LG Chem

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Tel 82-2-3773-7136
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IR Website www.lgchemir.com

LG Chem Annual Report 2005

Change is

LG Chem Annual Report 2005

LG Chem

ABOUT LG CHEM

LG Chem, Ltd. has been the face of Korea's chemical industry for nearly 60 years as the nation's first and largest vertically integrated chemical maker. Today we deliver value-added petrochemicals, high-performance industrial materials, and cutting-edge information and electronic materials to customers worldwide through our growing global network of production facilities and marketing subsidiaries. Currently ranked among the world's top-30 chemical firms with non-consolidated sales of KRW 7.4 trillion in 2005, we aim to be one of Asia's top-three makers by 2008 on our way to reaching the global top-five by 2013.

is our DNA

Change. It's a fact of life. Take, for example, the dinosaurs that once dominated the earth. Today, they are no more. Not because they were weak, but because they simply couldn't adapt to changing times. The lesson is clear. You ignore change at your peril. You survive by responding to it. And you thrive by creating it.

Change makes one greater than two.

synergy

"On December 31, 2005, we left work at LG Daesan Petrochemicals. On January 1, 2006, we came to work for LG Chem's Olefins Unit. The merger has gone remarkably smoothly so far. Both companies deeply value innovation and creativity, and we're confident even greater synergies lie ahead."

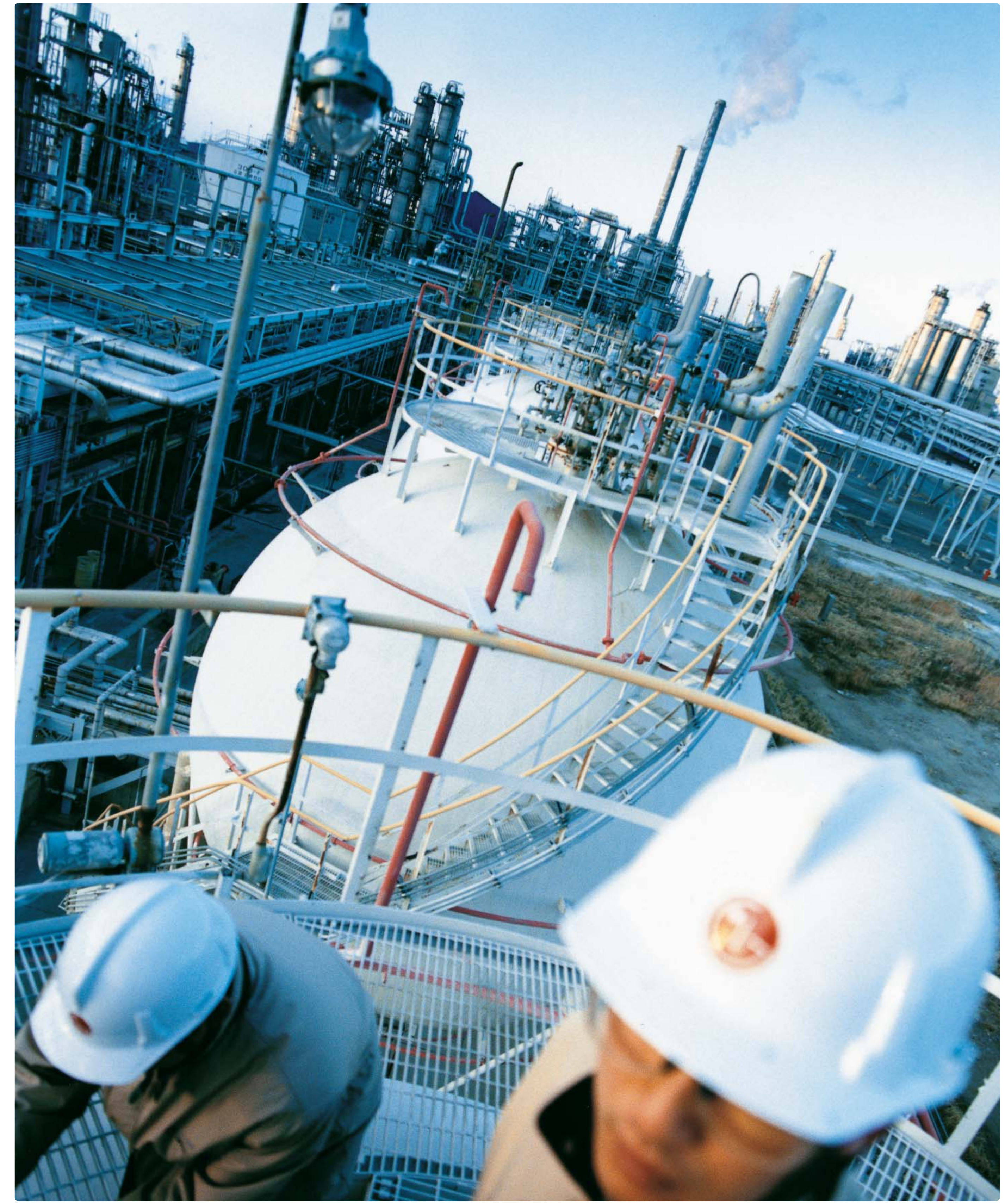
[From left]
Chang-Hoon Choi • Naphtha Cracking Center
Dae-Sik Han • Naphtha Cracking Center

Change is something you never outgrow.

creativity

"You've heard all the excuses for maintaining the status quo. The company is too large. Too capital intensive. Too global. But no organization is exempt from the laws of change. Staying ahead just takes a little more creativity when you're bigger."

Dae-Mo Koo • PVC Overseas Sales



Change is about the future, not the past.

leadership

“In today’s fast-changing business environment, simply adapting and keeping up with change isn’t nearly enough. When you’re following change, you’re not leading. That’s why you have to create change if you want to lead your industry into the future.”

Hee-Jung Jo • Global Design Marketing

Change turns failures into successes.

learning

“No company gets things perfectly right the very first time. In fact, most successes are the culmination of countless failures. It all comes down to how you deal with the inevitable setbacks. When companies learn from their failures, they get stronger. And when they don’t, they get weaker.”

Seung-Il Yoo • Battery Quality Assurance

Change rewards those who anticipate it.

foresight

"The days when change was incremental and predictable are no more. In today's ultra-competitive global marketplace, product development cycles are measured in months, not years. If we expect to lead change, we have to anticipate where the future's headed. And then go all-out to get there first."

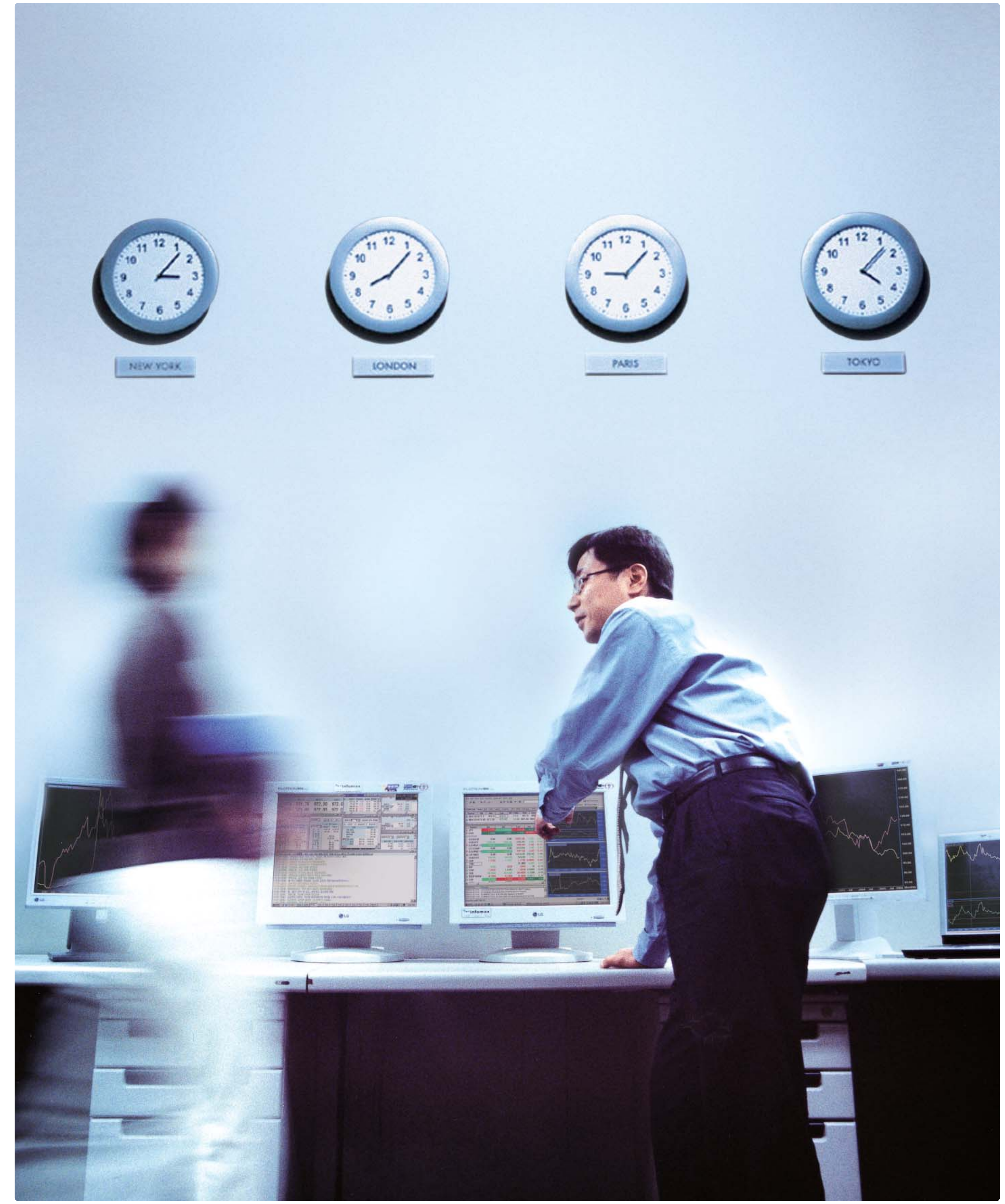
[From left]
Sergey Belyaev • Liquid Crystal Film R&D
Dong-Man Cho • Polarizing Film R&D

Change thrives on competition.

agility

"Competition has a way of making companies stronger. It creates a healthy sense of urgency that accelerates the pace of change. And when companies anticipate and prepare for change, it empowers them to turn crises into opportunities."

Jeong-Joon Ha • Finance



Change rises above every challenge.

courage

"Change begins with people. When people change, so do companies. And when companies change, the world changes, too. LG Chem values people who don't let old paradigms stand in the way of their constant pursuit of the new."

Young-Bae Park • Global HR

CEO'S MESSAGE

At LG Chem, change isn't something we just talk about. It's something each of our more than 13,000 employees around the world does every day. It's our DNA. And the changes it's making in us will transform the chemical industry in the years ahead.

To our Shareholders, Customers, Partners, and Friends,

Change is everywhere at LG Chem. And even bigger changes are ahead. I, myself, am a product of these changes. At the beginning of 2005, I took the helm of a newly incorporated LG Chem subsidiary, LG Daesan Petrochemicals. A year later, LG Daesan has become LG Chem's Olefins Unit, and I have the responsibility of leading the combined companies as they face the complex challenges and opportunities of competing in today's global marketplace.

The Year in Review

A stagnant domestic market, unfavorable exchange rates, and rising oil prices were all factors that made 2005 a very tough year for business.

Our Petrochemicals Group responded to high international oil prices and cut-throat competition in China by focusing on process innovation, building credibility, and market diversification.

Our Industrial Materials Group continued to diversify its global revenue base, expanding its US production and distribution network while aggressively pursuing new opportunities in Russia and other emerging markets. The group also continued to shift its product portfolio to higher-margin businesses such as functional films.

Our Information & Electronic Materials Group continued to expand production facilities for promising businesses like LCD polarizers and color filter photoresists as it broadened its customer base.

On a more strategic level, we continued to improve the quality of our business portfolio by selling off our underperforming POM resin, UV stabilizer, and CRT phosphor businesses. We also launched LG Daesan Petrochemicals, paving the way for cost-saving vertical integration and synergy in our core petrochemical businesses.

Despite the many noteworthy accomplishments mentioned above, the tough global business environment and costly missteps in our battery business prevented us from achieving our 2005 performance goals. We finished the year with sales of KRW 7,425 billion, an operating profit of KRW 422 billion, and a net income of KRW 400 billion.

The Year Ahead

The general business environment looks to remain much the same in 2006. While the infotech sector is projected to experience continued robust gains, high oil prices will continue to slow global economic growth. The strong Korean won will also continue to negatively impact our exports, presenting formidable obstacles to growth at home and abroad.

Despite the many challenges ahead, we believe that we are now positioned for a significant leap forward. We have set a 2006 sales target of KRW 9,460 billion, a 27% increase from 2005. About two-thirds of this growth will come from our merger with LG Daesan Petrochemicals. We expect the merger to generate substantial synergies with our petrochemical businesses as it gives us the strong cash flow essential to funding our investments in today's and tomorrow's growth businesses.

We have launched three initiatives to help achieve our ambitious financial targets, focusing on fundamental competitiveness, customer value, and organizational performance.

Achieve Fundamental Business Competitiveness

We will focus on securing a fundamental competitive edge through superior cost leadership and rapid product development in each of our major businesses—LCD polarizers, rechargeable batteries, PVC and ABS resins, acrylic solid surfaces, and surface materials. We will also be focusing R&D on bringing tomorrow's medium- and large-format battery, fuel cell, display material, and functional film technologies to market.

Deliver Superior Value to the Customer

We will focus on delivering superior value in every aspect of quality and service. We will become a respected industry leader by winning and growing with our customers.

Build a High-Performance Organization

We will focus on building an organization that excels at execution. While the fields we chose to do business in are important, the way we run those businesses is even more so. We need solid start-to-finish execution to achieve consistently strong results. To facilitate this, we will build a high-performance organization with a clear understanding of corporate objectives and the determination to achieve them without fail.

In closing, I want to thank you for your continued support and encouragement during this challenging time of transition and change. It is my personal aspiration to unleash the power for change that lies inside each of our people. I believe that power has the potential to revolutionize our industry. And make LG Chem one of the world's most innovative and profitable chemical makers in the years ahead.

Bahn-Suk Kim | President & CEO

FINANCIAL HIGHLIGHTS

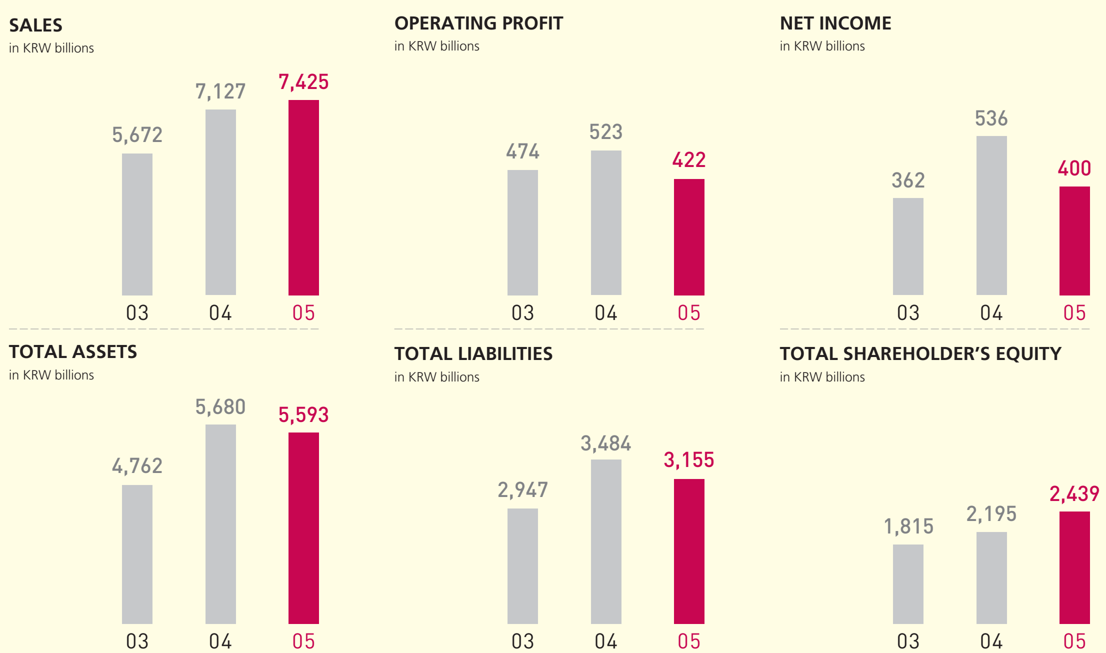
BUSINESS DIVISIONS

PETROCHEMICALS
- NCC
- PVC & Plasticizers
- ABS / PS
- PO
- Acrylates
- EP
- Specialty Resins
- Synthetic Rubber

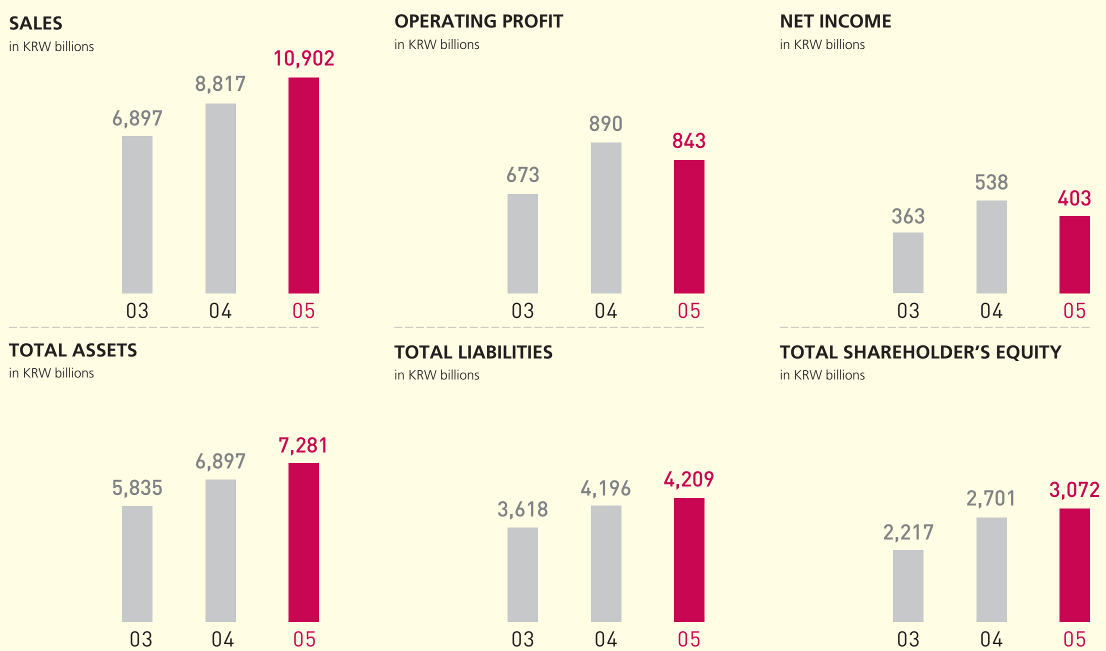
INDUSTRIAL MATERIALS
- Housing Solutions
- Living Solutions
- Automotive Solutions
- Hi-Macs

INFORMATION & ELECTRONIC MATERIALS
- Mobile Energy
- Optical Materials
- Imaging Materials

Non-Consolidated



Consolidated



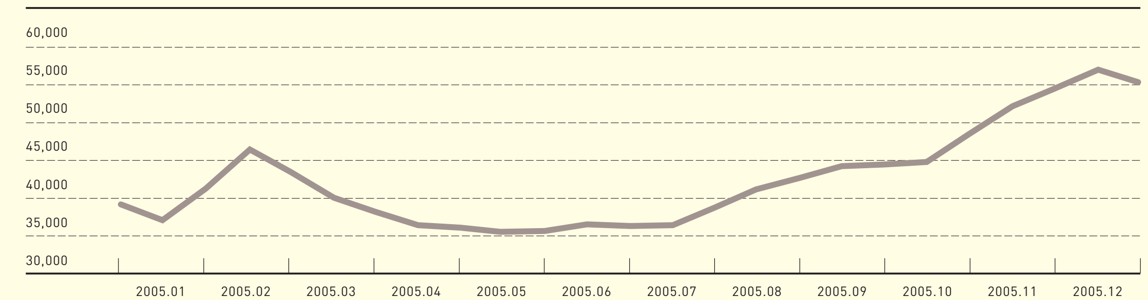
Although 2005 was a challenging year in terms of profitability, we continued to grow sales and improve the quality of our balance sheet. Investors rewarded our efforts by pushing our stock back above KRW 50,000 from mid-year lows.

