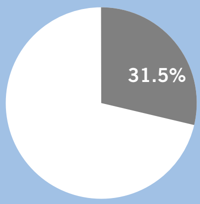
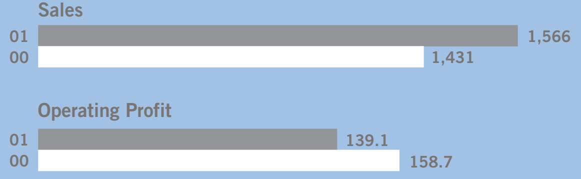
Churl-Ho Yoo
Executive Vice President
Chief of Petrochemicals
Business Unit

"Our strategy for success in the intensely competitive petrochemical industry is to focus on three things: expanding economies of scale in our core PVC and acrylates businesses, locating a growing portion of our global marketing organization in China, and continuously innovating with world-class products, quality, and cost leadership. In 2001, our hard work continued to pay off with an operating profit of 139 billion won on sales of 1,566 billion won for a solid operating margin of 8.9%. And we expect 2002 to be even better…"

Portion of Total Sales



Key Financials in billions of won



The Year in Review

As the decade-long U.S. economic boom came to an end in 2001 and recession set in, the stagnant information technology sector touched off a global economic slowdown. This was a particularly hard blow for the petrochemical industry, a field that faced its darkest days since the first oil shock hit nearly 30 years ago.

For us, the challenge hit home with a dramatic market drop that shaved 28% off the price of straight PVC and 24% off acrylates during the year. Despite these falling prices, we were successful in boosting year-on-year sales revenue a remarkable 9.4% thanks to our growing cost leadership edge, a conscious shift toward higher-margin products, and the timely, cost-effective addition of PVC production capacity in late 2000 with the takeover of Hyundai Petrochemical's 200,000 mtpa PVC business. Today, we're the world's 7th and Asia's 2nd largest PVC manufacturer with a 1 million mtpa production capacity that gives us the economies of scale we need to compete in Asia and beyond.

The Year Ahead

Bouyed by the consensus that the U.S. economy bottomed out in 2001, analysts are predicting a recovery for the global petrochemical industry that will help demand rebound to near pre-recession growth rates. China's entry into the WTO will also add momentum to the recovery as that country's economy continues to grow at a high single-digit pace. By the third quarter of the year, global demand is expect-

1,500,000 mtpa

Our target PVC production capacity in 2005

The late-2000 acquisition of Hyundai Petrochemical's PVC business and completion of an expansion project in China pushed capacity past the symbolic 1 million mtpa milestone in 2001. Through 2005, we intend add another 500,000 mtpa—80% in China—giving us the economies of scale to take on the world's best.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ed to be solidly on the rise, giving a much-needed boost to both prices and profitability.

In Korea, the FIFA World Cup, Asian Games, and presidential election will all help boost consumer sentiment as they fuel a projected 4% to 5% growth rate. Analysts forecast this will push growth in the electronics and IT industries past 10% and the automobile and construction industries up a respectable 3% to 4%, putting the petrochemical industry well on the road to recovery in the second half of the year.

On the Horizon

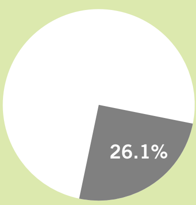
We're hard at work to ensure we're well prepared to take advantage of the next industry cycle that will peak in 2004~2005. With Korea now producing more petrochemicals than local manufacturers need, our focus has turned to neighboring China, the world's last major market where demand still far exceeds local production. We aim to be in a top-3 position in both PVC and acrylates by 2010 in that market as we strategically move to establish ourselves as the Asian industry leader.

Plans to increase our PVC production capacity 50% to 1.5 million mtpa in 2005 are well underway as we position ourselves to emerge as the world's No. 4 producer in the second half of the decade. A major portion of this capacity will be added in our most strategic market—China—a country that's now getting our full attention with first-class local sales and technical support. We also intend to leverage our long-term capacity expansion program and growing portfolio of high-value-added downstream products to emerge as a global player in acrylates during the same time frame.

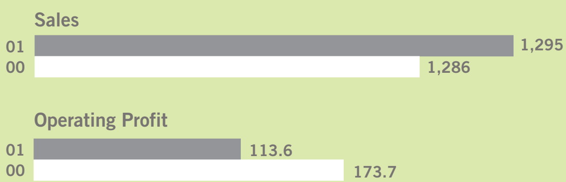
Sung-Dam Lim
Executive Vice President
Chief of Performance Polymers
Business Unit

"With over 56% of sales already coming from outside Korea and a phased expansion project underway that will double ABS capacity to give us global economies of scale in 2005, we're well on our way to becoming a global industry player. In 2002, we're aiming for double-digit growth in both sales and profits as ongoing R&D projects and strategic alliances continue to steadily increase the profitable specialty product portion of our portfolio."

