,689</u>	<u>₩ 484,781</u>	<u>₩ 2,434,122</u>
Depreciation and amortization	<u>₩ 77,376</u>	<u>₩ 38,914</u>	<u>₩ 47,677</u>	<u>₩ 16,940</u>	<u>₩ 3,153</u>	<u>₩ 184,060</u>

(2) Geographical Segment Information

The sales by geographical segment for the year ended December 31, 2002 and 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
2002	<u>₩3,673,041</u>	<u>₩935,192</u>	<u>₩223,429</u>	<u>₩48,430</u>	<u>₩176,265</u>	<u>₩153,010</u>	<u>₩223,693</u>	<u>₩5,433,060</u>
2001	<u>₩2,130,592</u>	<u>₩847,460</u>	<u>₩ 94,334</u>	<u>₩98,867</u>	<u>₩156,114</u>	<u>₩125,442</u>	<u>₩114,241</u>	<u>₩3,600,050</u>

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

Note 20

Discontinued Operations :

(1) Powder Segment

The Company disposed of its powder segment to LG Lucoat Powder Coatings Ltd. (formerly, LG Ferro Powder Coatings Ltd.), which is 28.33% owned by the Company, on May 31, 2001.

The rights on the property, plant and equipment and inventories as well as the workforce of the powder segment were transferred upon the disposal of the segment.

The gain on disposal of the 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		<u>₩ 1,313</u>

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 a 49.00% ownership of M. Dohmen GmbH, and disposed of the inventories, and trade accounts and notes receivable of its dyestuff segment, and its 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 net gain on disposal is as follows :

		Millions of Won
. Disposal of dyestuff segment		
Book value	Inventories	₩ 17,934
	Trade accounts and notes receivable	12,478
		30,412
Sales price		40,696
Gain on disposal		10,284
. Disposal of shares of Tianjin LG Specialty Chemical Co., Ltd.		
Book value	Investment securities	5,540
	Gain on valuation of investment securities (capital adjustment)	₩ (2,932)
		2,608
Sales price		2,567
Loss on disposal		(41)
. Additional severance payment and other payments		(455)
. Net gain on disposal of dyestuff business (+ +)		₩ 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)

(3) Epoxy Polymers segment

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

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

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

The financial results of the discontinued operation is as follows:

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

Note 21**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 created by a spin-off transaction from LG Chem Investment Ltd. on April 1, 2001. On April 3, 2001, the Company has completed the registration process for new companies, according to the Commercial Code of the Republic of Korea.

According to the 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 the related assets and liabilities to the new companies.

The Company issued 73,086,315 shares and distributed such shares to the shareholders of LG Chem Investment Ltd. on a pro-rata 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 guarantees for the obligations relating to the liabilities before the spin-off.

The summarized beginning balance sheet of the Company as of April 1, 2001 is as follows:

Millions of Won

ASSETS

Current assets

Cash and cash equivalents	₩	26,211
Trade receivable, net		430,658
Inventories		327,195
Other current assets		53,609
Total current assets		837,673

Property, plant and equipment		2,364,660
Investment securities		349,135
Long-term financial instruments		40,041
Guarantee deposits		27,606
Intangible asset		45,098
Others		74,147
Total assets	₩	3,738,360

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Short-term borrowings	₩	370,885
Current portion of long-term debts		836,803
Trade payables		294,867
Other payables		233,839
Other current liabilities		121,750
Total current liabilities		1,858,144

Long-term debt, net		661,173
Accrued severance benefits, net		40,306
Other long-term liabilities		6,511
Total long-term liabilities		707,990
Total liabilities		2,566,134

Commitment and contingencies

Shareholders' equity		365,432
Capital surplus		738,772
Retained earnings		-
Capital adjustment		68,022
Total shareholders' equity		1,172,226
Total liabilities and shareholders' equity	₩	3,738,360

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	<u>2,650,089</u>	<u>611,275</u>
Current liabilities	124,464	256,003
Long-term liabilities	1,329,873	163,441
Total liabilities	<u>1,454,337</u>	<u>419,444</u>
Paid-in capital	99,663	88,589
Capital surplus	213,996	97,263
Retained earnings and others accounts	882,093	5,979
Total shareholders' equity	<u>1,195,752</u>	<u>191,831</u>
Total liabilities and Shareholders' equity	<u>₩ 2,650,089</u>	<u>₩ 611,275</u>

LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) had listed its Global Depository Receipts (GDR) of 2,482,725 shares on the 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 the London Stock Exchange.

Note 22

Restatement and reclassification of prior year financial statement presentation :

The financial statements as of and for the nine-month period ended December 31, 2001 has been restated by the changes in inventory valuation method and has been reclassified to confirm to the 2002 presentation.

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