Key Figures

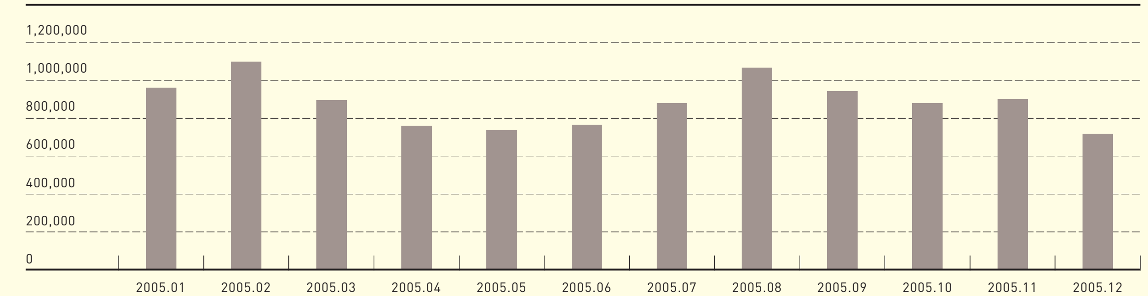
	2005	2004	2003
Operating profit margin	5.7%	7.3%	8.4%
Return on equity	17.1%	26.8%	21.4%
Net debt-to-equity	75.5%	90.2%	94.0%
Outstanding common shares	64,425,064	64,425,064	64,425,064
Earnings per share in won	5,501	7,341	4,951
Stock price in won at year-end	57,000	41,250	55,000
Dividend per common share in won	1,250	1,500	1,750

2005 Stock Price Performance

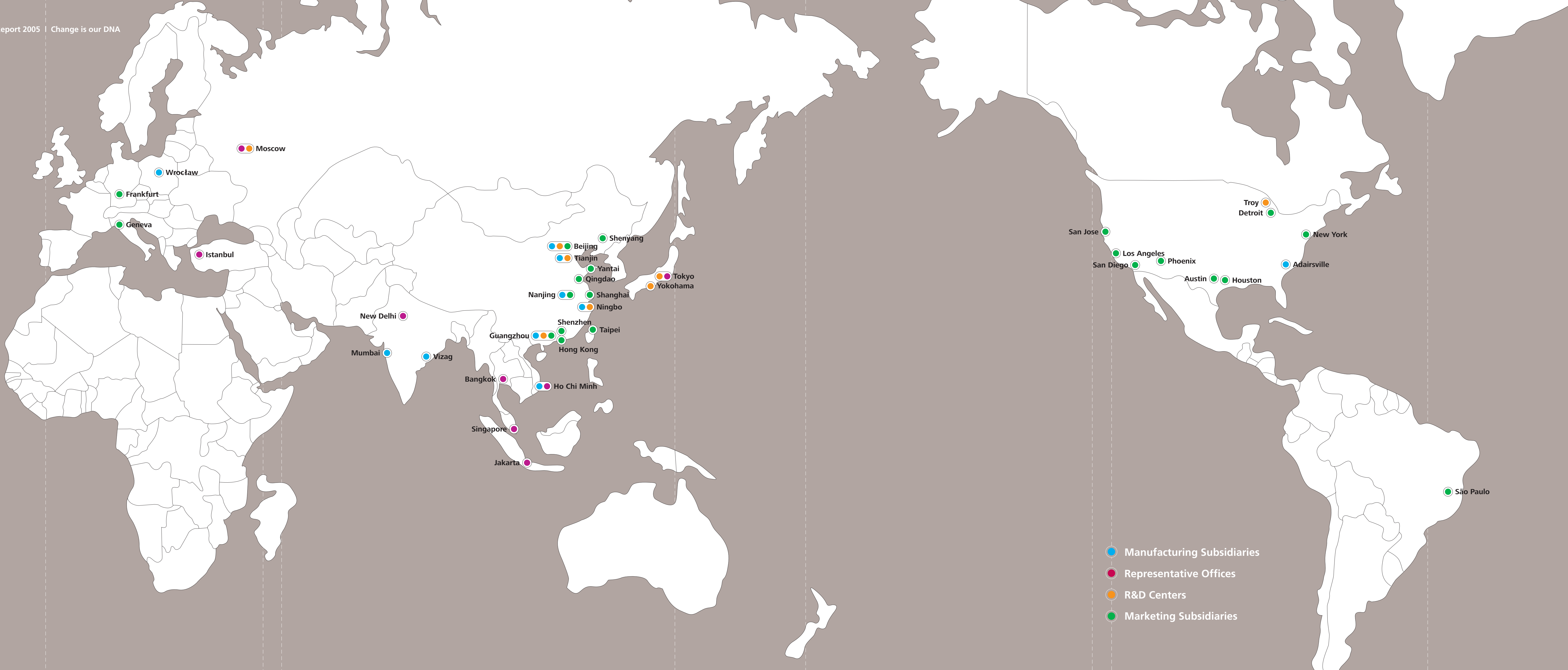
Stock Price
in KRW



Trading Volume
in shares



THE WORLD of LG CHEM



DOMESTIC PLANTS

Yeosu Plant	Yeosu	82-61-680-1114
Cheongju Plant	Cheongju	82-43-261-7114
Ulsan Plant	Ulsan	82-52-231-4114
Iksan Plant	Iksan	82-63-830-8114
Naju Plant	Naju	82-61-330-1114
Onsan Plant	Onsan	82-52-231-5114
Daesan Plant	Daesan	82-41-661-2114
Ochang Techno Park	Ochang	82-43-219-7114

MANUFACTURING SUBSIDIARIES

Tianjin LG DAGU Chemical Co., Ltd.	Tianjin	86-22-2538-6666
Tianjin LG Bohai Chemical Co., Ltd.	Tianjin	86-22-2538-6666
Ningbo LG Yongxing Chemical Co., Ltd.	Ningbo	86-574-8637-7155
Ningbo LG Yongxing Latex Co., Ltd.	Ningbo	86-574-8637-0280
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Guangzhou	86-20-8200-1570
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	Tianjin	86-22-8212-5558
Tianjin LG New Building Materials Co., Ltd.	Tianjin	86-22-8212-5558
Tianjin LG Window & Door Co., Ltd.	Tianjin	86-22-8212-5558
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	Nanjing	86-25-8560-3000
LG Chem Display Materials (Beijing) Co., Ltd.	Beijing	86-10-6785-6870
LG Polymer India Pvt. Ltd.	Mumbai	91-22-5693-5353
	Vizag	91-891-252-0874
LG VINA Chemical J/V Company	Ho Chi Minh	84-8-822-8070
LG Chem Industrial Materials Inc.	Adairsville	1-706-879-3151
LG Chem Poland Sp. z o.o.	Wrocław	48-71-311-00-01

REPRESENTATIVE OFFICES

LG Chem Tokyo Office	Tokyo	81-3-3584-6545
LG Chem New Delhi Office	New Delhi	91-11-2671-4001
LG Chem Jakarta Office	Jakarta	62-21-515-1714
LG Chem Bangkok Office	Bangkok	66-2-665-7419
LG Chem Singapore Office	Singapore	65-6333-6090
LG Chem Ho Chi Minh Office	Ho Chi Minh	84-8-822-0409
LG Chem Moscow Office	Moscow	7-495-258-2335
LG Chem Istanbul Office	Istanbul	90-212-285-0273
LG Chem China Holding Company	Beijing	86-10-6563-2114

R&D CENTERS

Moscow Information & Technology Center (MITC)	Moscow	7-495-258-2335
Compact Power, Inc.	Troy	1-248-291-2377
Battery R&D in Japan (BRDJ)	Yokohama	81-45-338-3032
Tokyo Information & Technology Center (TITC)	Tokyo	81-3-3584-6341
China Tech Centers	Guangzhou	86-20-3878-1200
	Ningbo	86-574-8637-7185
	Beijing	86-10-6563-2275
	Tianjin	86-22-8212-5558

MARKETING SUBSIDIARIES

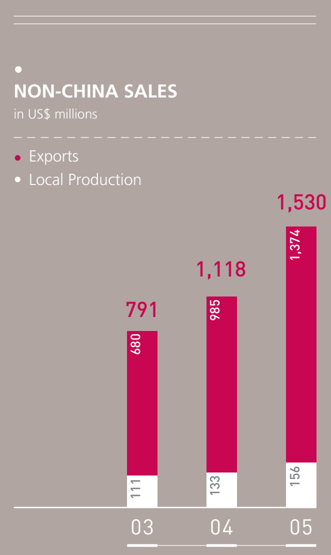
LG Chem (China) Investment Co., Ltd.	Beijing	86-10-6563-2114
	Shanghai	86-21-5241-3322/6600
	Guangzhou	86-20-3878-1200
	Shenyang	86-24-2281-2755
	Nanjing	86-21-6237-6601
	Yantai	86-133-9645-2838
	Shenzhen	86-755-8302-5201
LG Chem Hong Kong Ltd.	Hong Kong	852-2820-7952
LG Chem (Taiwan), Ltd.	Taipei	886-2-2700-9077
LG Chem America, Inc.	New York	1-201-816-2309
	Los Angeles	1-562-653-8090
	Detroit	1-248-358-0400
	San Jose	1-408-350-7810
	San Diego	1-858-271-5559
	Austin	1-512-532-5113
	Houston	1-281-376-4866
LG Solid Source, LLC	Phoenix	1-623-776-7373
LG Chem Brasil, Ltd.	São Paulo	55-11-3043-7021
LG Chem Europe GmbH	Geneva	41-22-879-5485
	Frankfurt	49-69-6616-2640

GLOBAL OPERATIONS

Our future is global. In 2005, nearly half of sales came from outside our home market.

The year 2005 will be remembered as a turning point in our global business strategy as we accelerated our diversification away from China and into strategic international markets. We launched operations at a Hi-Macs acrylic solid surface plant in the United States. We expanded our marketing capabilities by adding subsidiaries in Germany and Brazil as well as an office in Turkey. We also finalized plans to set up an LCD polarizer plant in Poland as we continued to strategically increase local production to meet demand in key regional markets. These combined efforts were instrumental in generating a nearly 37% increase in our consolidated non-China global sales from $1.12 billion to $1.53 billion.

While commodity markets will continue to provide a substantial portion of our sales for the foreseeable future, we are making steady progress in our transition from volume-driven to profit-driven growth. We continued to make inroads into value-added specialty markets in 2005 as we



honed our marketing capabilities, increasing the top-tier weighting of our customer portfolio. Our focus on profitability at the local level helped us enhance our cost leadership, strengthen local R&D, and actively identify underperforming operations. We also explored the feasibility of setting up plants to produce PVC and ABS in India and PVC doors and window profile in the CIS as we aggressively pursued opportunities in emerging markets in Latin America, the Middle East, and Africa.

Looking ahead to 2006, we will continue to emphasize our value-added products in the Americas and Europe as we pursue opportunities in emerging growth markets such as India, Russia, South America, and the Middle East. We believe that this dual-track focus on developing and marketing specialty and high-end products while aggressively pursuing business with major manufacturers around the globe will keep us growing as it enhances the quality of our bottom line.

GLOBAL OPERATIONS

NORTH AMERICA

•

Sales jumped 30% to $312 million in 2005, with ABS and PS resins accounting for 86% of the increase and 70% of overall sales. Our strategic product mix in this region includes Hi-Macs acrylic solid surfaces, sign media, surface materials, ABS resin, engineering plastics, and toner, all of which delivered solid gains during the year.

We gained distribution efficiencies and flexibility during the year by expanding our network of regional warehouses to six locations across the United States. Our marketing focus on major manufacturers continued to pay off as sales to General Electric soared from $400,000 to $4.8 million. We also acquired supplier certification with General Motors in several categories.

We project regional sales will reach $391 million in 2006.

EUROPE

•

Sales climbed over 10% to $212 million in 2005 as we focused on selling ABS resin and rechargeable batteries to global manufacturers across the region. During the year, we established an office in Istanbul to handle planning and sales in Turkey and throughout the Middle East. We also upgraded our Frankfurt office to a sales subsidiary—LG Chem Europe GmbH—and broke ground for a polarizer plant in Poland that is slated to begin production in early 2007.

We expect sales to rise to $265 million in 2006.

INDIA

•

Sales rose over 21% to $201 million in 2005. PS and EPS resin sales accounted for $99 million of the total as we increased our local market share to 32% and 39%, respectively. PVC resin sales more than tripled from $15 million to $48 million, while ABS resin sales rose from $3 million to $4 million. We continue to explore market opportunities for PVC resin, acrylic solid surfaces, window profile, and rechargeable batteries in the local market.

Our sales target for 2006 is $192 million.

RUSSIA

•

Sales jumped 50% to nearly $53 million in 2005. This strong growth was driven by dramatic market share gains for our ABS, EPS, and MBS resin products, aided by substantial improvements in our regional distribution channel. PVC resin sales alone were up almost 2,000%. We also secured a distribution network for our PVC window and door product lines during the year.

We believe that regional sales will surpass $97 million in 2006.

LATIN AMERICA

•

Sales soared 78% to $130 million in 2005 on the strength of an aggressive regional marketing push for our rechargeable batteries and PE, PVC, and ABS resin products following the June opening of our first regional marketing subsidiary—LG Chem Brasil, Ltd.—in São Paulo. We believe that this region has the potential to join China as one of our key petrochemical markets.

Our 2006 regional sales target is $190 million.

SOUTHEAST ASIA

•

Sales climbed over 9% to more than $177 million in 2005, driven by strong sales of polyolefins, acrylic acid, and rechargeable batteries across the region. In Vietnam, LG VINA Chemical recorded a 15.4% increase in DOP plasticizer sales to $30 million. Our new Bangkok office opened in October 2004 also played a key role in formulating and executing our regional marketing strategy during the year, collaborating with our Tokyo office to win business from major Japanese consumer electronics and auto makers.

In 2006, we are targeting regional sales of $248 million.

MIDDLE EAST & AFRICA

•

Sales soared over 106% to $309 million in 2005. Armed with lessons learned from our successful advance into Nigeria's polyolefins market, we continue to progressively expand our product offerings across these regions.

In 2006, our regional sales target is $341 million.

CHINA OPERATIONS

As the world's manufacturing powerhouse, China is by nature our largest strategic market, generating just over 22% of our consolidated global sales. Our main business opportunities here include rechargeable batteries, polarizers, PVC and ABS resins, and PVC doors and window profile. Driven by solid growth in petrochemical sales and dramatic gains in polarizer sales, we overcame tough economic and market conditions in 2005 to post a 14% sales increase from $2.40 billion to $2.74 billion.

In January 2005, we took a major step toward our goal of being one of China's top-five chemical companies by 2008 by establishing a local holding company. LG Chem (China) Investment Co., Ltd. now oversees strategy, marketing, and management support for our growing local network as we progressively localize each link in the value chain. The holding company's top priority for the year was to implement an integrated sales and marketing system capable of seamlessly handling both imported and locally produced products. Our Industrial Materials and Information & Electronic Materials Groups completed system implementation in 2005, and our Petrochemicals Group will phase it in throughout 2006.

CHINA SALES
in US$ millions

Expanding production is another key component of our localization strategy. In 2005, locally produced products accounted for nearly 40% of sales, up from just under 36% in 2004. In addition to wrapping up expansion projects at our Tianjin engineering plastic and Beijing polarizer plants, we broke ground on an expansion project at our Ningbo ABS plant and new EDC and VCM plants in Tianjin as we took a step closer to achieving full vertical integration in the PVC field. Scheduled to come online in 2007, these two new projects will further solidify our leadership in China's ABS and PVC markets.

In 2006, we expect continued high oil prices, unfavorable exchange rates, and China's increasing self-sufficiency in the chemical field to be our primary challenges, requiring us to significantly improve our execution capabilities to achieve our $3.0 billion sales target. Our four local tech centers will continue to be a major point of differentiation, providing local customers with comprehensive on-site technical support for every product we sell. LG Chem (China) Investment will also be playing the lead role in consolidating and streamlining our operations as we prepare to set up a local R&D center by 2008.

RESEARCH & DEVELOPMENT

We are developing tomorrow's high-performance, eco-friendly materials that will change the way the world lives, works, and plays.

Today's fast-changing IT-centric business environment is fueled by the convergence of technologies, products, and markets. At LG Chem, we believe that a multidisciplinary R&D approach encompassing the fields of biotechnology, nanotechnology, environmental technology, cultural technology, and robot technology is essential to meeting the future needs of our customers. In 2005, we invested KRW 250 billion in R&D, a figure we intend to increase to KRW 830 billion by 2010. We also plan to expand our global research staff from 1,900 to 3,300 during the same period as we continue to shape the future of chemicals.

PETROCHEMICAL INNOVATIONS

ACRYLIC ACID Acrylic acid is a key material used in super-absorbent polymers and acrylate resins. In 2005, we broke ground for our fourth acrylic acid plant, the first facility of its kind in Korea to be built entirely with local technology. The new plant will reduce our royalty burden as it strengthens our competitiveness, particularly in the Chinese market.

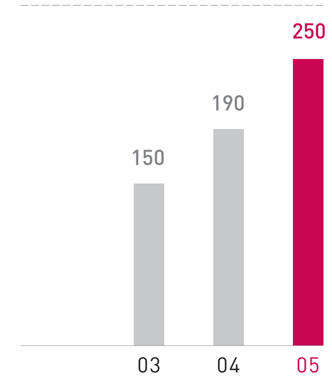
HYPERIER® RESIN In 2004, we developed Hyperier®, the industry's first nanotechnology-based high-barrier engineering plastic resin. We began licensing this technology in 2005, adding to the steadily increasing revenue streams generated by our intellectual property portfolio.

INDUSTRIAL MATERIAL INNOVATIONS

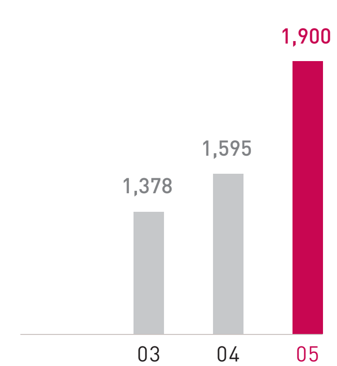
WOODSTONE® LAMINATED WOOD FLOORING In 2005, we introduced this new line of laminated wood flooring for radiant heating applications. Named for its unique wood and stone construction, Woodstone® is the industry's first product to leverage the detoxifying properties of green-tea powder to earn top ratings for its ultra-low volatile organic compound and formaldehyde emissions.

SOUND-FREE FLOOR SYSTEM Impact noise between floors is one of the most common complaints about apartment living. In 2005, we developed a new modular floor system that dramatically reduces impact sound transfer. Designed for use on concrete-slab floors, the system makes an ideal match with our low-profile Heatrix® radiant heating system.