Portion of Total Sales



Key Financials in billions of won



The Year in Review

Despite a dramatic drop in the price of acrylonitrile butadiene styrene resin—ABS—as the global recession forced manufacturers to cut output and prices, we posted an operating profit of 113 billion won on sales of 1,295 billion won for a respectable operating margin of 8.7%. Key factors that enabled us to maintain sales at year 2000 levels included robust sales of higher-margin specialty resins such as flame-retardant ABS, HIPS, and extrusion ABS.

Our ongoing strategy to expand our role from manufacturer to solution provider resulted in a number of notable developments during 2001. Our R&D center wrapped up development of a high-tech transparent extrusion ABS resin as well as partnering with Trinity Glass International of the U.S. on a project to create a high-performance PC/ASA alloy for window profile. Expanded R&D investment also accelerated important ongoing projects involving polymer nanotechnology and processing technology.

The Year Ahead

The slow-but-steady recovery of global markets and falling petrochemical inventories in the wake of production cuts made at the end of 2001 are expected to set the stage for a business upturn in 2002. In Korea, demand will be driven by rising LCD monitor and TV sales, globalization and modulization trends in the automotive and electronics parts industries, and an accelerated transition to eco-friendly products in all manufacturing sectors.

1,000,000 mtpa

Our target ABS production capacity in 2005

As part of our efforts to globalize in both the markets we serve and the products we deliver, we plan to double ABS production capacity over the next four years, adding 350,000 mtpa in China and 150,000 mtpa in Korea.


LG甬兴
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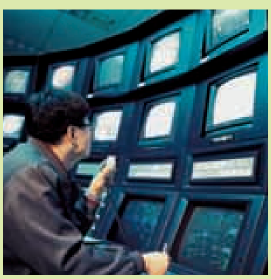
China is a market that has remained remarkably unaffected by the latest global economic downturn. With growth forecast to exceed 7% in 2002 and expanding market access in the wake of its December 2001 admission into the WTO, demand for ABS will be stronger than ever in that country's toy, home appliance, and electronics industries. Our ongoing localization of manufacturing and marketing in this country will continue to enhance our market leadership, giving us invaluable hands-on local experience and a considerable head start in the world's fastest-growing market.

On the Horizon

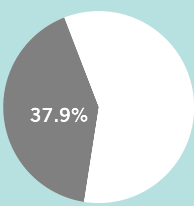
In 2001, we launched an ambitious expansion project that will double our current ABS production capacity from 500,000 to 1 million mtpa in 2005. Capacity at Ningbo LG-Yongxing Chemical—our joint venture subsidiary in China—will jump from 150,000 to 300,000 mtpa by the end of 2002 as we aim to become the leading supplier to that country's booming electronics and automobile parts industries. An additional 200,000 mtpa capacity expansion is also planned in China for 2005 as we continue to strategically reinforce our position as a major global player.



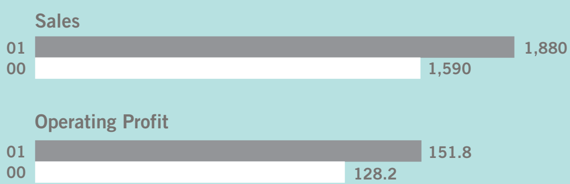
Yoon-Ki Bae
Executive Vice President
Chief of Industrial Materials
Business Unit

"Over the past decade, the business unit has recorded an average annual sales growth rate in excess of 10%. This remarkable achievement is a testimony to the consistency with which we've served and grown with our markets over the years. It's also the reason we continued to stand at the top of our home market in 2001 with an operating profit of nearly 152 billion won on sales of 1,880 billion won. And the future we're helping build looks bright indeed..."

Portion of Total Sales



Key Financials in billions of won



The Year in Review

A gradual recovery in the construction market and advances in product performance and quality made during the four years that have passed since the Asian financial crisis hit Korea in 1997 combined to produce a small but definite upturn in the building materials business in 2001. This upward momentum was mirrored in the home appliance, furniture, automobile, and other manufacturing industries, enabling us to record an outstanding 18.5% sales growth for the year.

A prime example of how new technology can take an existing market by storm and dramatically expand it at the same time was clearly illustrated during 2001 by the rapid transition from aluminum to PVC window profile in our domestic market. Our overall product mix also continued to shift toward high-value-added products. Sales of artificial marble, window systems, high-gloss sheet, commercial floor tile, automotive interior skin, and other high-margin products jumped 43% to 320 billion won, accounting for 20% of total sales. An equally remarkable statistic is that 38% of sales came from products introduced during the year, indicating that our product leadership strategy is working exceptionally well.

