

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

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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.

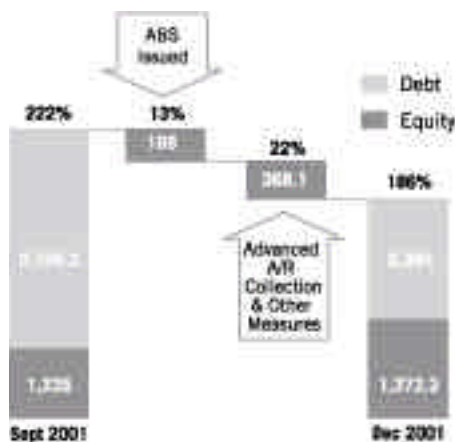
Additionally, we are preparing to introduce other

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

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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

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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



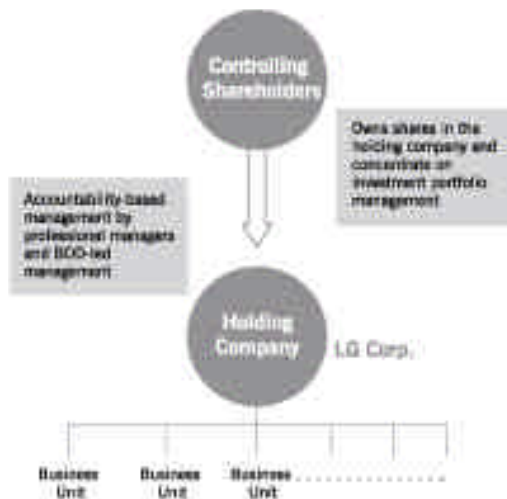
Raw material sales by Unit

	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.