R&D INVESTMENT
in KRW billions



R&D STAFF



INFORMATION AND ELECTRONIC MATERIAL INNOVATIONS

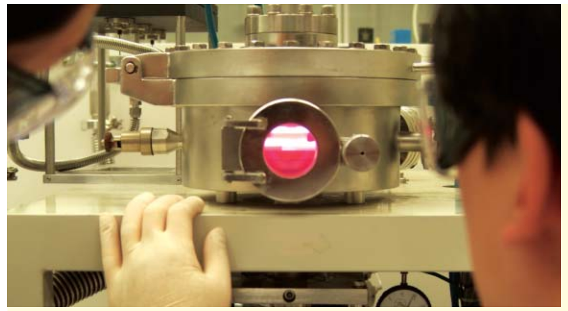
LCD POLARIZERS We targeted the LCD TV market segment in 2005 by improving our polarizers for high-end products such as LG.Philips LCD's 47-inch panels featuring "true-wide in-plane switching" or TW-IPS technology. Our simplified polarizer designs are superior in both quality and price competitiveness, moving us a step closer to our goal of leading this market segment by 2007.

COLOR FILTER PHOTORESISTS We introduced our next-generation color filter photoresists featuring exceptional color clarity and transmission properties in 2005. We also became the first Korean producer to develop an inkjet-based manufacturing process. These advances were instrumental in securing new business from major Korean, Japanese, and Taiwanese LCD makers, fueling dramatic sales growth for the year.

SMALL-FORMAT BATTERIES In June 2005, we developed a new process for optimizing cathode materials, paving the way for us to deliver the industry's first 2,600 mAh lithium-ion cells. The same size and weight as our 2,400 mAh cells, the new cells are now shipping to notebook PC makers around the world.

INNOVATIONS ON THE HORIZON

FUEL CELLS In 2005, we developed a portable fuel cell that achieved dramatic performance breakthroughs in service life and operational stability, the two biggest technical challenges standing in the way of mainstream adoption. Our 25-watt fuel cell uses direct methanol technology and boasts a service life of over 4,000 hours, more than eight times longer than previously attained.



MEDIUM- AND LARGE-FORMAT BATTERIES We are a leader in battery technology for hybrid electric vehicles through Compact Power, Inc. (CPI), a US-based subsidiary. In 2005, CPI relocated its operations to Detroit, Michigan to more effectively collaborate with the "Big Three" US automakers—GM, Ford, and DaimlerChrysler. We are also working with Hyundai on HEV battery solutions as we continue to partner with some of the world's leading light electric vehicle makers to deliver power solutions for robots, electric bicycles, and electric wheelchairs.

INTELLECTUAL PROPERTY STRATEGY

We aim to be one of the industry's top-three patent-winners by 2008 as we set our sights on competing with global leaders such as 3M and DuPont. To date, we have registered approximately 2,300 patents worldwide. We plan to increase this number significantly in the coming years by shifting our R&D focus to technologies with the potential to set standards in emerging fields. Our goal is to increase the weighting of core technology patents in our portfolio from the present 16% level to over 30% in 2008.

REVIEW
OF
OPERATIONS

CHANGE NEVER STOPS

PETROCHEMICALS

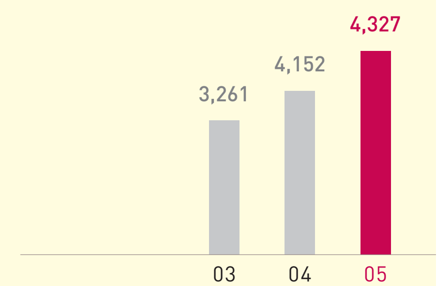
We make the chemicals and polymers that are a ubiquitous part of modern life.

Despite the formidable challenges of industry oversupply and record-high oil prices, we delivered solid year-on-year growth as sales rose 4.2% to KRW 4,327 billion.

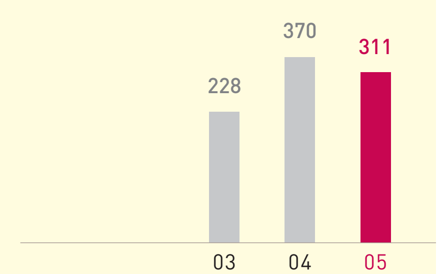
PORTION OF TOTAL SALES

55%

SALES
including internal sales, in KRW billions



OPERATING PROFIT
in KRW billions



2005 REVIEW

After making a strong start, the global petrochemical industry quickly found itself in trouble. The ramp-up of production at new petrochemical plants in the Middle East and China in the second quarter combined with slumping demand in China—the world's largest petrochemical importer—sent market prices falling at a time when record oil prices were pushing feedstock prices to new highs. While global markets largely absorbed this excess capacity in the second half of the year, lower-than-expected demand in the United States due to hurricane-related supply disruptions across the Gulf Coast region added to the industry's woes.

Despite these formidable challenges, we delivered solid year-on-year growth as sales rose 4.2% to KRW 4,327 billion. However, lower sales in China and a delayed recovery in our home market limited our ability to raise prices to reflect higher raw materials costs, sending operating profit tumbling 16% to KRW 311 billion.

PVC

Oversupply fears became a reality as a number of new carbide-based PVC plants came online in China. We responded by shifting our sales focus to other markets as we moved to upgrade our cost competitiveness by breaking ground for new VCM and EDC plants in Tianjin.

ABS

We initiated a comprehensive restructuring project to put in place a framework to facilitate process innovation and customer-centered marketing. In China, we diversified feedstock sourcing to improve our cost structure as we launched a project to add 150,000 mtpa of capacity by mid-2006 to meet rapidly rising local demand.

Although our short-term business prospects may be unfavorable, we continue to strategically lay the groundwork for growth and profitability in all our business fields as we look to the future.

ACRYLATE

Advances in manufacturing competitiveness and strategic global marketing helped make 2005 our most profitable year to date in this business. We also positioned ourselves for future growth by launching an expansion project to add 80,000 mtpa of capacity at our acrylate plant in Yeosu, Korea.

SPECIALTY POLYMERS

We substantially increased our operating profit in this business by developing value-added products, growing sales, and making significant production and processing advances. We also launched operations ahead of schedule at a 70,000 mtpa capacity styrene-butadiene latex plant in Ningbo, China.

2006 OUTLOOK

Although supply and demand dynamics are expected to improve somewhat in 2006, the global industry appears to be headed for a downturn. From a supply perspective, the key variables will be how much new capacity comes online as ethane cracker projects in Iran and carbide-based PVC plant projects in China move steadily toward completion. From a demand perspective, China will be the country to watch. While the world's largest chemical and petrochemical market is expected to continue to deliver steady growth, economic retrenchment policies and yuan revaluation will make stagnation a real possibility. Continued high oil prices will also have a direct impact on demand. On a more positive note, analysts are predicting a robust economic recovery in our home market with a growth rate of around 5%.

Given the likelihood of continued high oil prices and a general industry downturn, we believe it will remain difficult to fully pass on rising raw materials costs to our customers. That said, we expect both sales and profitability to improve substantially in 2006 as a result of our merger with LG Daesan Petrochemicals. We are targeting sales of KRW

5,640 billion, a 30% increase over our 2005 performance.

Although our short-term business prospects may be unfavorable, we continue to strategically lay the groundwork for growth and profitability in all our business fields as we look to the future.

We are leveraging our application technology expertise in the specialty polymers business to upgrade and expand our engineering plastic development capabilities. In addition to stepping up our technology licensing efforts, we are pursuing promising new business opportunities to provide intermediate materials to our sister groups with a focus on the information and electronic materials fields.

We are pushing ahead with a full "tear-down and redesign" of all aspects of our PVC and ABS businesses as part of our ongoing Six Sigma program. We also expect to achieve full vertical integration in China as new VCM, and EDC plants come online, giving us a strategic cost advantage in that local market.

Our acrylate business is focusing on bringing value-added products to market and expanding energy conservation and other cost reduction initiatives. We will also be entering the pressure-sensitive adhesive business when a new 5,000 mtpa plant comes online before year-end in Naju, Korea.

INDUSTRIAL MATERIALS

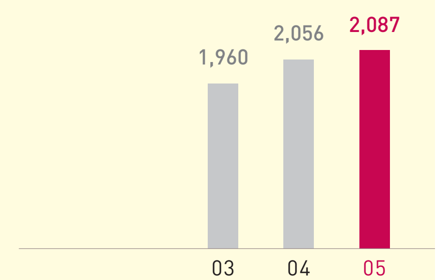
We make the building and finishing materials that add performance and character to everything you see.

Our progressive global marketing and localization strategy continued to pay dividends in 2005, helping us grow overseas sales by more than 10% despite high oil prices and unfavorable exchange rates.

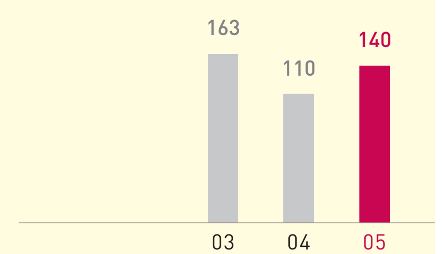
PORTION OF TOTAL SALES

28%

SALES
including internal sales, in KRW billions



OPERATING PROFIT
in KRW billions



2005 REVIEW

The global industrial materials industry enjoyed solid growth during 2005, anchored by manufacturing powerhouse China and steady economic growth in the United States, Europe, and Japan. In our home market of Korea, the struggling construction and real estate industries were dealt a major blow on August 31 with the launch of new anti-speculation policies and regulations, finishing the year with about 460,000 new home completions, roughly the same as 2004. On a positive note, the domestic auto industry enjoyed modest growth on the strength of new model launches and robust exports.

Our progressive global marketing and localization strategy continued to pay dividends in 2005, helping us grow overseas sales by more than 10% despite high oil prices and unfavorable exchange rates. While the ongoing slump in Korea's construction and real estate industries limited overall sales growth to KRW 2,087 billion, a modest 1.5% increase, our focus on productivity gains and cost reductions helped push operating profit up nearly 28% to KRW 140 billion.

DOOR AND WINDOW SYSTEMS

Our focus on high-end home window systems improved the profitability of this business by more than 25% in 2005. We continue to leverage our strong brand recognition in the Korean market as we upgrade our distribution and installer networks to improve the quality of the customer experience. We are also developing solutions for commercial buildings as part of our overall market leadership strategy.

Given relatively similar market conditions at home and abroad in 2006, we believe that both sales and profitability will continue to trend upward.

INTERIOR MATERIALS

While sales held steady in 2005 as the Korean housing market cooled and demand for PVC floorcoverings fell, profitability was up substantially for the year. We achieved this by taking a targeted approach to the PVC floorcovering business as we continued to add higher-margin products to our portfolio, launching wood-laminate flooring and premium commercial flooring products.

ACRYLIC SOLID SURFACES

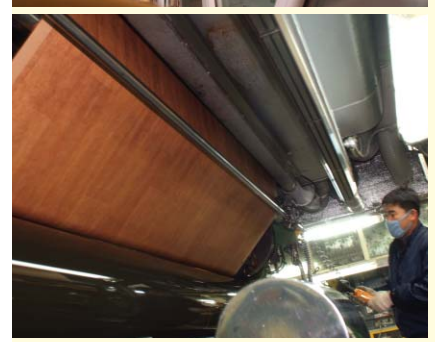
Global sales increased by 10% in 2005 as gains in the United States and other major overseas markets offset slower sales at home. We are well positioned for future growth with the start up of our first overseas plant in the United States during the year and the continued expansion of our Hi-Macs product lineup featuring an industry-leading 15-year warranty.

AUTOMOTIVE MATERIALS

Overall sales grew 5% in 2005 as new vehicle introductions and lower taxes kept the Korean auto industry growing. Profitability was also impressive, rising more than 30% for the year. Our parts business saw margins improve as our restructuring and reengineering initiatives bore fruit and new products reached market. Our interior skin business also continued to perform strongly, introducing new coverstock materials as well as winning new business from overseas automakers.

2006 OUTLOOK

We believe that Korea's underperforming economy and increasingly regulated construction and real estate sectors make it unlikely that our home market will generate much growth for the industrial materials industry in 2006. There will be a few bright spots like the booming full-service remodeling segment and growing demand for high-quality, eco-friendly interior materials as consumers become increasingly health



conscious. The Korean auto sector is also expected to grow a modest 3%, shipping about 3.8 million vehicles worldwide. Global market fundamentals are projected to remain relatively positive in all major regional markets, offering the greatest opportunities for growth.

Given relatively similar market conditions at home and abroad in 2006, we believe that both sales and profitability will continue to trend upward. We are aiming for sales of KRW 2,140 billion, about 2.5% higher than 2005.

At home, we will focus on driving sales of construction and interior materials under our new Z:IN (pronounced "z-in") master brand. We will upgrade product marketability by creating packages and solutions that drive demand.

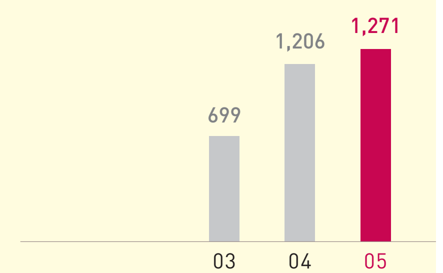
Abroad, we will continue to strategically localize production and marketing for core businesses such as surface materials and acrylic solid surfaces. We see considerable growth opportunities in China for our door and window systems, floorcoverings, and radiant heating systems.

We also plan to invest KRW 43 billion—more than we've invested in the last four years combined—to expand our production capabilities in 2006. Our R&D efforts will continue to focus on quality and design for our core businesses as well as emerging fields such as high-performance functional films that will drive growth in the years ahead.

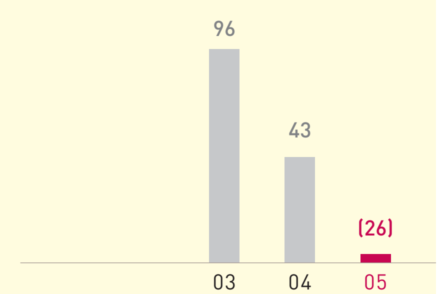
INFORMATION & ELECTRONIC MATERIALS

We make the flat-panel display materials and batteries that are driving the digital convergence revolution.

SALES
including internal sales, in KRW billions



OPERATING PROFIT
in KRW billions



Our ongoing efforts to enhance profitability paid off as our display and optical materials businesses led the way to sales of KRW 1,271 billion, a solid 5.4% increase over 2004.

PORTION OF TOTAL SALES

17%

2005 REVIEW

The global information and electronic materials industries once again registered robust growth in 2005 as consumer demand for flat-panel displays, mobile phones, notebook PCs, MP3 players, and other popular digital gadgets continued to soar. As in recent years, falling prices and powerful new features continued to expand the user base for these products even further into the mainstream.

While consumers enjoyed the benefits of digital technology at the lowest prices to date, materials suppliers like ourselves faced intense competition and shrinking margins. Our ongoing efforts to enhance profitability paid off as our imaging and optical materials and battery businesses led the way to sales of KRW 1,271 billion, a 5.4% increase over 2004. However, costs associated with the recall of defective cylindrical batteries resulted in a disappointing operating loss of KRW 25.8 billion.

LCD POLARIZERS

We extended our global market share in this business from 21% to 23% in 2005, easily maintaining our No. 2 ranking with strong sales to customers in Korea, Taiwan, and China. Sales jumped 36% to KRW 668 billion as we expanded our customer base and added production capacity at our No. 2 Ochang plant and new post-processing facilities in Zhongli, Taiwan and Nanjing and Beijing, China. We also launched new products for the LCD TV market, positioning ourselves to win more business in this booming segment.

COLOR FILTER PHOTORESISTS

Outstanding product performance and quality advances helped us generate a remarkable 71% sales increase to KRW 71 billion in 2005. We continued to make new inroads into Taiwan, Japan, and other global markets with a growing lineup of high-performance products.

PDP FILTERS

Our success at winning new overseas business boosted sales 136% to KRW 76 billion in 2005. This outstanding growth coupled with improvements in yield and productivity helped this business turn its first operating profit in just its second year of operation. We also developed the industry's first film-based filter that eliminates the costly and heavy glass substrate, aiming for even more dramatic growth in the years ahead.

BATTERIES

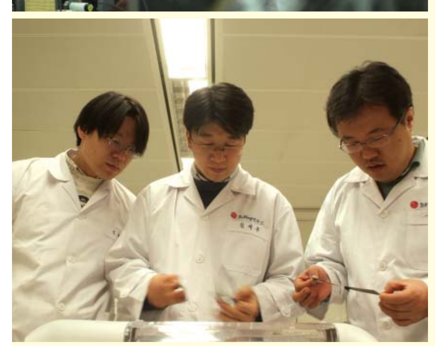
Our battery business had a difficult year as we dealt with a costly product recall and a strategic misstep that caught us focused on high-end products when the low-price notebook PC market took off globally. We used the recall as an opportunity to build trust with customers and fundamentally reengineer our quality control process.

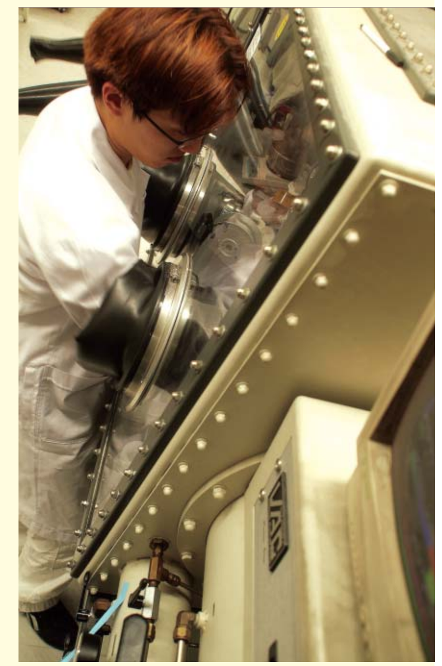
PRINTED CIRCUIT MATERIALS

We captured 37% of global demand for resin-coated copper foil in 2005, leading the market for this value-added material used to build-up high-density printed circuit boards for mobile phones. We also ramped up operations at a new production line for adhesiveless polyimide copper-clad laminates, another value-added material used in flexible printed circuit boards.

2006 OUTLOOK

All industry trends present in 2005 will continue to intensify in 2006 with double-digit growth expected in most product categories. The LCD and plasma TV markets will continue to move into the mainstream as prices fall dramatically. The notebook PC market is forecast to enjoy strong growth, spurred on by the launch of Windows Vista™—Microsoft's next-generation OS—and the mainstream adoption of 64-bit processors. The mobile phone market is expected to grow briskly as operators accelerate their rollout of 3G service across Europe and emerging markets worldwide. In Korea, the rapid rollout of next-generation digital multimedia broadcasting (DMB) and wireless broadband Internet (WiBro) services is expected to spawn a new wave of mobile devices that will redefine convergence.





Although growing competition will drive down margins in many of our businesses, we believe that our much higher order volumes will keep sales and profits growing.

We are well positioned to benefit from nearly all the trends mentioned above. Although growing competition will drive down margins in many of our businesses, we believe that our much higher order volumes will keep sales and profits growing. In line with these expectations, we expect sales to soar to KRW 1,960 billion, a more than 50% increase over 2005.

Investment will play an crucial role in our success going forward. We plan to invest KRW 168 billion to add or expand capacity in 2006, a 14% year-on-year increase. In December 2005, we began an LCD polarizer expansion project at our No. 3 Ochang plant in Korea. We are currently in the process of acquiring post-processing plants in Poland and other key overseas locations to improve customer service as we set our sights set on becoming the market leader in 2007.

OLEFINS

We make the feedstocks and intermediates that bring chemicals to life.

Our merger with LG Daesan Petrochemicals will bring considerable opportunities for synergy, including full vertical integration in our core PVC and ABS businesses, giving us powerful economies of scale.

On January 1, 2006, we established the Olefins Unit to assume control over the operations of LG Daesan Petrochemicals, a wholly owned subsidiary. The statutory merger brings considerable opportunities for synergy. It gives us our own naphtha cracking center, ensuring a dependable supply of upstream feedstocks such as ethylene, propylene, and styrene monomer. This vertical integration is a key step toward securing long-term cost leadership in our core PVC and ABS businesses, giving us powerful economies of scale.

From an operational perspective, the merger immediately gives us a solid revenue base. It improves our competitiveness across the board as it streamlines and strengthens our capabilities. The merger also eliminates complicated transfer pricing issues and reduces transaction costs.

