

Report of Independent Accountants

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

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

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

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

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

As discussed in Note 18 to the financial statements, the Company sells its products to and purchases certain materials from related companies, including LG Petrochemical Co., Ltd. For the nine-month period ended December 31, 2001, total sales to and purchases from related companies are ₩492,498 million and ₩782,450 million, respectively. Related accounts receivable and payable are ₩65,825 million and ₩133,529 million, respectively, as of December 31, 2001,

As discussed in Note 21 to the financial statements, on May 31, 2001, the Company disposed of its powder segment to LG Ferro Powder Coatings Ltd., of which the Company owns 29.90% and realized a gain on the disposal of the segment amounting to ₩1,313 million. Furthermore, on August 31, 2001, the Company invested ₩43,203 million (US\$ 33,700 thousand) for 49.00% ownership of M. Dohmen GmbH and disposed of its dyestuff assets and shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated Company of M. Dohmen GmbH and realized a gain on the disposal of the segment amounting to ₩9,788 million.

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

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

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



Seoul, Korea

February 1, 2002

Balance Sheets

December 31, 2001

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

Continued;

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

Balance Sheets

December 31, 2001

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

Continued;

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

Balance Sheets

December 31, 2001

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

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

Income Statement

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

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

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

Statement of Appropriation of Retained Earnings

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

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

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

Statement of Cash Flows

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

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

Continued;

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

Statement of Cash Flows

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

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

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

Notes to Financial Statements

December 31, 2001

Note 1

The Company:

As discussed in Note 22 to the financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed a registration process on April 3, 2001. The Company engages in the business of petrochemicals, performance polymers, industrial and building materials and information and electronic materials. The Company has its manufacturing facilities in Yeosoo, Chungju, Ulsan, Naju, Onsan, Iksan and Daesan.

As of December 31, 2001, the Company has outstanding capital stock of ₩365,432 million including preferred stock of ₩43,306 million. The Company was listed on the Korean Stock Exchange on April 25, 2001.

As of December 31, 2001, the Company is authorized to issue 292,000,000 shares of common stock at ₩5,000 per share. The Company has issued 64,425,064 common shares and 8,661,251 preferred shares. Preferred stock is non-participating and has no voting rights. The holders of preferred stock are entitled to a non-cumulative preferred dividend at a rate of one percentage point over the common stock dividend.

Note 2

Summary of Significant Accounting Policies:

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

Basis of Financial Statement Presentation –

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Some information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operation or cash flows, is not presented in the accompanying financial statements.

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

Use of Estimates –

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

Spin off –

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

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

Allowance for Doubtful Accounts –

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

Asset-backed Securities –

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

Investments –

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

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

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

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

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

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

Elimination of Intercompany Unrealized income –

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

Translation of Foreign Currency Financial Statements –

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

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums.

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

Inventories –

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

Property, Plant and Equipment and Related Depreciation –

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as described below.

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

The Company capitalizes interest expense incurred on debt used to fund the purchase or construction of property, plant and equipment as part of the cost of major assets. For the nine-month period ended December 31, 2001, capitalized interest expense amounts to ₩12,822 million.

Maintenance and Repairs –

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

Intangible Assets –

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

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

Intellectual proprietary rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization of these intangibles is computed using the straight-line method over a period of five to twenty five years.

Research costs are charged to operations as incurred. Costs incurred for new products or technologies which can be clearly defined and measured and which have probable future economic benefits are accounted for as development costs. Other development costs are recognized in the period incurred as normal development expenses.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method. The Company performs periodic assessments of the recoverability of development costs. Unrecoverable costs are charged to operations in the period that they are first identified. For the nine-month period ended December 31, 2001, the Company capitalized ₩25,231 million of development costs as intangible assets and recorded ₩27,962 million of development costs as current expenses.

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

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

Premiums or Discounts on Debentures –

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

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

Foreign Currency Translation –

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

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

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

Revaluation of Receivables –

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

Accrued Severance Benefits –

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

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

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

Asset Impairment Loss –

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

Income Tax Expenses –

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

Current income taxes payable comprises corporate income tax and tax surcharges payable for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001. Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the tax and financial reporting bases of assets and liabilities at the balance sheet date based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Derivative Financial Instruments –

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized as a component of current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows, which are a capital adjustment. The Company recognized ₩3,450 million of gain on hedging transaction in 2001.

Note 3**United States Dollar Amounts:**

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

Note 4**Restricted Bank Deposits:**

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

Note 5

Receivables:

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

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

Note 6

Inventories:

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

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

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

Note 7

Property, Plant and Equipment:

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

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

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

As of December 31, 2001, fair value of land as assessed by the Korean Government was ₩420,880 million.

Note 8

Investments:

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

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

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

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

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

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

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

Continued;

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 9

Short-term Borrowings:

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

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

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

Note 10

Long-term Debt:

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

| | Reference | Millions of Won |
|------------|-----------|--------------------|
| Debentures | (1) | ₩ 979,584 |
| Loans | (2) | 50,497 |
| | | <u>₩ 1,030,081</u> |

(1) Debentures -

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

(2) Loans -

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

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

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

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

Note 11

Commitments and Contingencies:

At December 31, 2001, the Company provides joint guarantee for the obligations before the spin-off, which are assumed by LG Chem Investment Ltd. and LG Household & Health Care Ltd. as of April 1, 2001 (see Note 22) and provides financial guarantee to customers.

At December 31, 2001, the Company receives guarantee from Seoul Guarantee Insurance for execution of Supplying contracts.