In 2001, we wrapped up a reorganization that has helped us streamline and refocus on our core businesses over the past few years. The year's highlights in this area included the spin-off of our dyestuffs business into a joint venture with M. Dohmen of Germany. We believe that this operation's prospects for success in global markets as well as those of our remaining businesses have been considerably enhanced through these win-win alliances.

600,000 sqm

Our high-gloss sheet monthly production in China

Facing rigorous competition from Japanese companies, we made the potentially risky decision to localize high-gloss sheet production in China in 1998. That move paid off handsomely in 2001 as our local market soared to 85% and production rose to 600,000 sqm a month.

The Year Ahead

With expectations of a boost at home from the FIFA World Cup and internationally from a recovery in the U.S. market, the outlook for 2002 is quite positive. Our building and decorative materials businesses expect to piggyback on the overall economic upturn. With over 40% of sales already coming from outside Korea, our Living Materials Division is looking for sales to pick up as key global markets emerge from their recessions. The Korean auto industry's projected 6% growth rate will also provide numerous growth opportunities for our automotive parts business.

While the overall outlook is positive, we do recognize the real possibility that major increases in feedstock chemical prices may negatively impact our cost structure. In response, we'll be dramatically stepping up the pace of our cost leadership initiative with accelerated high-performance, high-value-added product R&D in 2002 and beyond.

On the Horizon

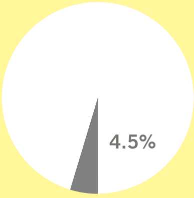
At the beginning of 2001, we set some simple but ambitious mid-term goals for ourselves. By 2005, we plan to be generating an average annual sales growth rate of 13% with an operating margin of over 12%. And while we continue to work hard to stay at the top of our home market, we also intend to think more globally as we aim to tap overseas markets for 25% of our overall sales by the middle of the decade.




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

"Mass production of lithium-ion polymer batteries, TFT-LCD polarizers, and color filter photoresists got underway in 2001, boosting sales by over 31% to 217 billion won. Driven by a more than 1,100% increase in polarizer film sales, this remarkable growth couldn't overcome a 24% drop in our copper-clad laminate business and production start-up costs and investments related to our battery business, leading to a unit operating loss of 28 billion won for the year. Despite these temporary setbacks, we're confident we'll be back in the black in 2002."

Portion of Total Sales



Key Financials in billions of won

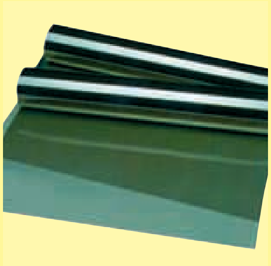
The Year in Review

Ongoing production problems, stagnant IT markets, and major investments in both R&D and production facilities prevented our battery business from meeting profitability targets in 2001. However, sales did grow an encouraging 19% for the year as we launched production of lithium-ion polymer batteries as part of a 50 billion won project to position ourselves as a leader in bringing this next-generation technology to market.

Our polarizer business far outperformed expectations in its second year with sales growth of nearly 1,100%. We also added a 2.5 million sqm capacity production line during the year, tripling output as we kept pace with skyrocketing demand. In contrast, our copper-clad laminate business suffered a 24% drop in sales as lower-cost Chinese and Taiwanese imports hit the market. Despite the tough competition, we continued to gain market share with Korea's major printed circuit board makers as we advanced into the Japanese and North American markets and successfully launched our build-up materials in the Chinese and Taiwanese markets. While our display and imaging materials businesses saw flat CRT phosphor sales as the Korean monitor industry contracted slightly, the loss was largely offset by a major upturn in demand for high-end plasma phosphors. The strong launch of our color filter photoresist business and continued global success of our toner business also contributed to the units's 11% growth rate.

