

CEO's Message



Dear customers, shareholders, and employees,

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

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

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

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

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

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

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

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

2001 Financial Highlights

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

All figures exclude Q1 results



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

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

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

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

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

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

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

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

EBITDA	453	in billions of won
CAPEX Capital Expenditures	192	in billions of won
CAPEX / EBITDA	42%	

All figures exclude Q1 results



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

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

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

Ki-Ho No
President & CEO