From a strategy perspective, the merger significantly enhances our ability to pursue growth opportunities. It enables us to make the best use of our cash flow as we invest in the growth engines of the future. It also enhances our execution capabilities by facilitating strategic alignment as well as speedy decision-making.

In 2006, we plan to focus on debottlenecking cracking center operations, expanding annual ethylene output from 450,000 tons to 650,000 tons to meet downstream production requirements. We expect the unit to contribute approximately KRW 1,600 billion to overall sales in its first year, moving us solidly into the ranks of the world's top-20 chemical makers.

OUR PEOPLE

We believe that creating value for our customers begins with valuing our employees.

At LG Chem, the one asset we value above all others is our people. We value their creativity and individuality. We evaluate and compensate them based on their capabilities and performance. And we give them equal opportunities to grow and advance. In short, we recognize that helping our employees achieve personal and professional success is essential to our success in the global chemical industry.

RECRUITING & HIRING

To be the best, you have to have the best. Our executives hit the road on global recruiting tours each year to hire top talent from universities and research labs. We sponsor research programs with major universities to nurture and cultivate promising chemical and electrical engineering talent. Our global operations seek to hire the best local talent to meet their operational needs, including specialists such as in-house lawyers and patent attorneys. At the end of 2005, our global family totaled 13,415 members in 17 countries, a nearly 8% increase over 2004.

ONGOING DEVELOPMENT

It takes continuous training and education to keep top talent in top shape. We offer a comprehensive range of programs tailored to each employee's level in management, job specialty, and learning style to ensure our people have the tools and skills they need to compete in the global marketplace.

While we always seek to hire the best person for each position, we also strongly believe in promoting from within. Our *HPI* (High Potential Individual) programs help us identify and train people with the skills and smarts to be tomorrow's global business leaders. In 2005, 52 employees completed programs ranging from an in-house MBA degree to team projects tackling major domestic and international business issues. We also selected 12 employees to participate in MBA programs at major international universities and enrolled an additional 24 in MBA programs offered in-house or at leading Korean universities during the year.

Originally established to train our people to work in China, our regional specialist program has evolved over the years to reflect our increasingly global business strategy. In 2005, the program sent more than 30 employees to live and work for a year in China, India, Brazil, Russia, or the Middle East. In addition to graduating 24 China specialists during the year, we set up a "China MBA" program to help our local management team rise to the next level.

REWARDING EXCELLENCE

We believe that exceptional performance should be exceptionally rewarded. Beyond our competitive salaries and flexible cafeteria benefit plan, we offer a number of incentive programs to encourage creativity and excellence. These include a "golden collar" incentive that pays key personnel bonuses of up to 100% of their annual salary, and unlimited on-the-spot incentives with bonuses of up to 300% of the recipient's monthly salary.

We also value win-win labor relations. The openness and mutual understanding we have cultivated between labor and management over the years has been essential to the success of Six Sigma and other innovation initiatives. The fundamental strength of this win-win commitment was reaffirmed in 2005 as we came together in the face of major external challenges to establish a pragmatic new negotiating paradigm in step with the competitive realities of the global marketplace.

ETHICAL MANAGEMENT

Delivering customer satisfaction and respecting human dignity have been the cornerstones of the LG Chem management philosophy since our founding back in 1947. In 1994, we became one Korea's first companies to publicly adopt a code of conduct, the LG Code of Ethics. In 1995, we introduced "management by principle", a paradigm of conduct that connects our management philosophy with our vision of being a global industry leader.

MANAGEMENT BY PRINCIPLE

We believe that the secret to being a global industry leader lies in winning the hearts of customers, competing fairly and transparently, and playing a responsible role in society. Management by principle is about much more than following ethical business standards. It is a framework for continuous personal improvement and fair and transparent competition.

Today, this paradigm is evident in all aspects of our operations. It shows in our world-class products and service. It shows in our advanced IT systems that raise visibility and transparency across the enterprise. And it shows in our membership in Responsible Care®, the global chemical industry's sustainability initiative.

EMPLOYEE RELATIONSHIPS

We require all employees to make a signed pledge to practice management by principle as well as investing considerable time and resources to help them learn and apply it in real-world situations. We have also put in place safeguards to ensure that whistleblowers are properly protected at work to enhance the transparency of all aspects of our operations.

CUSTOMER RELATIONSHIPS

As a rule, we do not give or accept gifts in the course of business relationships. When rejection would create awkward business situations, the gift is accepted and turned in to the company for auctioning to the highest bidder, with the proceeds going to charity.

SUPPLIER RELATIONSHIPS

We use an online bidding system to ensure fairness in procurement. We also strive to build win-win relationships through regular consultations on technical, environmental, safety, and energy issues.

COMPETITOR RELATIONSHIPS

We believe that fair trade benefits everyone. Our compliance program plays a key role in ensuring we deliver value to our stakeholders.

COMMUNITY CARE

At LG Chem, we are committed to being a responsible member of society. Our community outreach efforts primarily focus on supporting the volunteer activities of our employees and educational programs targeting primary and secondary-age youth.

VOLUNTEERISM

We encourage our people to join together in reaching out to their local communities. Employees volunteer their money and time to care for elderly shut-ins, parentless families, and the disabled as well as worthy local charities and non-profit organizations.

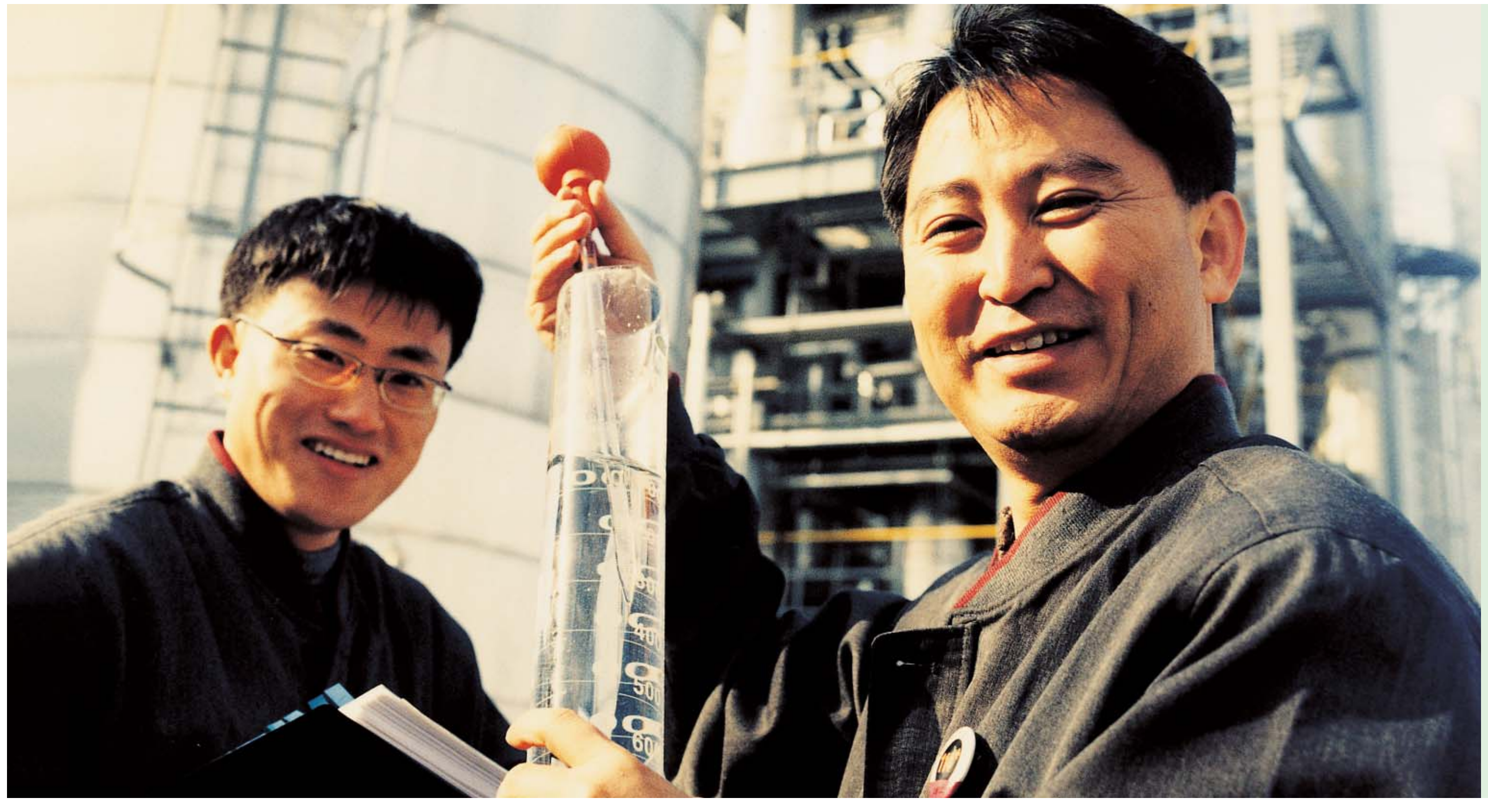
In January 2005, we launched a matching grant program called the "Twin Angel Fund" to dramatically expand the impact our employees can make. Over 5,000 joined the program, raising KRW 238 million that was matched by an equal amount from the company. The fund's major projects in 2005 included underwriting the cost of heating for after-school study programs, medical care at senior centers, and school lunch programs.

EDUCATION

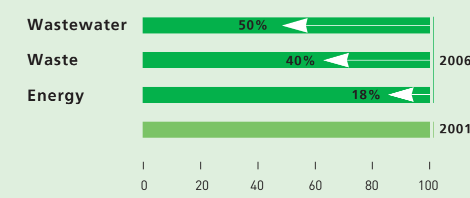
Introducing youth to the world of chemistry and science is another one of our major outreach goals. Each year, we sponsor or co-sponsor a number of programs to help inspire tomorrow's scientists and researchers.

A partnership with Hanyang University and the Korea Science Foundation, our Mobile Chemistry Lab program visits primary schools and orphanages across Korea, giving younger students a fun, hands-on learning experience. For middle schoolers, we host LG Chemistry Camp several times a year. These three-day programs provide an engaging introduction to chemistry and an up-close look at how the raw materials of everyday products are made.

We are also a co-sponsor of the annual Chemical Frontier Festival for high schoolers launched in 2004. Organized by the Korea Advanced Institute of Science and Technology and co-sponsored by Korea's Ministry of Education & Human Resources Development and five chemical industry leaders, the science fair solicits projects in categories such as the environment, energy, life science, sociology, information technology, and traditional Korean science. In 2005, the winning projects explored hydrochemical techniques to prevent stream pollution from mine runoff, made a natural preservative from oak tree leaves, and built a portable colorimeter to measure ozone concentrations at ground level.



2002-2006 PER-UNIT REDUCTION GOALS



ENVIRONMENTAL RESPONSIBILITY

LG Chem is proud to be a member of Responsible Care®, an initiative of the worldwide chemical industry. We are committed to the continual improvement of all aspects of our health, safety, and environmental performance.

Responsible Care®

GREENER PRODUCTION

All our domestic facilities are ISO 14001 and OHSAS 18001/KOSHA 18001 certified. We have also been designated an "Environmentally Friendly Company" by Korea's Ministry of Environment. Six Sigma projects play a vital role in improving the processes and implementing the systems essential to meeting the highest environmental and safety standards.

We believe that environmental and safety issues are best addressed at the local plant level. In addition to regular training seminars, we conduct biannual audits and annual follow-up inspections to evaluate system efficiency and compliance. Each worksite department has an auditing team composed of both employees and outside experts charged with conducting regular inspections and monitoring performance.

One of our key goals is to progressively reduce pollutant emissions to zero. The year 2006 marks the final year of a five-year initiative to reduce per-unit wastewater output by 50%, per-unit waste output by 50%, and per-unit energy usage by 18% compared to 2001 levels. We are using a broad range of strategies to achieve these targets, including the development of technical solutions to facilitate alternate material usage, process improvements, pollution control, and energy conservation.

We are constantly striving to increase the energy efficiency of our operations. Each worksite has a task force dedicated to optimizing production processes. Each department conducts ongoing R&D to reduce the energy needed to produce their products. We undertook 53 projects in 2005, cutting energy costs by about 8% for a savings of KRW 20 billion.

GREENER PRODUCTS

We have used life cycle assessment or LCA since 1997 to guide our efforts to reduce the environmental load of our products. LCA is a methodology for analyzing the total amount of raw materials, energy, and waste generated by products from the moment raw materials are acquired to final product disposal.

Our products are only as green as the materials that go into making them. That's why we signed onto the Ministry of Environment's Voluntary Agreement on Green Procurement in September 2005. The agreement will help make our products and operations greener as they expand the marketplace for eco-friendly products.

Today, 29 of our products are Korean Eco-Label certified by the Korea Eco Product Institute. Another 19 of our products carry the Healthy Building Material (HB) mark awarded by the Korean Air Cleaning Association.

GREENER FUTURE

The Kyoto Protocol came into effect in February 2005. While Korea ratified the protocol in 2002, it is not currently required to meet any specific emissions reduction targets for carbon dioxide and other greenhouse gases. In addition to our ongoing efforts to reduce energy consumption and pollution load, we are now in the process of putting in place a comprehensive framework by the end of 2007 as part of our master plan to ensure we stay in step with the government's implementation timetable.

Our Kyoto mitigation efforts are being led by a headquarters-based task force team that is now developing a greenhouse gas management system, researching opportunities for Clean Development Mechanism projects and emissions trading under the protocol, and developing energy-efficient processes. On a more fundamental level, we continue to progressively transition our product portfolio to high-performance, value-added products and optimize our facilities and process technologies as we do our part to build a sustainable future for chemicals.

BOARD of DIRECTORS

BOARD MEMBERS

Bahn-Suk Kim President & CEO LG Chem 01	**Yu-Sig Kang** Vice Chairman & CEO LG Corp. 02	**Suk-Jeh Cho** Executive Vice President & CFO LG Chem 03	**Ho-Soo Oh** Chairman Investus Global Corp. 04
Sang-Hyung Ahn Dean, College of Business Administration Seoul National University 05	**Kon-Sik Kim** Professor of Law Seoul National University 06	**Young-Moo Lee** Professor, School of Chemical Engineering College of Engineering Hanyang University 07	

FINANCIAL REVIEW

CFO'S MESSAGE

Delivering shareholder value through smart management, strategic growth, and a commitment to excellence.

Suk-Jeh Cho
Executive Vice President and CFO

LG Chem faced tough market conditions at home and abroad in 2005. The Korean economy continued to underperform expectations. Oil prices rose above $60 per barrel. International petrochemical prices fell dramatically. And exchange rates became increasingly volatile.

We responded by placing top priority on strengthening our financial structure. This included securing favorable financing and allocating funds for mid- and long-term investment in our strategic businesses along with financial risk management. These efforts enabled us to reduce our debt-to-equity ratio by 30 percentage points, from 159% at the end of 2004 to 129%.

We also put in place an early warning system to assist in effectively identifying and responding to rapid changes in the external business environment. The system provides early warnings for a number of key business indicators, giving us the ability to preassess financial risk on a business-by-business basis as well as formulate and implement appropriate countermeasures.

In 2006, our first and foremost priority will be on maximizing the synergistic benefits of our merger with LG Daesan Petrochemicals completed on January 1, 2006. LG Daesan has an excellent financial structure. It operates a naphtha cracking center, and produces a wide range of products such as ethylene, propylene, polyethylene, polypropylene, ethylene glycol, and synthetic rubber. The merger is a good fit for our existing businesses, and we expect to reap the benefits of synergy across our organization as integration continues.

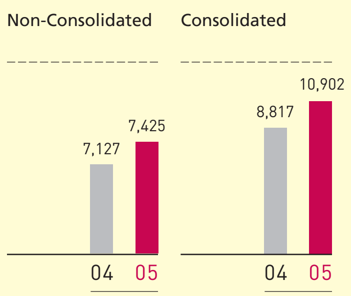
Our second priority will be on balancing growth and financial stability. We are working hard to maximize our return on investment by considering timing and scale issues from the very beginning of the decision-making process, meticulously analyzing international market trends to ensure optimal investment timing.

Our third priority will be to reduce risk by effectively dealing with key business threats such as volatile exchange rates and oil prices, thereby maximizing corporate value. The crucial importance of risk management is something that can never be stressed enough.

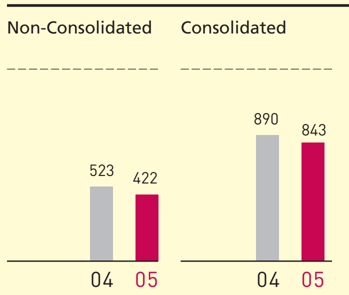
Last, but certainly not least, we will continue to generate value for our shareholders. We will also continue to upgrade and expand our investor relations activities to reach potential investors both at home and abroad. Toward this end, we will be attending conferences around the globe as well as holding non-deal roadshows and one-on-one meetings to share the LG Chem value proposition.

MANAGEMENT'S DISCUSSION & ANALYSIS

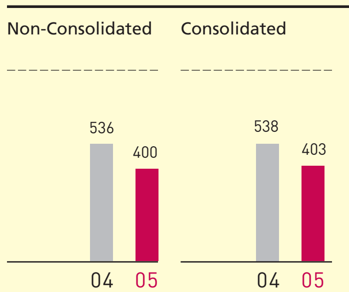
SALES
in KRW billions



OPERATING PROFIT
in KRW billions



NET INCOME
in KRW billions



INTRODUCTION

LG Chem was founded in 1947. Over the past six decades, we have grown to become one of Korea's leading chemical companies. Our operations are divided into three groups: Petrochemicals, Industrial Materials, and Information & Electronic Materials. In particular, we consider the Information & Electronic Materials Group to represent the strategic future direction of our company. We believe that our active ongoing investments in the fields and businesses connected with this group will provide the foundation for our next great leap forward.

2005 OVERVIEW

Looking at parent company performance in 2005, we saw sales growth of approximately 4% to KRW 7,425 billion on the strength of a strong performance by our LCD polarizer business. Contrary to expectations, operating profit fell by KRW 101 billion to KRW 422 billion. The two primary factors behind the decline were lower Petrochemical Group profitability due to high oil prices, and a poor performance by our battery business. Net income was also down, dropping KRW 136 billion to KRW 400 billion.

On a consolidated basis including all our global subsidiaries and affiliates, sales rose more than 23% to KRW 10,902 billion. Operating profit was off KRW 48 billion to KRW 843 billion, while net income slid KRW 135 billion to KRW 403 billion.

Taking a look at group performance on a parent-company basis, our Petrochemicals Group delivered sales growth of about 5% to top KRW 4,068 billion. Operating profit fell from KRW 366 billion to KRW 311 billion, affected by facility overexpansion in China by carbide-based PVC makers as well as high prices for oil, ethylene, and other feedstocks. As part of our ongoing vertical integration efforts to improve the self-sufficiency and profitability of our petrochemical operations, we decided to merge the operations of LG Daesan Petrochemicals into LG Chem effective January 1, 2006.

Our Industrial Materials Group delivered sales growth of just over 2% to reach KRW 2,081 billion. We believe the primary cause for this weak performance lies in the current domestic market situation. Korea's construction market has still not fully recovered from the Asian financial crisis of the late 1990s, and a robust recovery appears to be a few years off. However, operating profit was up about 28% to KRW 140 billion.

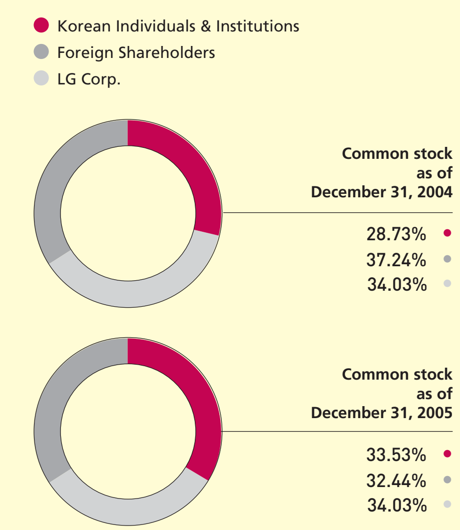
We attribute this profit to the success of our ongoing restructuring efforts, particularly our focus on shifting our product mix to value-added products and cost savings achieved through production outsourcing.