The Year Ahead

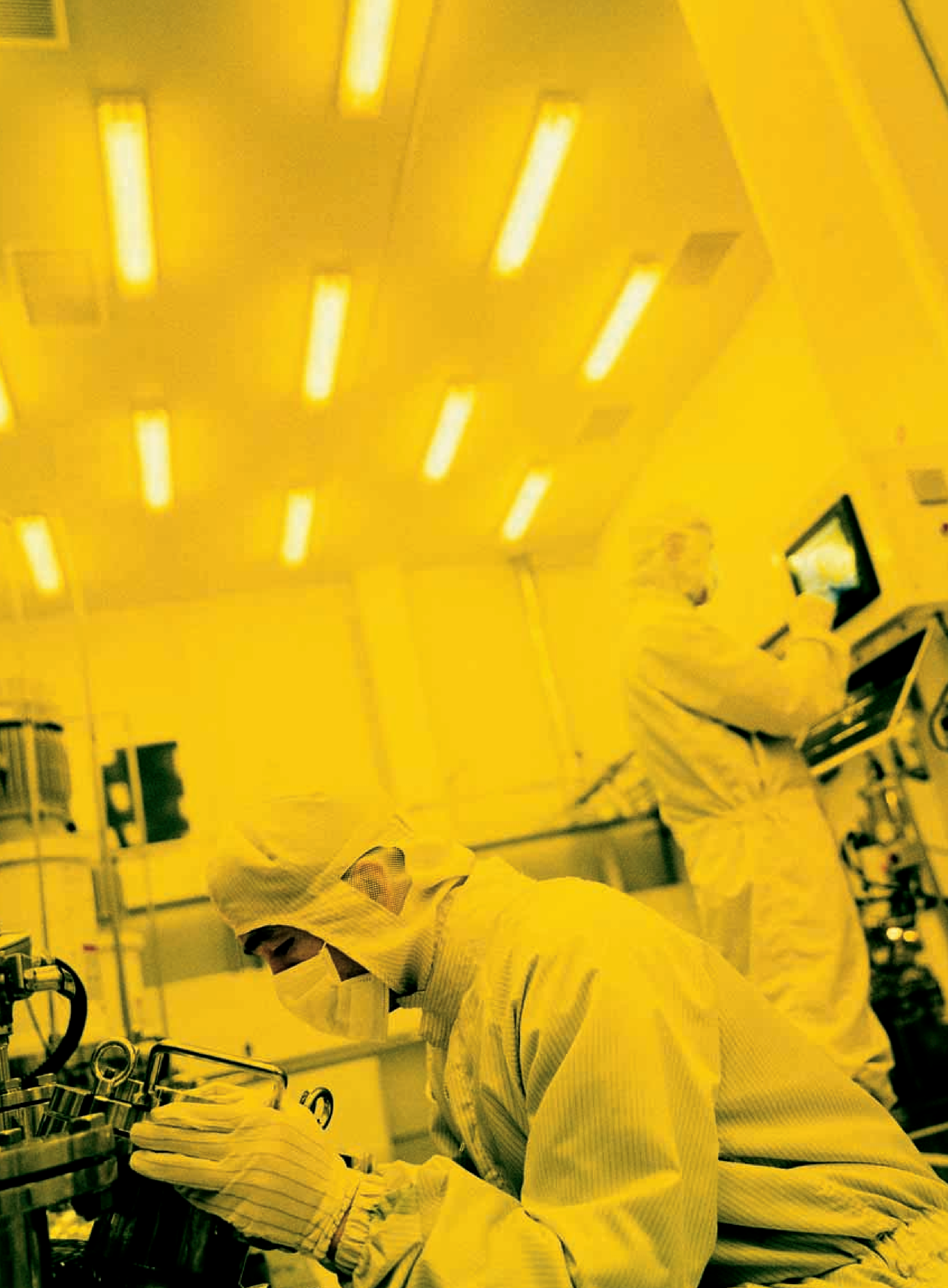
Growth for our polarizer film business looks to explode in Q3 2002 as the world's top-two LCD producers—Samsung Electronics and LG.Philips LCD—start up their fifth-generation fabs. Our third polarizer line



10,000,000 sqm

Our target polarizer film production capacity by 2004

In 2000, we became the world's fourth company to develop polarizer film, a key material in TFT-LCD displays. Recognized for its superior optical properties, our award-winning film captured 25% of the Korean market in 2001, a number that we're working hard to push to 40% in 2004.



is also slated to come online about the same time, ensuring we're ready for this major opportunity.

Our display and imaging businesses will also benefit from the previously mentioned fab startups, which are forecast to boost phosphor sales by 5% to 6% and color filter photoresist sales by considerably more. Overseas phosphor sales will continue to grow as our photosensitive LCD material lineup expands to cover all color filter grades as well as overcoat, resin black matrix, and column spacer photoresists. The year will also mark our entry into the organic electroluminescent material and pressure-sensitive optical film adhesive fields, while the addition of a fifth toner production line accelerates our continued global growth in that field.

On the Horizon

Backed by a flexible production system, a strategic R&D alliance with U.S.-based lithium-ion polymer battery technology specialist Compact Power Inc., and a growing customer list that includes Ericsson, Motorola, and other major companies, our battery business will continue to fine-tune productivity, cost competitiveness, and quality as we aim to turn an operating profit in 2003.

Our optical business continues to expand into new fields like rear-projection TV screens as the display industry transitions to interactive applications and big-screen digital displays. Similarly, we are now developing substrates for plastic and flip-chip ball grid array packages as we tap into the high-growth IC package field. We expect this mix of high-end, high-performance materials to take us to the top of the Korean printed circuit board materials industry by 2003 and the global top-5 by 2005.