Introduction

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

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

2001 Overview

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

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

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

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

Corporate Demerger

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

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

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

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

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

Corporate Worth in billions of won

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

LG Chem Share Prices in won

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

Financial Structure

Liabilities

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

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

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

Major Financial Indicators

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

Debt by Currency in billions of won

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

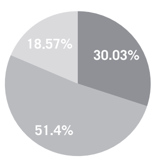
Debt by Maturity in billions of won

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

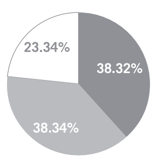
Equity

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

Ownership Breakdown as of 1 Apr 2001



Ownership Breakdown as of 31 Dec 2001



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

Funding Strategy

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

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

Cost of Capital in billions of won

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

* Includes asset-backed securities financing costs

Debt by Currency in billions of won

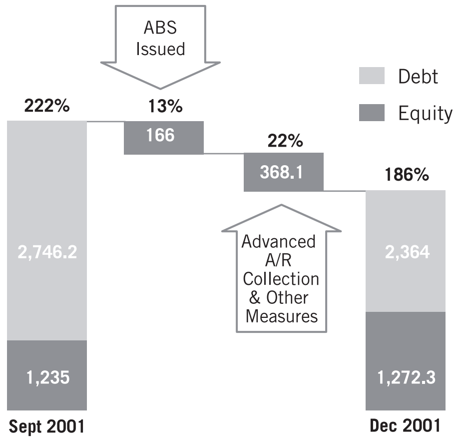
	31 Dec 2001	31 Dec 2002 (Est)	Change
Korean won	1,349.9	1,332.4	(17.5)
Foreign	227.5	241.3	13.9
Total	1,577.4	1,573.7	(3.6)

ABS Issuance

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

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

ABS Impact on Debt-to-Equity



Dividend & Dividend Policy

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

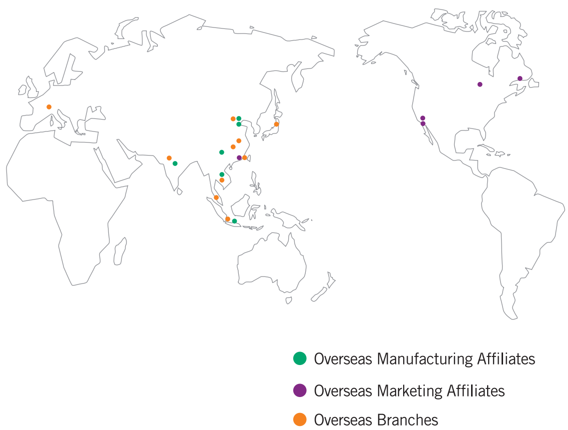
Dividend Summary in Millions of won, EPS in won

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

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

Globalization

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



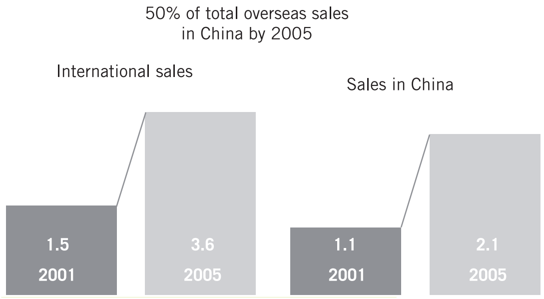
As LG Chem's financially successful PVC and ABS manufacturing operations in China indicate, that market has become the major focus of the company's globalization strategy. In addition to ongoing capacity expansion projects of those commodity resins, the company is also accelerating its entry into the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

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

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

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

China Business Prospects



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

Risk Management

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

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

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

Financial Risk Management

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

Foreign Exchange Risk

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

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

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

Interest Risk

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

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

Liquidity Risk

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

Capital Expenditures

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

Restructuring

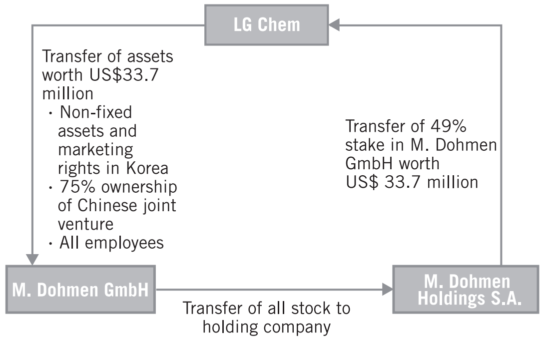
Over the past few years, LG Chem's select-and-focus strategy has enabled the company to sell or spin off a number of non-core businesses. In 2001, the company spun off its powder coatings and dyestuffs businesses into strategic joint ventures.

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

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

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

Structuring of Dyestuffs Business Spin-Off



2002 Outlook

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

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