Our Information & Electronic Materials Group grew sales by KRW 62 billion to KRW 1,268 billion as dramatic growth by our LCD polarizer business offset a poor performance by our battery business. Operating profit was off KRW 68 billion for the year, resulting in a KRW 26 billion loss. The origin of this loss dates back to 2004 when we completed a major expansion of our battery production facilities. We started shipping batteries to major clients such as Apple Computer without having the appropriate quality control procedures in place, leading to a product recall of certain models in 2005. We halted production to put new quality control measures into place as part of a comprehensive overhaul program. In the second half of the year, we signed new long-term supply agreements with HP and other companies, and we expect the business to continue to bounce back as we win new customers.

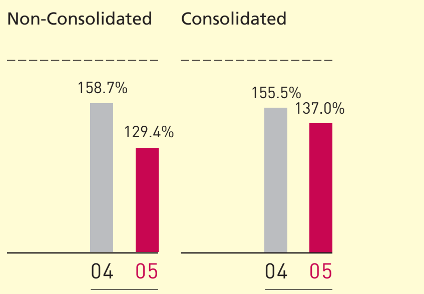
Our R&D efforts continue to position us for growth as a total solution provider in all our businesses. Our Information & Electronic Materials Group is working on batteries for hybrid and electric vehicles, LCD color filter photoresists, plasma display panel (PDP) filters, and semiconductor materials. Our Industrial Materials Group is focusing on construction materials, sign media, and functional film products. Our Petrochemicals Group is exploring high polymer compounds as well as process and feedstock technologies. Backed by world-class facilities, investment, and people, our R&D organization is now playing a key role in achieving our goal of generating 60% of sales from our core product portfolio by 2010.

In 2005, we planned to invest a total of KRW 627 billion on capital projects, including KRW 172 billion in petrochemical businesses, KRW 92 billion in industrial material businesses, KRW 253 billion in information and electronic material businesses, and KRW 110 billion for other projects. Our actual investments totaled KRW 502 billion, about KRW 125 billion less than projected due to project scale-backs and postponements by our battery and petrochemical businesses.

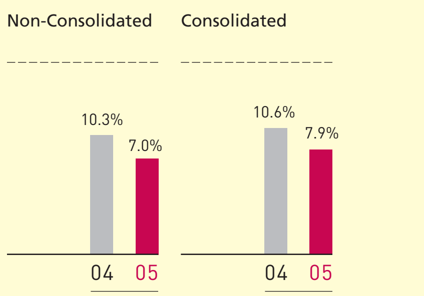
SHAREHOLDER COMPOSITION



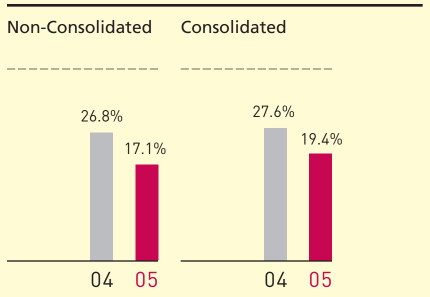
DEBT-TO-EQUITY



RETURN ON ASSETS



RETURN ON EQUITY



FINANCIAL INFORMATION

Financial Structure

As of December 31, 2005, our parent company debt-to-equity and net debt-to-equity ratios dropped 30 and 14 percentage points to 129% and 76%, respectively, as we invested conservatively and scaled-back plans for a number of projects. On a consolidated basis, the ratios were 137% and 85%.

In 2006, we expect LG Daesan Petrochemicals' retained earnings and solid cash flow to provide a major boost to our financial structure. That said, we will continue to improve our finances across the board through rational investment planning, operational profitability, business restructuring, and efficient working capital management. We plan to internally fund our 2006 R&D and capital expenditures. Our mid- to long-term target is to maintain our net debt-to-equity ratio around the 50% level.

KEY FINANCIAL RATIOS

	Non-Consolidated		Consolidated	
	2004	2005	2004	2005
Debt-to-equity	158.7%	129.4%	155.5%	137.0%
Net debt-to-equity	90.2%	75.5%	95.8%	84.5%
Interest coverage	5.7%	4.5%	7.8%	5.8%
Return on assets	10.3%	7.0%	10.6%	7.9%
Return on equity	26.8%	17.1%	27.6%	19.4%

• The consolidated ROE and ROA are calculated with total net income, which includes the income of minority interests.

DEBT BY CURRENCY

in KRW billions

	2004	2005	Change
Korean won	1,667.6	1,506.6	-161.0
Foreign	312.1	335.6	+23.5
Total	1,979.7	1,842.2	-137.5

Equity

Under current Korean trade regulations, LG Corp. must maintain ownership of at least 30.0% of LG Chem's total outstanding shares in order to retain its holding company status.

At the end of 2004, LG Corp. and other majority shareholders held 34% of LG Chem's common stock, foreign shareholders held 37%, and Korean individual and institutional investors held 29%. As of December 31, 2005, LG Corp.'s holdings totaled 34%, foreign shareholders held 32%, and Korean individual and institutional investors held 34%.

STOCK INFORMATION

as of December 31, 2005

	Outstanding Shares	Paid-In Capital in KRW billions	Foreign Investor Holdings
Common stock	64,625,064	322.1	32.44%
Preferred stock	8,661,251	43.3	37.98%
Total	73,086,315	365.4	33.09%

Funding Strategy

Long- and Short-Term Borrowings

Our policy is to use long-term loans to fund plant and equipment investments, and short-term loans for operating capital. To guard against liquidity risk, we limit short-term borrowings to less than 90% of our net working capital.

Interest Rates

We use an appropriate mix of fixed and floating-rate loans to give us flexibility in responding to interest rate fluctuations. We limit floating-rate loans to between 20% and 40% of total borrowings.

Foreign Currency Borrowings

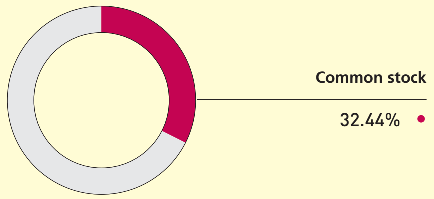
We maintain a certain level of foreign borrowings as a natural hedge against foreign exchange exposure. In 2006, our estimated exposure will be approximately $1.5 billion, and we will maintain foreign borrowings of around $400 million as a hedge.

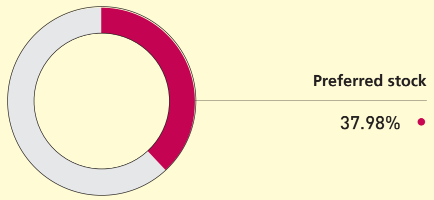
COST OF CAPITAL

in KRW billions

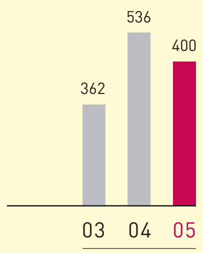
	2005 Results	2006 Target	Change
Interest paid	94.7	95.8	1.1
Interest rate	4.90%	5.29%	+39 bp

FOREIGN INVESTOR HOLDINGS

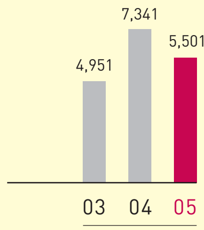




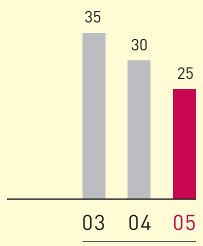
NET INCOME
in KRW billions



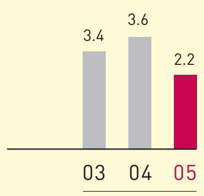
EPS
in KRW



COMMON STOCK DIVIDEND PAYOUT
in %



DIVIDEND YIELD RATIO
in %



DEBT BY CURRENCY
in KRW billions

	Dec 2005	Dec 2006 (E)	Change
Korean won	1,506.6	1,359.8	-146.8
Foreign currencies	335.6	406.2	70.6
Total	1,842.2	1,766.0	-76.2

Dividend Policy & Dividends

We consider dividends to be the most fundamental way to return profits to our shareholders. When determining the dividend, we consider a variety of factors such as the company's financial structure and funding requirements for planned investments.

Taking into account the ongoing need to upgrade our mid- to long-term business competitiveness, make capital and R&D investments for future growth, and maintain our debt-to-equity ratio within our target range, we declared a 2005 dividend payout of 25% for common stock and 26% for preferred stock, both five percentage points lower than 2004. The payout is based on the share face value of KRW 5,000.

We aim to continuously increase shareholder value by enhancing the competitiveness of our core businesses and generating solid profits. It is our intention to maintain dividends at a level that satisfies both our commitment to sound financial governance and investor expectations for profit sharing.

DIVIDEND SUMMARY

	2003	2004	2005
Net income in KRW billions	362	536	400
EPS in won	4,951	7,341	5,501
Total dividends in KRW billions	128	110	91
Dividends-to-net income	35.38%	20.51%	22.74%
Dividend payout, common	35%	30%	25%
Dividend payout, preferred	36%	31%	26%
Dividend yield ratio	3.4%	3.6%	2.2%

• Dividend payout is percentage of KRW 5,000 face value.

MERGER WITH LG DAESAN PETROCHEMICALS

The incorporation of LG Daesan Petrochemicals at the beginning of 2005 has enabled us to improve cost leadership through vertical integration, providing our core PVC and ABS businesses with a stable, long-term supply of feedstocks such as ethylene, styrene monomer, and butadiene. Our merger in 2006 is expected to take these strengths to a much higher level.

In addition to greater productivity and competitiveness, we anticipate synergies with our existing businesses that will expand our market leadership in the styrene monomer, butadiene, and low-density polyethylene businesses.

The merger will also bring LG Daesan's surplus cash into the parent company. This is expected to improve our cash flow, providing the financial resources needed to invest in future growth businesses.

We are forecasting 2006 consolidated sales of KRW 11,500 billion as we continue to grow in our role as a global general chemical company.

PRO FORMA BALANCE SHEET FOR LG CHEM AFTER MERGER
in KRW billions

	January 1, 2006
Assets	
Current assets	
Cash and equivalents	370.9
Other current assets	1,587.2
Total current assets	1,958.1
Fixed assets	
Fixed assets	4,163.2
Negative goodwill	(353.8)
Total fixed assets	3,809.4
Total assets	5,767.5
Liabilities	
Current liabilities	2,086.3
Long-term liabilities	1,241.0
Total liabilities	3,327.3
Shareholders' equity	
Capital stock	365.4
Retained earnings, etc.	2,074.8
Total shareholder's equity	2,440.2
Total liabilities and equity	5,767.5

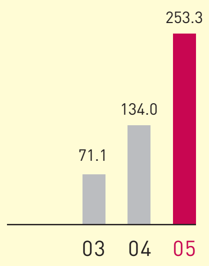
PRO FORMA INCOME STATEMENT FOR LG CHEM AFTER MERGER
in KRW billions

	Fiscal 2005
Sales	8,897.2
Cost of sales	(7,427.6)
Gross profit	1,469.6
Selling and administrative expenses	(964.1)
Operating profit	505.5
Other income, net	(10.6)
Ordinary income	494.9
Income tax expense	(93.0)
Net income	401.9

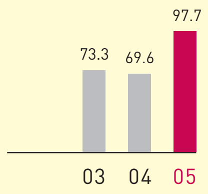
CAPITAL INVESTMENT BY BUSINESS GROUP

-

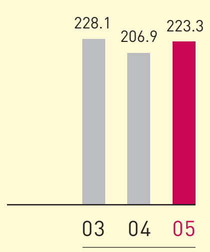
PETROCHEMICALS
in KRW billions



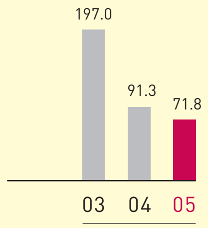
INDUSTRIAL MATERIALS
in KRW billions



INFORMATION & ELECTRONIC MATERIALS
in KRW billions



OTHER PROJECTS
in KRW billions



CAPITAL EXPENDITURES

Of the KRW 502 billion we invested in 2005, KRW 207 billion went to our Information & Electronic Materials Group. The total investment was KRW 125 billion less than originally planned due to project scale-backs and postponements in our battery and petrochemicals businesses.

We will continue to invest conservatively in 2006. Our main focus will be on the naphtha cracking center revamping project currently underway at the Daesan plant as well as selected Information & Electronic Materials Group projects related to LCD polarizers and other businesses projected to enjoy explosive growth in the coming years.

CAPITAL INVESTMENT
in KRW billions

	2004	2005	2006 (E)
Petrochemicals	71.1	134.0	253.3
Industrial Materials	73.3	69.6	97.7
Information & Electronic Materials	228.1	206.9	223.3
Other projects	197.0	91.3	71.8
Total	569.5	501.8	646.1

2006 OUTLOOK

Although the outlook for economic and market recovery in Korea remains unclear and China's appetite for imports appears to be slowing, we expect continued strong performance in LCD polarizers and other core businesses along with our merger with LG Daesan Petrochemicals to keep sales growing in 2006. We are forecasting parent company sales growth of around 28% to KRW 9,500 billion, and consolidated sales growth of 5% to KRW 11,500 billion.

While prospects in our home market are expected to gradually improve, we will continue to ceaselessly pursue greater profitability by breaking into new global markets and expanding sales of value-added products.

In our pursuit of growth, profitability, and stability, we will be seeking out top-tier clients who are willing to pay a premium for superior products and service that help them gain a fundamental competitive edge. We will also be building a high-performance organization as we continue to foster a culture of excellence.

Our Petrochemicals Group will focus on competitiveness as it achieves full vertical integration in its core businesses. The group will be aiming to secure a fundamental competitive edge in its PVC and ABS businesses, executing a total tear-down and redesign of production, sales, and R&D operations as it continues to pursue emerging opportunities for growth.

Our Industrial Materials Group will leverage its excellent R&D and marketing capabilities to drive value-added product sales in the United States, China, and other strategic global markets. The group will also systematically pursue growth in a promising new business, commercializing and launching pilot production of high-performance display films.

Our Information & Electronic Materials Group will be working to quickly ramp up new production facilities and boost cost competitiveness. The group will also launch new medium- and large-format batteries and display materials as it aims for continued strong growth.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
and Shareholders of LG Chem, Ltd.

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. (the "Company") as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years 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 did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 7.55% of the Company's total assets as of December 31, 2005 (2004: 14.21%), and the equity in their net profits and losses represent 7.61% of the Company's net income before income taxes for the year ended December 31, 2005 (2004: 34.23%). These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2005 and 2004, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

PRICEWATERHOUSECOOPERS
Samil Accounting Corporation
Kukje Center Building 191 Hangangro 2 ga,
Yongsanku Seoul 140-702, KOREA
(Yongsan P.O.Box 266, 140-600)

Without qualifying our opinion, as discussed in Note 25 to the non-consolidated financial statements, the Company acquired LG Daesan Petrochemicals Ltd. as of January 1, 2006.

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

Seoul, Korea
February 3, 2006

Samil PriceWaterhouseCoopers

This report is effective as of February 3, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(in millions of Korean won)

	2005		2004	
Assets				
Current assets				
Cash and cash equivalents (Note 23)	₩	189,445	₩	413,717
Short-term investments (Note 7)		-		59,627
Trade accounts and notes receivable, net (Notes 2, 4, 5 and 20)		499,382		457,061
Other accounts receivable, net (Notes 2, 5 and 20)		100,059		88,267
Accrued income, net (Note 5)		55		133
Advance payments		3,062		1,672
Prepaid expenses		15,142		12,612
Inventories, net (Notes 2 and 6)		608,850		614,824
Deferred income tax assets (Note 17)		11,545		-
Other current assets		8,756		8,793
Total current assets		1,436,296		1,656,706
Long-term financial instruments (Note 3)		51		48
Investment securities (Note 7)		1,939		16,473
Equity-method investments (Note 8)		1,476,532		1,280,131
Long-term trade accounts and notes receivable, net (Note 5)		775		1,100
Long-term guarantee deposits		67,611		66,054
Long-term prepaid expenses		20,470		21,519
Other investments		32,048		33,780
Property, plant and equipment, net (Notes 2, 9 and 22)		2,456,822		2,453,255
Intangible assets, net (Notes 2, 10 and 22)		100,855		150,463
Total assets	₩	5,593,399	₩	5,679,529

NON-CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(in millions of Korean won)

	2005		2004	
Liabilities and Shareholders' Equity				
Current liabilities				
Short-term borrowings (Note 11)	₩	100,224	₩	181,314
Current maturities of long-term debt, net (Note 11)		740,604		321,145
Trade accounts and notes payable (Note 23)		596,580		769,932
Other accounts payable (Notes 23)		372,834		367,897
Withholdings		39,400		33,656
Accrued expenses (Note 23)		30,452		22,317
Income tax payable (Note 17)		63,609		77,713
Other current liabilities		3,207		5,071
Total current liabilities		1,946,910		1,779,045
Long-term debt, net (Note 12)		988,805		1,460,209
Accrued severance benefits, net (Notes 2 and 3)		80,410		69,951
Deferred income tax liabilities (Note 17)		111,020		132,120
Derivative instrument transaction credit (Note 14)		23,814		39,302
Other long-term liabilities		3,915		3,761
Total liabilities		3,154,874		3,484,388
Commitments and contingencies (Note 14)				
Shareholder's equity (Note 1)				
Common stock		322,126		322,125
Preferred stock		43,306		43,306
		365,432		365,431
Capital surplus (Note 15)				
Paid-in capital in excess of par value		532,002		532,002
Gain on disposal of treasury stock		841		880
Asset revaluation surplus		206,769		206,770
		739,612		739,652
Retained earnings (Note 15)				
Legal reserve		40,335		29,337
Other reserves		921,393		505,940
Unappropriated retained earnings		400,261		536,430
		1,361,989		1,071,707
Capital adjustments				
Gain on valuation of equity-method investment (Note 8)		36,109		48,696
Loss on valuation of equity-method investment (Note 8)		(41,043)		(24,131)
Treasury stock (Note 16)		(23,129)		(2,403)
Loss on valuation of derivative instruments (Note 14)		(445)		(3,811)
		(28,508)		18,351
Total shareholders' equity		2,438,525		2,195,141
Total liabilities and shareholders' equity	₩	5,593,399	₩	5,679,529

NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

(in millions of Korean won, except per share amounts)

	2005	2004
Sales (Notes 20 and 22)	₩ 7,425,104	₩ 7,127,411
Cost of sales (Note 20)	6,107,725	5,784,125
Gross profit	1,317,379	1,343,286
Selling and administrative expenses	895,665	820,368
Operating income	421,714	522,918
Non-operating income		
Interest income	12,193	13,921
Foreign exchange gains	45,795	40,976
Gain on foreign currency translation	13,894	73,734
Gain on disposal of investment securities (Note 7)	10,306	-
Gain on valuation of investments using the equity method of accounting (Note 8)	243,751	334,668
Gain on disposal of property, plant and equipment	8,574	1,275
Reversal of bad debt allowance	-	237
Gain on valuation of derivative instrument (Note 14)	-	2,265
Others	38,094	24,790
	372,607	491,866
Non-operating expenses		
Interest expenses	94,731	92,174
Foreign exchange losses	24,748	27,222
Loss on foreign currency translation	5,321	7,278
Loss on disposal of trade accounts receivable (Note 2)	22,747	10,557
Loss on disposal of investment securities	73	-
Loss on disposal of property, plant and equipment	35,468	15,840
Loss on valuation of investments using the equity method of accounting (Note 8)	33,731	23,349
Impairment loss on investment securities	2,161	30,607
Impairment loss on intangible assets (Note 10)	51,434	29,677
Impairment loss on property, plant and equipment	23,912	-
Loss on valuation of derivative instrument (Note 14)	3,080	31,570
Donations	5,950	4,451
Others	23,287	22,347
	326,643	295,072
Income before income taxes	467,678	719,712
Income tax expense (Note 17)	67,420	183,292
Net income	400,258	536,420
Per share data (in won)		
Earnings per share (Note 18)	₩ 5,501	₩ 7,341
Ordinary income per share (Note 18)	₩ 5,501	₩ 7,341