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

At December 31, 2001, the Company is contingently liable for notes from export sales and discounted through financial institutions in the ordinary course of business approximating ₩95,124 million.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balance of such guarantees at December 31, 2001 approximated ₩251,516 million. In addition, at December 31, 2001, outstanding loans provided by financial institutions on behalf of the Company's obligations, are ₩159,375 million. The details are as follows (millions of Won) :

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

As of December 31, 2001, the Company has been named as defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions outstanding at December 31, 2001, in the aggregate, will not have a material adverse impact on the Company's operations or financial position.

The Company has entered into various multi-year technical assistance and license agreements with several foreign companies for the manufacture of certain product lines. In connection with these agreements, the Company is obligated to pay fees and royalties.

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

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

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

Note 12

Asset-Backed Securitization :

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

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

Note 13

Capital Surplus and Retained Earnings :

Paid -in capital in excess of par value –

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

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

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

Legal Reserve –

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

Other Reserves –

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

| | Amount |
|--------------------------------------|-----------------|
| Reserve for business rationalization | ₩ 4,000 |
| Reserve for technology development | 67,690 |
| | <u>₩ 71,690</u> |

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

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

Note 14

Treasury Stock :

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

Note 15

Income Taxes :

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

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

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

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

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

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

| | Amounts |
|----------------------------|------------------|
| Income before income taxes | ₩ 189,887 |
| Addition to pretax income | |
| Permanent differences | 8,955 |
| Temporary differences | <u>79,803</u> |
| Deduction to pretax income | |
| Temporary differences | <u>137,108</u> |
| Taxable income | <u>₩ 141,537</u> |

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

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

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

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

Note 16

Earnings Per Share:

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

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

* Treasury stock is deducted from outstanding common stock.

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

Note 17

Dividend :

- Dividend calculation

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

- Dividend payout ratio

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

- Dividend yield ratio

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

Note 18

Related Party Transactions:

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

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

Note 19

Supplemental Cash Flow Information :

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

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

Note 20

Segment Information:

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

(1) Industry Segment Information

Industry Segments -

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

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

| | Millions of Won | | | | | |
|--------------------------------|--------------------|-------------------------|---------------------------------------|--|------------------|--------------------|
| | Petrochemicals | Performance Polymers | Industrial & Building Materials | Information & Electronic Materials | Others | Total |
| 1. Sales | | | | | | |
| External sales | ₩ 1,015,772 | ₩ 93,405 | ₩ 1,492,100 | ₩ 170,095 | ₩ 3,917 | ₩ 3,615,936 |
| Inter-segment sales | 144,519 | 31,553 | 1,774 | 25 | 28,896 | 206,767 |
| Total | <u>₩ 1,160,291</u> | <u>₩ 95,605</u> | <u>₩ 1,493,874</u> | <u>₩ 170,120</u> | <u>₩ 32,813</u> | <u>₩ 3,822,703</u> |
| 2. Operating income | <u>₩ 96,441</u> | <u>₩ 77,823</u> | <u>₩ 120,232</u> | <u>₩ (22,398)</u> | <u>₩ (3,011)</u> | <u>₩ 269,087</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>₩ 484,761</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 of geographical segments for the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

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

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

Note 21

Discontinued Operations :

(1) Powder Segment

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

The gain on disposal of powder segment is as follows :

| | Millions of Won |
|-------------------------------|-----------------|
| Book value | ₩ 2,800 |
| Inventories | 4,411 |
| Property, plant and equipment | 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 49.00% ownership of M. Dohmen GmbH and disposed of inventories, trade accounts and notes receivable of its dyestuff segment and shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated Company of M. Dohmen GmbH on August 31, 2001.

The gain and loss on disposal is as follows :

| | | Millions of Won |
|--|---|-----------------|
| I . 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 |
| II . Disposal of shares of Tianjin LG Specialty Chemical Co., Ltd. | | |
| Book value | Equity method Value | 5,540 |
| | Gain on valuation of investment securities (capital adjustment) | △ 2,932 |
| | | 2,608 |
| Sales price | | 2,567 |
| Loss on disposal | | (41) |
| III . Additional severance payment and other payments | | (455) |
| IV . Net gain on disposal of dyestuff business (I + II + III) | | ₩ 9,788 |

The financial status of the discontinued operation is as follows :

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

Note 22

Business Division:

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

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

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

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

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

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

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

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

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

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):

| | <u>LG Chem Investment Ltd.</u> | | <u>LG Household & Health Care, Ltd.</u> | |
|--|--------------------------------|------------------|---|----------------|
| 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 | | 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 London Stock Exchange, among which 1,638,559 shares were transferred to the Company. At December 21, 2001, the Company relisted 1,638,559 shares of GDR on London Stock Exchange.

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Yeosu, Jeollanam-do, Korea
Tel. 82-61-680-1114
Fax. 82-61-680-6006

Cheongju Plant

150 Songjeong-dong,
Heungduk-gu, Cheongju,
Chungcheongbuk-do, Korea
Tel. 82-43-261-7114
Fax. 82-43-261-7135

Ulsan Plant

388, Mangyang-ri, Ulju-gun,
Ulsan, Korea
Tel. 82-52-231-4114
Fax. 82-52-231-4003

Iksan Plant

599 Yongjae-dong, Iksan,
Jeollabuk-do, Korea
Tel. 82-63-830-8114
Fax. 82-63-830-4118

Naju Plant

1, Songwai-dong, Naju,
Jeollanam-do, Korea
Tel. 82-61-330-1114
Fax. 82-61-330-1350

Onsan Plant

580, Hwasan-ri, Onsan-eup,
Ulju-gun, Ulsan, Korea
Tel. 82-52-238-5111
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Daesan Plant

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Daesan-eup, Seosan,
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Tianjin LG New Building Materials Co., Ltd.

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Tel. 1-847-993-4511

LGCAI Sandiego Branch

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