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

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Date of appropriations: March 9, 2006 and March 17, 2005 for the years ended December 31, 2005 and 2004)

(in millions of Korean won)

	2005	2004
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ 3	₩ 10
Net income	400,258	536,420
	400,261	536,430
Transfers from other reserves		
Reserve for technology development	46,667	16,666
Appropriation of retained earnings		
Legal reserve	9,103	10,998
Dividend	91,028	109,975
Reserve for technology development	182,270	220,000
Reserve for investment losses	164,522	-
Reserve for facilities	-	212,120
	446,923	553,093
Unappropriated retained earnings carried forward to the subsequent year	₩ 5	₩ 3

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

(in millions of Korean won)

	2005	2004
Cash flows from operating activities		
Net income	₩ 400,258	₩ 536,420
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	372,092	353,851
Provision for severance benefits	55,853	59,233
Gain on foreign currency translation, net	(10,515)	(68,813)
Loss on disposal of trade accounts receivable	22,747	10,557
Loss on inventory valuation	3,469	4,960
Impairment loss on investment securities	2,161	30,607
Loss on disposal of property, plant and equipment, net	26,894	14,565
Impairment loss on intangible asset	51,434	29,677
Gain on disposal of investment securities, net	(10,233)	-
Gain on valuation of investments using the equity method of accounting , net	(210,020)	(311,319)
Loss on valuation of derivative instrument, net	3,080	29,305
Reversal of bad debt allowance	-	(237)
Others, net	35,344	5,364
	342,306	157,750
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(72,358)	(79,105)
Decrease (increase) in inventories	7,640	(226,342)
Dividend income	68,415	40,425
Increase in other accounts receivable	(16,968)	(25,163)
Decrease in accrued income	78	216
Increase in advance payments	(1,390)	(200)
Increase in prepaid expenses	(2,531)	(2,328)
Increase in other current assets	(23,600)	(885)
Decrease in long-term trade accounts and notes receivable	454	514
(Decrease) increase in trade accounts and notes payable	(168,313)	160,948
Increase (decrease) in other accounts payable	6,302	(9,315)
Increase in accrued expenses	8,135	9,196
(Decrease) increase in income taxes payable	(14,089)	30,320
Increase (decrease) in other current liabilities	3,865	(21,426)
Accrued severance benefits transferred from affiliated company	361	786
(Decrease) increase in deferred income tax liabilities	(44,728)	68,618
Payment of severance benefits	(49,068)	(46,797)
Others, net	26,389	(16,177)
	(271,406)	(116,715)
Net cash provided by operating activities	471,158	577,455

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

(in millions of Korean won)

	2005	2004
Cash flows from investing activities		
Disposal of property, plant and equipment	₩ 30,138	₩ 10,495
Disposal of short-term financial instruments, net	-	330
Disposal of short-term investment assets	74,513	653
Acquisition (disposal) of other investment, net	(3,347)	5,409
Acquisition of property, plant and equipment	(451,447)	(383,575)
Disposal (acquisition) of investment securities, net	22,873	(168,903)
Acquisition of equity method securities, net	(72,860)	(31,191)
Acquisition of intangible assets, net	(19,055)	(26,157)
Others, net	(10,238)	(41,142)
Net cash used in investing activities	(429,423)	(634,081)
Cash flows from financing activities		
(Repayment of) proceeds from short-term borrowings, net	(81,090)	94,817
Repayment of current maturities of long-term debt	(322,266)	(262,463)
Issuance of debentures	227,344	428,682
Payment of dividends	(109,963)	(128,090)
Proceeds from long-term debt, net	41,635	76,304
(Acquisition) disposal of treasury stock	(20,779)	3,990
Others, net	(888)	17
Net cash (used in) provided by financing activities	(266,007)	213,257
Net (decrease) increase in cash and cash equivalents	(224,272)	156,631
Cash and cash equivalents		
Beginning of the year	413,717	257,086
End of the year	₩ 189,445	₩ 413,717

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. THE COMPANY

The Company was spun off from LG Chem Investment Ltd. (formerly LG Chemical Ltd.) on April 1, 2001, and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, performance polymers, industrial materials, and information and electronic materials. The Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan and Ochang.

As of December 31, 2005, the Company has an outstanding capital stock of ₩365,432 million, including preferred stock of ₩43,306 million. The Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Company is authorized to issue 292 million shares of common stock at ₩5,000 per share. As of December 31, 2005, the Company has 64,425,064 common shares and 8,661,251 preferred shares issued and outstanding. The holders of preferred stock are not granted the right to vote and are entitled to receive cash dividend at a rate of one percentage point over the common stockholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language, in conformity with financial 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 non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. The Company has adopted SKFAS Nos. 1 to 13, except No. 11, for its financial statements. In addition, the Company has adopted SKFAS Nos. 15 to 17, which became applicable to the Company on January 1, 2005, for its financial statements for the period ended December 31, 2005.

In accordance with SKFAS No. 16, Deferred Income Tax, the Company changed its accounting policy for income taxes in 2005. The effect of this application of SKFAS No. 16 was a decrease in capital adjustments and an increase in deferred income tax liabilities by ₩12,082 million each. However, the prior year financial statements have not been restated to reflect the provisions of SKFAS No. 16.

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

Sales of manufactured products and goods are recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Asset-Backed Securities

The Company recognizes interest and issuance expenses as losses on disposal of trade accounts receivable and losses on disposal of investments, respectively.

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Securities

In accordance with SKFAS No. 8, Investments in Securities, investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities depending on the acquisition and holding purpose. Trading securities are classified as current assets, and available-for-sale securities and held-to-maturity securities are classified as long-term investments, except for those securities that mature or are certain to be disposed of within one year, which are classified as part of current assets.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the moving average method. 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. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at the reasonable interest rate determined considering the credit ratings provided by independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

Equity-Method Investments

In the non-consolidated financial statements of the Company, investments in business entities, over which the Company exercises significant control or influence over the operating and financial policies of such entities, are recorded using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the changes in the Company's proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the net book value of the investee. Unrealized profit arising from intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. The Company's proportionate unrealized profit arising from sales between the Company and equity-method investees or sales between equity-method investees is eliminated. However, unrealized profit arising from sales by the Company to its consolidated subsidiaries is fully eliminated.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investee equals the costs of the investments, and until the subsequent accumulated proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Even if the book value of the investments, including other investment-type assets such as the preferred shares or long-term debts of the investees becomes zero or negative, the Company still continues to record its share in the net losses of the investees until its proportionate net loss of the investee equals the book value of such assets.

The difference between the Company's initial proportionate ownership in the net fair value and the net book value of the investee, which is the net of the fair value and the net book value of the recognizable assets and liabilities, is amortized according to the investee's accounting policy for the related assets and liabilities.

When the initial purchase price exceeds or is below the Company's initial proportionate ownership of the net fair value of the investee, which is the net of the fair value of the investee's recognizable assets and liabilities, the Company considers the difference as goodwill (negative goodwill) and amortizes it in accordance with the Accounting Standards for Business Combination.

In cases where the investee is the Company's consolidated subsidiary, the difference between change of the Company's proportionate ownership in the net book value of the investee and purchase price, which is paid for the Company's additional acquisition of shares or investee's issuance of new shares, is accounted for capital adjustments.

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rate for income statements. Any resulting translation gain or loss is accounted for as overseas operation translation debit or credit under the capital adjustments, a component of shareholders' equity.

In the application of the equity method of accounting, the Company makes adjustments to the financial statements of overseas investees whose estimated useful lives on their property, plant and equipment are different from those used by the Company. As a result of these adjustments, the equity-method investments balance as of December 31, 2005 decreased by ₩6,475 million. Further, for the year ended December 31, 2005, the gain on valuation of equity-method investments decreased by ₩2,341 million, while the loss on valuation of equity-method investments increased by ₩4,134 million.

Prior to 2005, the equity method of accounting was not applied to certain investees if their total assets were less than ₩7 billion as of the prior year end, and if the application of the said method on the investments' valuation was insignificant. However, effective January 1, 2005, the Company will apply the equity method of accounting on all investees over which it exercises significant control or influence, regardless of the investees' total assets as of the prior year end. As a result of this change in accounting policy, the investment securities balance as of December 31, 2005, was lower by ₩2,365 million and the gain on valuation of investments as capital adjustment and the loss on valuation of investments as capital adjustment were higher by ₩84 million and ₩331 million, respectively, than what would have been reported under the previous policy. For the year ended December 31, 2005, the loss on valuation of equity-method investments was higher by ₩2,118 million than what would have been reported under the previous policy (Notes 7 and 8).

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 following estimated useful lives:

	Estimated Useful Lives
Buildings and structures	25~50 years
Machinery and equipment	6~12 years
Vehicles	6 years
Tools	6 years
Furniture and fixtures	6 years

The Company reduced its estimated useful lives of the Battery and Display & Optical Materials Division's machinery and equipment from 12 years to six years in order to match costs with revenues in more reasonable manner for the year ended December 31, 2004. As a result of this change, for the year ended December 31, 2004, inventories and depreciation expenses, net of income tax expenses, were higher by ₩5,186 million and ₩34,026 million, respectively, than they would have been using the old estimated life.

The Company capitalizes interest expense incurred on borrowings used to finance the cost of constructing property, plant and equipment.

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.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment. In 2005, the Company decided to downsize the function of research and development.

Intangible Assets

Intangible assets, consisting of intellectual property rights and exclusive facility use rights, are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from three to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. For the year ended December 31, 2005, the Company expensed ₩190,348 million (2004: ₩155,941 million) as normal development expense.

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.

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.

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.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

Accrued severance benefits are funded at approximately 59.9% (2004: 63.1%) as of December 31, 2005 through group severance insurance plans and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of this deposit.

Impairment Loss

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets for which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the year.

Deferred income tax assets (liabilities) for temporary differences are classified into current assets (current liabilities) or investments (non-current liabilities) according to the classification of the assets (liabilities) on balance sheet, to which the temporary differences are related. For temporary differences that are not related to the assets (liabilities) on balance sheet, the deferred income tax assets (liabilities) are classified into current or non-current assets (liabilities) according to the expected reversal date of the temporary differences.

Derivative Financial Instruments

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Derivative financial instruments for trading or hedging purpose are valued at estimated market price with the resulting unrealized gains or losses recognized in the current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rate in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations. The exchange rate used to translate U.S. dollar denominated monetary assets and liabilities as of December 31, 2005 is ₩1,013.0 : US$1 (2004: ₩1,043.8 : US$1).

3. RESTRICTED BANK DEPOSITS

As of December 31, 2005, long-term financial instruments of ₩51 million (2004: ₩48 million) are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

Further, group severance insurance deposits are restricted as to their withdrawal in connection with employees' retirement (Note 2).

4. ASSET-BACKED SECURITIZATION

In accordance with Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade accounts receivable and ₩30,369 million of long-term guarantee deposits outstanding as of September 30, 2001, to LG Chem 1st and 2nd Special Purpose Companies, respectively. Through the asset-backed securitization of trade receivables and guarantee deposits, the Company acquired beneficiary certificates and subordinated notes. The Company repaid all the related floating debentures on November 28 and 29, 2004, their maturity dates.

In accordance with the Asset Securitization Law, on December 27, 2004, the Company transferred ₩229,625 million of trade accounts receivable outstanding as of November 30, 2004, to LG Chem 3rd Special Purpose Company. Through the asset-backed securitization of trade receivables, the Company acquired beneficiary certificates. The maturity dates of these beneficiary certificates are January 28, 2008 (₩50,000 million), February 28, 2008 (₩50,000 million) and March 28, 2008 (₩60,000 million).

As of December 31, 2005, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩49,760 million (2004: ₩53,440 million), are included in the trade accounts receivable.

The senior tranche securities have priority claims on the principal, interest and operating expenses of the special purpose companies. However, the beneficiary certificates and subordinated notes held by the Company can enforce their claim only after the priority claims will have been satisfied.

The Company has the obligation to collect the trade accounts receivable transferred and pay for the special purpose companies' expenses, such as interest and operating expenses as described above.

As of December 31, 2005, trade accounts receivable transferred to the special purpose companies amounted to ₩209,760 million (2004: ₩213,440 million).

5. RECEIVABLES

Receivables and allowance for doubtful accounts as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	2005	2004
Trade accounts and notes receivable	₩ 546,511	₩ 499,311
Less: Allowance for doubtful accounts	(47,129)	(42,250)
	₩ 499,382	₩ 457,061
Other accounts receivable	₩ 123,520	₩ 106,279
Less: Allowance for doubtful accounts	(23,419)	(18,012)
Less: Present value discount accounts	(42)	-
	₩ 100,059	₩ 88,267
Accrued income	₩ 55	₩ 1,203
Less: Allowance for doubtful accounts	-	(1,070)
Less: Present value discount accounts	-	-
	₩ 55	₩ 133
Long-term trade accounts and notes receivable	₩ 926	₩ 1,327
Less: Allowance for doubtful accounts	(151)	(247)
	₩ 775	₩ 1,100

6. INVENTORIES

Inventories as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	2005	2004
Merchandise, net of valuation allowance of ₩561 million (2004: ₩684 million)	₩ 29,750	₩ 27,481
Finished products, net of valuation allowance of ₩12,881 million (2004: ₩8,658 million)	279,431	308,521
Work-in-process	82,377	99,805
Raw materials, net of valuation allowance of ₩315 million (2004: ₩107 million)	149,709	134,804
Supplies	17,914	17,002
Materials-in-transit	49,669	27,211
	₩ 608,850	₩ 614,824

As of December 31, 2005 and 2004, inventories are insured against fire and other casualty losses up to ₩514,020 million and ₩438,106 million, respectively.

7. INVESTMENT SECURITIES

Investment securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	CLASSIFICATION	2005	2004
Short-term investments	Commercial paper [1]	₩ -	₩ 59,626
Investment securities	Commercial paper [1]	-	12,707
	Non-marketable stocks [2]	1,939	3,766
		1,939	16,473
		₩ 1,939	₩ 76,099

1 I The Company acquired commercial papers issued by LG Card Co., Ltd. in January 2004, whose initial maturity dates were May and June 2004, but were extended to December 2005. At the end of 2004, the Company agreed with the creditors of LG Card Co., Ltd. to extend the maturities of commercial papers amounting to ₩74,586 million up to the end of 2005. Also, in accordance with the resolution of the Board of Directors dated January 20, 2005, the Company executed the debt-to-equity swap of commercial papers amounting to ₩25,414 million on January 28, 2005 and acquired 4,381,724 shares of common stock of LG Card Co., Ltd. For the year ended December 31, 2004, the Company recognized ₩27,667 million as impairment loss on investments for the papers. In 2005, the Company reclassified ₩59,626 million of the commercial papers, whose maturities were extended, as short-term investments. Furthermore, the Company disposed of all common stocks of LG Card Co., Ltd. which were acquired through the debt-to-equity swap, resulting to a gain on disposal of ₩10,306 million for the year ended December 31, 2005. And the Company realized gains on disposals of ₩14,960 million from the commercial papers on its maturity for the year ended December 31, 2005.

2 I Non-marketable stocks, which were presented in the 2004 financial statements as long-term investment securities, were reclassified as equity method investments to conform to the current period's financial statement presentation (Note 8).

Non-marketable stocks classified as available-for-sale as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	Percentage of Ownership(%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value[3]	
	2005	2004	2005	2004	2005	2004	2005	2004
Long-term Investment								
N&L Marble	22.73	22.73	₩ 539	₩ 539	₩ -	₩ 539	₩ 114	₩ 275
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	564	657
TECWIN [1]	19.90	19.90	279	139	279	139	1,550	902
Chemizen. Com Ltd.	2.62	2.62	300	300	10	10	10	10
LG Mozel Ltd.	9.75	9.75	195	195	195	195	377	353
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	870	2,298	870	1,010
LG Environment Strategy Institute	6.00	6.00	9	9	9	9	10	13
LG Lucoat Powder Coatings Ltd. [2]	13.30	-	1,036	-	-	-	574	-
			₩ 5,232	₩ 4,056	₩ 1,939	₩ 3,766	₩ 4,069	₩ 3,220

1 I The Company acquired an additional 27,860 shares of TECWIN for ₩140 million in 2005 without any change in percentage of ownership.

2 I The Company disposed of 104,236 shares of LG Lucoat Powder Coatings Ltd. in 2005. As a result of this disposal, the Company's percentage of ownership for LG Lucoat Powder Coatings Ltd. decreased from 20% to 13.30%, causing the Company to reclassify this investment as investment securities as of December 31, 2005.

3 I Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the statement of income in cases where there is an indication that an investment may have been impaired.

8. EQUITY-METHOD INVESTMENTS

Equity-method investments as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value[3]	
	2005	2004	2005	2004	2005	2004	2005	2004
LG Petrochemical Co., Ltd. [1]	40.00	40.00	₩ 153,790	₩ 153,790	₩ 338,017	₩ 291,131	₩ 325,493	₩ 280,760
Tianjin LG DAGU Chemical Co., Ltd.	75.00	75.00	17,498	17,498	30,172	42,110	41,256	48,038
Tianjin LG New Building Materials Co., Ltd. [2]	81.47	93.61	19,894	19,894	16,037	14,864	17,343	15,550
Tianjin LG Window & Door Co., Ltd. [2]	90.00	100.00	13,308	13,308	7,479	8,558	8,290	9,041
Ningbo LG Yongxing Chemical Co., Ltd.[3]	75.00	75.00	86,417	73,347	103,608	94,810	107,004	96,410
LG India Holdings Inc.	100.00	100.00	31,466	31,466	43,441	52,348	44,066	52,223
LG Chem Hong Kong Ltd.	100.00	100.00	254	254	6,141	5,378	5,257	5,202
LG VINA Chemical J/V Company	40.00	40.00	1,194	1,194	2,270	2,140	2,621	2,541
LG Chem America, Inc.	100.00	100.00	9,596	9,596	5,764	-	8,993	4,078
LG Lucoat Powder Coatings Ltd. [4]	-	20.00	-	1,558	-	-	-	1,638
M. Dohmen SA [5]	49.00	49.00	43,203	43,203	18,306	21,299	18,306	21,299
Hyundai Petrochemical Co., Ltd. [6]	-	50.00	-	302,563	-	585,372	-	1,097,023
LG Daesan Petrochemicals Ltd. [6]	100.00	-	554,634	-	650,565	-	1,113,010	-
SEETEC Co., Ltd. [6]	50.00	-	36,643	-	44,663	-	145,429	-
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	71,534	46,704	70,925	45,458
PT Sinar LG Plastics Ind. [7]	-	-	-	-	-	-	-	-
LG Chem (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	10,486	10,486	9,249	7,401	10,125	8,444
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.[8, 9]	79.01	100.00	41,679	41,679	28,130	41,679	31,323	36,304
LG Chemical Trading Co., Ltd.[8]	100.00	100.00	3,503	3,503	1,850	1,723	1,687	1,822
LG Chem (China) Investment Co., Ltd. [10]	100.00	100.00	31,339	6,253	31,757	6,253	31,666	6,253
LG Chem (Taiwan), Ltd. [8]	100.00	100.00	2,291	2,291	2,113	2,291	3,155	2,009
LG Chem Industrial Materials, Inc. [8]	100.00	100.00	17,846	17,846	11,873	17,846	11,845	14,955
LG Chem Europe Sarl [8]	100.00	100.00	5,635	5,635	-	2,321	196	1,820
LG Holdings (HK) Ltd. [11]	18.18	18.18	30,494	30,494	22,302	30,494	18,904	26,531
LG Chemical (Hunan) Phosphor Materials Co., Ltd. [12,14]	-	100.00	-	1,793	-	1,793	-	2,021
Ningbo LG Yongxing Latex Co., Ltd. [12, 15]	75.00	75.00	6,843	3,162	6,158	3,162	6,209	3,921
Compact Power, Inc. [12, 16]	81.00	61.00	4,635	3,731	1,120	454	277	-
LG Chem (Tianjin) Engineering Plastics Co., Ltd.[13]	90.00	-	5,589	-	4,415	-	4,675	-
LG Chem Display Materials Co., Ltd. [13]	90.00	-	6,865	-	6,898	-	6,894	-
Tianjin LG Bohai Chemical Co., Ltd. [13]	22.07	-	8,185	-	8,169	-	8,206	-
LG Chem Europe GmbH [13]	100.00	-	1,927	-	1,448	-	1,840	-
LG Chem Brasil, Ltd. [13]	100.00	-	258	-	258	-	258	-
LG Poland Sp. z o.o.[13]	100.00	-	2,795	-	2,795	-	2,795	-
			₩ 1,185,061	₩ 831,338	₩ 1,476,532	₩ 1,280,131	₩ 2,048,048	₩ 1,783,341

1 I As of December 31, 2005, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩455,616 million.

2 I In 2005, LG Chem (China) Investment Co., Ltd. acquired from the Company the shares of Tianjin LG New Building Materials Co., Ltd. and the shares of Tianjin LG Window & Door Co., Ltd. As a result, the Company's percentage of ownership in Tianjin LG New Building Materials Co., Ltd. decreased from 93.61% to 81.47%, and that for Tianjin LG Window & Door Co., Ltd. from 100% to 90%.

3 I The Company acquired new shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩13,070 million without any change in percentage of ownership.

4 I The Company disposed of 104,236 shares of LG Lucoat Powder Coatings Ltd. in 2005. As a result of this disposal, the Company's percentage of ownership in LG Lucoat Powder Coatings Ltd. decreased from 20% to 13.30%. Therefore, the Company reclassified this investment as investment securities as of December 31, 2005.

5 I The Company recognized ₩14,194 million of the accumulated unamortized difference between the purchase price and the underlying proportionate net book value of the investee as an impairment loss in 2004.

6 I Hyundai Petrochemical Co., Ltd. (HPCL) was acquired by a consortium consisting of the Company and Honam Petrochemical Corp. in 2003. On January 1, 2005, HPCL spun off its petrochemical business to the newly established LG Daesan Petrochemicals Ltd. (LGPC) and Lotte Daesan Petrochemical, Ltd. (LDPC). The remaining businesses of HPCL are maintained by the continuing company, SEETEC Co., Ltd. (formerly Hyundai Petrochemical Co., Ltd.). The spin off resulted in the Company owning 50% of LGPC, LDPC and SEETEC Co., Ltd. On April 30, 2005, the Company swapped its 50% ownership in LDPC for Honam Petrochemical's 50% ownership in LGPC. As of December 31, 2005, the Company has 100% ownership of LGPC and 50% ownership of SEETEC Co., Ltd.

7 I PT Sinar LG Plastics Ind. was liquidated during the year ended December 31, 2005.

8 I As their total assets are over ₩7,000 million as of December 31, 2004, these investments were reclassified as equity method investments in 2005.

9 I LG Chem (China) Investment Co., Ltd. acquired the shares of LG Chem Information & Electronics Materials in 2005. As a result, the Company's percentage of ownership in LG Chem Information & Electronics Materials decreased from 100% to 79.01%.

10 I In 2005, this investment was reclassified as an equity-method investment as the Company acquired new shares for ₩25,086 million, making the impact of applying the equity method significant (Note 7).

11 I This investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.

12 I As a result of the change of an accounting policy, these investments were reclassified as equity-method investments in 2005 (Notes 2 and 7).

13 I These investees were established in 2005. The equity method of accounting was applied as a result of the change in accounting policy (Note 2).

14 I In 2005, the Company disposed all of LG Chemical (Hunan) Phosphor Materials Co., Ltd. stocks and recognized losses on disposal of ₩622 million.

15 I The Company acquired new shares of Ningbo LG Yongxing Latex Co., Ltd. at ₩3,681 million in 2005 without any change in percentage of ownership.

16 I The Company acquired 512,821 shares of Compact Power, Inc. for ₩904 million in 2005. As a result, the Company's percentage of ownership of Compact Power, Inc. increased from 61% to 81%.

Changes in equity-method investments for the year ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005					
	As of January 1, 2005	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2005
LG Petrochemical Co., Ltd.	₩ 291,131	₩ -	₩ (31,640)	₩ 79,341	₩ (815)	₩ 338,017
Tianjin LG DAGU Chemical Co., Ltd.	42,110	-	(3,008)	(8,482)	(448)	30,172
Tianjin LG New Building Materials Co., Ltd.	14,864	-	-	1,172	1	16,037
Tianjin LG Window & Door Co., Ltd.	8,558	-	-	(1,054)	(25)	7,479
Ningbo LG Yongxing Chemical Co., Ltd.	94,810	13,070	(27,612)	25,243	(1,903)	103,608
LG India Holdings Inc.	52,348	-	(5,393)	889	(4,403)	43,441
LG Chem Hong Kong Ltd.	5,378	-	-	919	(156)	6,141
LG VINA Chemical J/V Company	2,140	-	(762)	986	(94)	2,270
LG Chem America, Inc. [1]	-	-	-	4,156	1,608	5,764
M. Dohmen SA	21,299	-	-	(1,731)	(1,262)	18,306
Hyundai Petrochemical Co., Ltd. [2]	585,372	(585,372)	-	-	-	-
LG Daesan Petrochemicals Ltd. [2]	-	554,634	-	95,931	-	650,565
SEETEC Co., Ltd. [2]	-	36,643	-	8,031	(11)	44,663
Lotte Daesan Petrochemical, Ltd. [2]	-	-	-	-	-	-
LG Dow Polycarbonate Ltd.	46,704	-	-	24,830	-	71,534
LG Chem (Guangzhou) Engineering Plastics Co., Ltd.	7,401	-	-	1,881	(33)	9,249
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd. [3]	41,679	-	-	(9,041)	(4,508)	28,130
LG Chemical Trading Co., Ltd. [3]	1,723	-	-	139	(12)	1,850
LG Chem (China) Investment Co., Ltd. [3]	6,253	25,086	-	(197)	615	31,757
LG Chem (Taiwan), Ltd. [3]	2,291	-	-	(51)	(127)	2,113
LG Chem Industrial Materials, Inc. [3]	17,846	-	-	(3,904)	(2,069)	11,873
LG Chem Europe Sarl [3,4]	2,321	-	-	(2,239)	(82)	-
LG Holdings (HK) Ltd. [3]	30,494	-	-	(4,915)	(3,277)	22,302
LG Chemical (Hunan) Phosphor Materials Co., Ltd. [3]	1,793	(2,027)	-	234	-	-
Ningbo LG Yongxing Latex Co., Ltd. [3]	3,162	3,681	-	(553)	(132)	6,158
Compact Power, Inc. [3,5]	454	710	-	-	(44)	1,120
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	-	5,589	-	(1,225)	51	4,415
LG Chem Display Materials Co., Ltd.	-	6,865	-	-	33	6,898
Tianjin LG Bohai Chemical Co., Ltd.	-	8,185	-	-	(16)	8,169
LG Chem Europe GmbH	-	1,927	-	(340)	(139)	1,448
LG Chem Brasil, Ltd.	-	258	-	-	-	258
LG Poland Sp. z o.o.	-	2,795	-	-	-	2,795
	₩ 1,280,131	₩ 72,044	₩ (68,415)	₩ 210,020	₩ (17,248)	₩ 1,476,532

1 I The Company resumed the equity method of accounting since the investee's net asset value became positive in 2005.

2 I Hyundai Petrochemical Co., Ltd. (HPCL) was acquired by a consortium consisting of the Company and Honam Petrochemical Corp. in 2003. On January 1, 2005, HPCL spun off its petrochemical business to the newly established LG Daesan Petrochemical Ltd (LGPC) and Lotte Daesan Petrochemical, Ltd. (LDPC). The remaining businesses of HPCL are maintained by the continuing company, SEETEC Co., Ltd. (formerly Hyundai Petrochemical Co., Ltd.). The spin off resulted to the Company owning 50% of LGPC, LDPC and SEETEC Co., Ltd. The book value of the Company's investment security in HPCL as of January 1, 2005, consists of acquisition costs of investment securities in LGPC, LDPC, and SEETEC, in proportion to the fair values of the three companies. On April 30, 2005, the Company swapped its 50% ownership in LDPC for Honam Petrochemical's 50% ownership in LGPC. The Company did not recognize any gain or loss on disposal of equity-method investments for this transaction. As of December 31, 2005, the Company has 100% ownership of LGPC and 50% ownership of SEETEC Co., Ltd.. The equity method was applied on the investment in LGPC since the spin-off to account for the 100% ownership.

3 I Non-marketable stocks, which were presented in the 2004 financial statements as long-term investment securities, were reclassified as equity method investments to conform to the current year's financial statement presentation (Note 7).

4 I During the nine-month period ended December 31, 2005, the Company discontinued the application of the equity method as the investment's book value was reduced to nil. The accumulated unrecognized loss after the discontinuation amounted to ₩293 million.

5 I During the year ended December 31, 2005, the Company acquired additional shares and recognized impairment loss.

(in millions of Korean won)

	2004					
	As of January 1, 2004	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2004
LG Sports Ltd.	₩ 989	₩ (989)	₩ -	₩ -	₩ -	₩ -
LG Petrochemical Co., Ltd.	242,512	-	(27,120)	75,809	(70)	291,131
Tianjin LG DAGU Chemical Co., Ltd.	47,817	-	-	1,052	(6,759)	42,110
Tianjin LG New Building Materials Co., Ltd.	10,097	7,495	-	(742)	(1,986)	14,864
Tianjin LG Window & Door Co., Ltd.	8,236	3,488	-	(1,864)	(1,302)	8,558
Ningbo LG Yongxing Chemical Co., Ltd.	90,292	-	(13,165)	30,893	(13,210)	94,810
LG India Holdings Inc.	49,215	-	-	8,070	(4,937)	52,348
LG Chem Hong Kong Ltd.	5,087	-	-	1,029	(738)	5,378
LG VINA Chemical J/V Company	1,968	-	(140)	758	(446)	2,140
LG Chemical America, Inc. [1]	-	-	-	-	-	-
LG Lucoat Powder Coatings Ltd. [2]	2,340	(2,340)	-	-	-	-
M. Dohmen SA	41,116	-	-	(18,890)	(927)	21,299
Hyundai Petrochemical Co., Ltd.	378,290	-	-	207,050	32	585,372
LG Dow Polycarbonate Ltd.	19,277	17,517	-	10,007	(97)	46,704
LG Chem (Guangzhou) Engineering Plastics Co., Ltd.	-	10,486	-	(1,853)	(1,232)	7,401
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd. [3]	6,069	35,610	-	-	-	41,679
LG Chemical Trading Co., Ltd. [3]	3,503	(1,780)	-	-	-	1,723
LG Chem (China) Investment Co., Ltd. [3]	-	6,253	-	-	-	6,253
LG Chem (Taiwan), Ltd. [3]	-	2,291	-	-	-	2,291
LG Chem Industrial Materials, Inc. [3]	3,514	14,332	-	-	-	17,846
LG Chem Europe Sarl [3]	2,321	-	-	-	-	2,321
LG Holdings (HK) Ltd. [3]	22,011	8,483	-	-	-	30,494
LG Chemical (Hunan) Phosphor Materials Co., Ltd. [3]	1,793	-	-	-	-	1,793
Ningbo LG Yongxing Latex Co., Ltd. [3]	-	3,162	-	-	-	3,162
Compact Power, Inc. [3]	1,325	(871)	-	-	-	454
	₩ 937,772	₩ 103,137	₩ (40,425)	₩ 311,319	₩ (31,672)	₩ 1,280,131

1 I The Company discontinued using the equity method of accounting and the investments in these affiliates are stated at nil, since the affiliate's net asset value is negative. The accumulated unrecognized loss incurred after the discontinuation of the application of the equity method of accounting is ₩260 million.

2 I The Company recognized impairment loss and disposed of the investment in 2004.

3 I As a result of change in the Company's accounting policy, the Company reclassified long-term investment securities that are non-marketable into equity-method investments for comparative purpose.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the year ended December 31, 2005 and 2004, are as follows:

(in millions of Korean won)

	2005				2004			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
LG Sports Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 10	₩ (10)	₩ -	₩ -
LG Petrochemical Co., Ltd.	18,703	-	2,583	16,120	21,286	-	2,583	18,703
Tianjin LG New Building Materials Co., Ltd.	212	-	32	180	125	115	28	212
LG Lucoat Powder Coatings Ltd.	-	-	-	-	20	(20)	-	-
M. Dohmen SA	-	-	-	-	15,662	-	15,662	-
Hyundai Petrochemical Co., Ltd.	(337,487)	337,487[1]	-	-	(362,486)	-	(24,999)	(337,487)
LG Daesan Petrochemicals Ltd.	-	(393,058)[1]	(39,306)	(353,752)	-	-	-	-
SEETEC Co., Ltd.	-	(73,982)[1]	(3,363)	(70,619)	-	-	-	-
LG Dow Polycarbonate Ltd.	1,784	-	198	1,586	1,982	-	198	1,784
LG Holdings (HK) Ltd.	-	5,235	1,832	3,403	-	-	-	-
Compact Power, Inc.	-	845	-	845	-	-	-	-
	₩ (316,788)	₩ (123,473)	₩ (38,024)	₩ (402,237)	₩ (323,401)	₩ 85	₩ (6,528)	₩ (316,788)

1 I As of January 1, 2005, the date of the spin-off of Hyundai Petrochemical Co., Ltd., the differences between the Company's book values for LG Daesan Petrochemicals Ltd. and SEETEC Co., Ltd., and the Company's respective proportionate fair value for each company represent their respective negative goodwill.

The eliminated unrealized gains incurred from transactions entered into with equity method investees as of December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005	2004
	Inventory	Inventory
LG Petrochemical Co., Ltd.	₩ 4,268	₩ 9,687
Tianjin LG DAGU Chemical Co., Ltd.	39	-
Tianjin LG New Building Materials Co., Ltd.	45	121
Tianjin LG Window & Door Co., Ltd.	8	36
Ningbo LG Yongxing Chemical Co., Ltd.	39	-
LG Chem Hong Kong Ltd.	421	773
LG VINA Chemical J/V Company	198	297
LG Chem America, Inc.	3,843	4,338
Hyundai Petrochemical Co., Ltd.	-	1,026
LG Daesan Petrochemicals Ltd.	159	-
LG Dow Polycarbonate Ltd.	1,002	513
LG Chem (Guangzhou) Engineering Plastics Co., Ltd.	223	245
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	1,070	-
LG Chem (China) Investment Co., Ltd.	3	-
LG Chem (Taiwan), Ltd.	1,221	-
LG Chem Industrial Materials, Inc.	17	-
LG Chem Europe Sarl	430	-
Ningbo LG Yongxing Latex Co., Ltd.	24	-
LG Chem Europe GmbH	393	-
LG Chem (Tianjin) Engineering Plastic Co., Ltd.	116	-
	₩ 13,519	₩ 17,036

Changes in gain (loss) on valuation of investment securities accounted for as capital adjustment for the year ended December 31, 2005, and 2004 are as follows:

(in millions of Korean won)

	2005			2004		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩ 48,697	₩ (24,131)	₩ 24,566	₩ 60,571	₩ (3,591)	₩ 56,980
Increase	2,318	(16,948)	(14,630)	32	(31,704)	(31,672)
Decrease	2,619	-	2,619	11,906	(11,164)	742
Ending balance	₩ 48,396	₩ (41,079)	₩ 7,317	₩ 48,697	₩ (24,131)	₩ 24,566
Tax effect 1	(12,287)	36	(12,251)	-	-	-
Net Ending balance	₩ 36,109	₩ (41,043)	₩ (4,934)	₩ 48,697	₩ (24,131)	₩ 24,566

1 I As the Company adopted SKFAS No. 16, Deferred Income Tax, in 2005, the Company recognized deferred income taxes for the temporary differences arising from the capital adjustments, which may be realized in the future (Note 17).

The summary of financial information on the equity-method investees as of and for the year ended December 31, 2005 is as follows:

(in millions of Korean won)

Company	Total Assets	Total Liabilities	Sales	Net Income (Loss)
LG Petrochemical Co., Ltd.	₩ 1,039,959	₩ 226,227	₩ 1,988,923	₩ 192,944
Tianjin LG DAGU Chemical Co., Ltd.	137,445	82,437	222,000	(6,312)
Tianjin LG New Building Materials Co., Ltd.	51,399	30,112	25,725	1,754
Tianjin LG Window & Door Co., Ltd.	28,208	18,997	19,330	(1,046)
Ningbo LG Yongxing Chemical Co., Ltd.	263,545	120,873	574,657	36,205
LG India Holdings Inc.	69,894	25,828	117,244	1,721
LG Chem Hong Kong Ltd.	140,271	135,014	867,162	211
LG VINA Chemical J/V Company	12,091	5,539	30,790	2,218
LG Chem America Inc.	129,051	120,058	328,464	3,262
M. Dohmen SA	103,300	65,941	65,536	(1,733)
LG Daesan Petrochemicals Ltd.	1,298,694	185,684	1,631,874	15,611
SEETEC Co., Ltd.	503,698	212,841	358,713	6,394
LG Dow Polycarbonate Ltd.	259,550	117,701	316,612	51,284
LG Chem (Guangzhou) Engineering Plastics Co., Ltd.	37,151	27,026	56,966	1,720
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	159,447	119,803	248,728	(6,342)
LG Chemical Trading Co., Ltd.	3,716	2,029	4,824	(123)
LG Chem (China) Investment Co., Ltd.	40,924	9,258	52,233	(194)
LG Chem (Taiwan), Ltd.	73,725	70,570	121,687	1,471
LG Chem Industrial Materials, Inc.	45,328	33,483	9,868	(2,692)
LG Chem Europe Sarl	7,605	7,409	14,722	(1,420)
LG Holdings (HK) Ltd.	167,689	63,707	-	(3,877)
Ningbo LG Yongxing Latex Co., Ltd	39,827	31,548	11,674	(496)
Compact Power, Inc.	669	327	2,607	101
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	14,852	9,658	1,237	(1,063)
LG Chem Display Materials Co., Ltd.	18,663	11,003	-	-
Tianjin LG Bohai Chemical Co., Ltd.	87,233	50,050	-	-
LG Chem Europe GmbH	10,316	8,476	9,486	53
LG Chem Brasil, Ltd.	258	-	-	-
LG Poland Sp. z o.o.	2,795	-	-	-
	₩ 4,747,303	₩ 1,791,599	₩ 7,081,062	₩ 289,651

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	2005	2004
Buildings	₩ 774,933	₩ 702,657
Structures	260,851	248,692
Machinery and equipment	3,068,204	2,999,088
Vehicles	24,087	22,085
Tools and furniture	553,310	492,181
	4,681,385	4,464,703
Accumulated depreciation	(2,763,241)	(2,561,809)
Accumulated impairment loss	(23,912)	-
	1,894,232	1,902,894
Land	340,755	347,873
Construction-in-progress	179,757	172,258
Machinery-in-transit	42,078	30,230
	₩ 2,456,822	₩ 2,453,255

For the year ended December 31, 2005, capitalized interest expense amounted to ₩4,575 million (2004: ₩7,269 million). As a result of the capitalization of interest expense, for the year ended December 31, 2005, property, plant and equipment increased by ₩18,422 million (2004: ₩14,905 million), and net income increased by ₩3,010 million (2004: ₩4,778 million).

As of December 31, 2005, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩6,622,074 million (2004: ₩6,568,366). In addition, as of December 31, 2005 and 2004, the Company has business interruption insurance policies.

As of December 31, 2005, certain property, plant and equipment have been pledged as collateral for certain bank loans, up to a maximum of ₩369,442 million (2004: ₩361,890 million) (Notes 11 and 12).

As of December 31, 2005, the appraised value of the Company's land, as determined by the local governments in Korea for property tax assessment purposes, amounted to approximately ₩525,953 million (2004: ₩485,326 million).

10. INTANGIBLE ASSETS

Intangible assets as of December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005	2004
Intellectual property rights	₩ 10,966	₩ 7,036
Exclusive facility use rights	169	234
Development costs, net	83,392	135,865
Others	6,328	7,328
	₩ 100,855	₩ 150,463

The changes in development costs for the year ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005	2004
Beginning balance	₩ 135,865	₩ 141,790
Increase	23,795	37,423
	159,660	179,213
Amortization	(24,149)	(17,979)
Disposal	(685)	(367)
Impairment loss	(51,434)	(25,002)
Ending balance	₩ 83,392	₩ 135,865

For the year ended December 31, 2005 and 2004, expenses which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

(in millions of Korean won)

	2005	2004
Employee education expenses	₩ 13,897	₩ 17,218
Advertising expenses	35,125	46,499
	₩ 49,022	₩ 63,717

11. SHORT-TERM BORROWINGS AND CURRENT MATURITIES OF LONG-TERM DEBTS

Short-term borrowings and current maturities of long-term debts as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	Annual Interest Rate (%)			
	2005	2004	2005	2004
Short-term borrowings				
General term loans	CD+1.45	LIBOR+0.45	₩ 224	₩ 31,314
Commercial paper	3.66 - 3.68	3.6 - 5.6	100,000	150,000
			-	(US$30,000)
			100,224	181,314
Current maturities of long-term debt				
Debentures, including US$130,000 thousand (2004: US$155,000 thousand)	LIBOR+0.45 - 5.0	LIBOR+0.6 - 6.0	696,495	261,789
Won currency loans	3.0 - 7.0	3.0 - 7.0	195	197
Foreign currency loans of US$31,245 thousand (2004: US$57,562 thousand and CHF 214 thousand)	LIBOR+0.6-0.92	LIBOR+0.6 - 1.7	46,847	60,281
			753,537	322,267
Less: Discount on debentures issued			(2,933)	(1,122)
			740,604	321,145
			₩ 840,828	₩ 502,459

Certain property, plant and equipment serve as collateral for the above borrowings as of December 31, 2005 (Note 9).

12. LONG-TERM DEBTS

Long-term debts as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	Reference	2005	2004
Debentures	(1)	₩ 872,470	₩ 1,335,470
Loans	(2)	116,335	124,739
		₩ 988,805	₩ 1,460,209

(1) Debentures as of December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	Annual Interest Rate (%)			
	2005	2004	2005	2004
Publicly offered debentures, payable through 2010	3.5 - 5.0	3.5 - 6.0	₩ 1,200,000	₩ 1,200,000
Privately offered debentures, payable through 2006	CD+0.7	CD+0.7	100,000	100,000
Foreign debentures of US$275,000 thousand				
(2004: US$300,000 thousand), payable through 2008 [1]	LIBOR+0.45 - 0.92	LIBOR+0.45 - 0.92	278,575	313,140
			1,578,575	1,613,140
Less: Current maturities			(696,495)	(261,789)
Discount on debentures issued			(9,610)	(15,881)
			₩ 872,470	₩ 1,335,470

1 | Floating rate notes were issued on June 21, 2002 to mature on June 21 and December 21, 2005; on March 11, 2005 to mature on March 11, 2008; and on May 25, 2005 to mature on November 25, 2007 and November 25, 2008. Term notes were also issued on April 17, June 25 and December 23, 2003, and June 24, 2004, with maturities on April 17, 2006, June 25, 2005, December 23, 2006 and June 24, 2007, respectively.

For the foreign currency debentures amounting to US$50 million maturing on December 23, 2005, the debenture holders may exercise early redemption rights in the event that the Company provides any financial aid to LG Card Co., Ltd. As the Company purchased commercial papers issued by LG Card Co., Ltd., the debenture holders exercised early redemption rights for the foreign currency debentures amounting to US$25 million in January 2005. The debenture holders of the remaining US$25 million could exercise the early redemption rights in January 2006, but opted not to.

(2) Loans as of December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	Annual Interest Rate (%)			
	2005	2004	2005	2004
Won currency loans				
Energy fund loans	7.0	5.0 - 7.0	₩ 100	₩ 264
Housing loans	3.0	3.0	3,247	3,335
Company house				
Movement expense	-	-	1,754	-
			5,101	3,599
Less: Current maturities			(195)	(197)
			4,906	3,402
Foreign currency loans				
General term loans of US$156,245 thousand (2004:				
US$173,807 thousand and CHF 214 thousand)	LIBOR+0.6 - 1.1	LIBOR+0.6 - 1.7	158,276	181,618
Less: Current maturities			(46,847)	(60,281)
			111,429	121,337
			₩ 116,335	₩ 124,739

Certain property, plant and equipment serve as collateral for the above borrowings as of December 31, 2005 (Note 9).

The annual maturities of long-term debt, excluding discounts and premiums on debentures, as of December 31, 2005 are as follows:

(in millions of Korean won)

Year	Debentures	Won Currency Loans	Foreign Currency Loans	Total
2007	₩ 381,040	₩ -	₩ 70,910	₩ 451,950
2008	301,040	1,754	40,519	343,313
2009	100,000	-	-	100,000
Thereafter	100,000	3,152	-	103,152
	₩ 882,080	₩ 4,906	₩ 111,429	₩ 998,415

13. STOCK OPTIONS

Based on the Korean Commercial Code, stock options may be granted to employees and directors to the extent of 10% of the Company's issued shares by a shareholders' special resolution. Also, the stock options may be granted, to the extent that the related laws and ordinances allow, by a resolution of the Board of Directors in conformity with the Korean Securities and Exchange Law. In 2005, the Company granted stock options in accordance with the resolution of the Board of Directors.

Details of the stock options are as follows:

Grant Date	Number of Common Shares to Grant[1]	Grant Style	Exercise Price (in Korean won)	Exercise Period
March 25, 2005	221,000	Difference compensation style	₩42,530	March 26, 2008 to March 25, 2012

1 | In 2005, 347,000 shares of stock options were withdrawn due to the early termination of employment of the related employees.

The Company recognized ₩1,042 million in stock compensation expense for the year ended December 31, 2005.

14. COMMITMENTS AND CONTINGENCIES

As of December 31, 2005, the Company provides a joint guarantee for obligations existing prior to the spin-off, which were assumed by LG Corp. (formerly LG Chem Investment Ltd.) and LG Household & Health Care Ltd., and provides financial guarantees to customers.

As of December 31, 2005, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

In the normal course of business, as of December 31, 2005, the Company has provided three blank promissory notes as collateral to creditors and guarantors.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2005 amounted to ₩204,241 million (2004: ₩250,028 million) (Note 20).

As of December 31, 2005, the Company is contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩334,610 million (2004: ₩284,081 million including agent sales made through LG International Corp.). Further, as of December 31, 2005, the Company is contingently liable for trade receivables transferred to the special purpose companies amounting to ₩209,760 million (2004: ₩213,440 million) (Note 4).

As of December 31, 2005, the Company has bank overdraft agreements with several banks for up to ₩38,500 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩101,600 million and US$263 million.

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.

On January 1, 2005, the Company entered a contract with LG Corp. to use trademarks on goods that the Company manufactures and sells as well as on the services the Company provides in relation to its business.

As of December 31, 2005, the Company has a long-term purchase contract and provided US$30,833 thousand (2004: US$16,422 thousand) as a guarantee for the contract execution.

The Company has interest rate swap, currency swap, forward exchange contracts and options for hedging against fluctuations in foreign exchange rates and interest rates. As of December 31, 2005, outstanding contracts and options include interest rate swaps of ₩100,000 million (2004: ₩100,000 million), currency swaps of US$100,000 thousand (2004: US$205,000 thousand), and no currency options (2004: US$50,000 thousand).

As of December 31, 2005, the Company has been named as a defendant in various legal actions. Management believes that the outcome of these cases will not have a material adverse impact on the Company's operations or financial position.

15. 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.

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. With 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 Reserve

Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

16. TREASURY STOCK

Changes in treasury stock for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005			
	Common Stock		Preferred Stock	
	Number of Shares	Amount	Number of Shares	Amount
January 1, 2005	54,080	₩ 2,383	3,657	₩ 20
Increase	568,000	21,395	-	-
Decrease	(15,199)	(669)	-	-
December 31, 2005	606,881	₩ 23,109	3,657	₩ 20

(in millions of Korean won)

	2004			
	Common Stock		Preferred Stock	
	Number of Shares	Amount	Number of Shares	Amount
January 1, 2004	126,493	₩ 5,573	3,657	₩ 20
Increase	-	-	-	-
Decrease	(72,413)	(3,190)	-	-
December 31, 2004	54,080	₩ 2,383	3,657	₩ 20

17. INCOME TAXES

Income taxes for the year ended December 31, 2005 and 2004 consist of the following:

(in millions of Korean won)

	2005	2004
Current income taxes under the tax law	₩ 112,132	₩ 114,911
Income tax directly added to capital surplus [1]	15	(237)
Changes in deferred income tax assets (liabilities) [2]	(44,727)	68,618
Income taxes	₩ 67,420	₩ 183,292

1 | Income tax resulting from loss on disposal of treasury stock was directly added to capital surplus.

2 | The changes in deferred income tax assets (liabilities) are as follows:

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2005	2004	2005	2004
Beginning balance	₩ 480,435	₩ 234,230	₩ (132,120)	₩ (63,502)
Ending balance	361,727	480,435	(99,475)	(132,120)
			32,645	(68,618)
Deferred income taxes added to (deducted from) shareholders' equity [1]			(12,082)	-
			₩ 44,727	₩ (68,618)

1 | Deferred income taxes directly added to (deducted from) shareholders' equity are as follows:

(in millions of Korean won)

	Accumulated Temporary Differences [1]	Deferred Income Tax Assets (Liabilities)
Gain on valuation of equity-method investments	₩ (44,552)	₩ (12,251)
Loss on valuation of derivative instruments	614	169
	₩ (43,938)	₩ (12,082)

1 | As the Company adopted SKFAS No. 16, Deferred Income Tax, in 2005, the Company recognized deferred income taxes for the temporary differences arising from the capital adjustments, which can probably be realized in the future.

Current income taxes under the tax law are calculated as follows:

(in millions of Korean won)

	2005	2004
Income before income taxes	₩ 467,678	₩ 719,712
Additions to pretax income	564,210	367,126
Deductions from pretax income	584,716	608,163
Taxable income	₩ 447,172	₩ 478,675

Changes in temporary differences for the year ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005					
	Beginning Balance	Increase	Decrease	Ending Balance	Current	Non-current
Accrued severance benefits	₩ 116,503	₩ 32,534	₩ 26,794	₩ 122,243	₩ -	₩ 122,243
Severance insurance plans	(116,503)	(32,534)	(26,794)	(122,243)	-	(122,243)
Allowance for doubtful accounts	60,827	64,917	58,707	67,037	64,524	2,513
Accrued interest income	(399)	(232)	(629)	(2)	(2)	-
Research and development costs	(25,771)	-	(17,839)	(7,932)	-	(7,932)
Present value discount	130	-	61	69	69	-
Depreciation	40,138	10,552	10,364	40,326	-	40,326
Gain on valuation of equity-method investments	(417,984)	(210,020)	(216,943)	(411,061)	-	(411,061)
Gain on foreign currency translation	450	-	450	-	-	-
Reserves for technology development	(263,333)	(90,000)	(46,667)	(306,666)	(46,666)	(260,000)
Others	125,507	93,867	98,265	121,109	24,055	97,054
Equity [1]	(20,754)	17,861	3,811	(6,704)	-	(6,704)
	(501,189)	₩ (113,055)	₩ (110,420)	(503,824)	41,980	(545,804)
Gain on valuation of equity-method investments [2]	-			(179,331)	-	(179,331)
Equity [2]	(20,754)			37,234	-	37,234
Total	₩ (480,435)			₩ (361,727)	₩ 41,980	₩ (403,707)
Deferred income tax assets (liabilities)	₩ (132,120)			₩ (99,475)	₩ 11,545	₩ (111,020)

1 | As the Company adopted SKFAS No. 16, Deferred Income Tax, in 2005, the accumulated temporary differences for equity were included in the list of accumulated temporary differences.

2 | As of December 31, 2005, the accumulated temporary differences that may not be realized in the future were excluded in the calculation of deferred income taxes.

(in millions of Korean won)

	2004			
	Beginning Balance	Increase	Decrease	Ending Balance
Accrued severance benefits	₩ 19,451	₩ 118,632	₩ 21,580	₩ 116,503
Severance insurance plans	(18,806)	(119,277)	(21,580)	(116,503)
Allowance for doubtful accounts	48,270	57,897	45,340	60,827
Accrued interest income	(614)	(43)	(258)	(399)
Research and development costs	(39,408)	-	(13,637)	(25,771)
Present value discount	221	-	91	130
Depreciation	35,301	17,400	12,563	40,138
Gain on valuation of equity-method investments	(146,269)	(270,894)	821	(417,984)
Gain on foreign currency translation	3,903	-	3,453	450
Reserves for technology development	(190,000)	(90,000)	(16,667)	(263,333)
Others	53,721	102,347	30,561	125,507
	₩ (234,230)	₩ (183,938)	₩ 62,267	₩ (480,435)

The statutory income tax rate, including resident tax sub-charges, applicable to the Company for the year ended December 31, 2005, was 27.5% (2004: 29.7%).

However, as a result of tax reconciliation, tax credits and other items, the effective tax rate of the Company for the year ended December 31, 2005 was 14.4% (2004: 25.5%).

18. EARNINGS PER SHARE

Basic ordinary income per share and earnings per share for the years December 31, 2005 and 2004 were computed as follows:

(in millions of Korean won, except per share amounts)

	2005	2004
Net income	₩ 400,258	₩ 536,420
Preferred stock dividends	(11,255)	(13,419)
Preferred stock share of remaining profit available for dividend	(36,839)	(50,568)
Net income and ordinary income available for common stock (A)	352,164	472,433
Weighted average number of shares of outstanding common stock (B) [1]	64,014,536	64,352,782
Basic earnings per share and ordinary income per share (A/B)	₩ 5,501	₩ 7,341

1 | Net of treasury stock

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2005 and 2004. Accordingly, basic earnings and ordinary income per share are identical to fully diluted earnings and ordinary income per share.

19. DIVIDENDS

Details of dividends for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Shares issued and outstanding (par value per share: ₩5,000)		
Common stock	63,818,183	64,370,984
Preferred stock	8,657,594	8,657,594
Dividend per share (in won)		
Common stock: cash	₩ 1,250 (25%)	₩ 1,500 (30%)
Preferred stock: cash	₩ 1,300 (26%)	₩ 1,550 (31%)
Cash dividend amount (in millions)		
Common stock	₩ 79,773	₩ 96,557
Preferred stock	11,255	13,419
	₩ 91,028	₩ 109,976

20. RELATED PARTY TRANSACTIONS

Significant transactions, which occurred in the ordinary course of business with related companies for the year ended December 31, 2005 and 2004 and the related account balances as of December 31, 2005 and 2004 are summarized as follows:

(in millions of Korean won)

	Sales	Purchases	Receivables	Payables
LG Petrochemical Co., Ltd.	₩ 8,659	₩ 1,467,574	₩ 2,409	₩ 161,429
LG Corp.	-	20,616	35,478	1,140
LG Household & Health Care, Ltd.	16,390	26,864	1,114	676
Related overseas companies	1,050,039	218,878	21,665	50,036
LG Electronics Inc.	290,049	5,485	31,501	3,442
LG MMA Corp.	10,512	76,410	1,663	7,030
LG International Corp.	306,952	26,889	10,417	4,542
LG CNS	-	34,929	-	7,411
LG.Philips LCD	406,035	-	44,795	-
LG Daesan Petrochemicals Ltd.	35,975	121,447	3,259	9,320
SEETEC Co., Ltd.	516	17,350	518	1,897
Others	22,256	217,334	18,733	45,198
2005 Total	₩ 2,147,383	₩ 2,233,776	₩ 171,552	₩ 292,121
2004 Total	₩ 2,099,700	₩ 2,250,539	₩ 147,792	₩ 402,341

Transactions with GS Caltex Corp., GS Engineering & Construction Corp. and GS Retail Co., Ltd. were not classified as related party transactions due to their separation from LG Corp.

The Company has guaranteed the repayment of various obligations of its subsidiaries. The outstanding balance of such guarantees as of December 31, 2005 amounted to approximately ₩204,241 million for outstanding bank borrowings of ₩125,032 million (2004: ₩250,028 million for related outstanding bank borrowings of ₩142,813 million).

The details of guarantees provided are as follows:

(in millions of Korean won)

	2005		.
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
Tianjin LG DAGU Chemical Co., Ltd.	₩ 12,156	Fudong Bank	₩ 12,156
	18,234	ABC	18,234
Tianjin LG New Building Materials Co., Ltd.	2,026	ICBC	1,520
	4,660	KDB	4,660
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	25,325	BOC	25,325
	25,325	Woori Bank	20,260
LG Chem America, Inc.	10,130	Woori Bank	-
LG Chem Industrial Materials, Inc.	25,629	Wachovia	25,629
LG Chem Hong Kong Ltd.	35,455	BOA	7,395
LG Chem Europe Sarl	1,195	CL Bank	1,378
	3,586	SG	1,384
Tianjin LG Bohai Chemical Co., Ltd.	40,520	KEXIM	7,091
	₩ 204,241		₩ 125,032

(in millions of Korean won)

Guarantee Beneficiary	2004 Amount of Guarantee	2004 Financial Institution	2004 Outstanding Loan Amount
Tianjin LG DAGU Chemical Co., Ltd.	₩ 12,526	Fudong Bank	₩ 12,526
	18,788	ABC	18,788
	4,175	ICBC	4,175
Tianjin LG New Building Materials Co., Ltd.	1,253	KEB	1,044
	4,697	ICBC	4,697
	4,697	CHB	4,697
	4,801	KDB	4,801
	6,680	Woori Bank	6,680
	7,307	UFJ	4,436
Tianjin LG Window & Door Co., Ltd.	6,248	Woori Bank	4,168
	3,131	CHB	3,131
	4,175	ABC	3,131
	5,219	SCB	3,914
	1,879	KEB	1,566
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	6,054	ICBC	5,941
	2,088	SG	2,025
LG Chem (Nanjing) Information & Electronic Materials Co., Ltd.	34,289	BOC	33,767
	26,095	Woori Bank	5,219
LG Chem America, Inc.	10,438	Woori Bank	-
LG Solid Source, LLC	5,219	Bank One	3,601
LG Chem Industrial Materials, Inc.	16,075	Wachovia	-
LG Chem Hong Kong Ltd.	36,533	BOA	10,470
LG India Holdings Inc.	4,697	BOA	16
	14,446	SCB	2,958
LG Chem Europe Sarl	4,259	CL Bank	419
	4,259	SG	643
	₩ 250,028		₩ 142,813

21. OPERATING RESULTS FOR THE FINAL INTERIM PERIOD

Operating results for the three-month periods ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won, except per share amounts)

	Three-Month Periods Ended December 31 2005 (unaudited)	Three-Month Periods Ended December 31 2004 (unaudited)
Sales	₩ 1,910,751	₩ 1,902,836
Operating income	102,578	84,940
Net income	111,150	126,535
Earnings per share	1,532	1,731

22. SEGMENT INFORMATION

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

(1) Industry Segment Information

Industry	Products or Services	Major Customers
Chemicals & Polymers	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Industrial Materials	Hi Sash, UBR, wall coverings, living materials, building materials and others	Hyundai Motors Co., Ltd. GM Daewoo Auto & Technology Company Distributors and wholesalers
Information & Electronic Materials	Batteries, fluorescent materials, polarized light board and others	LG Electronics Inc. Hynix Semiconductor Inc. LG.Philips LCD, and others

Financial information on industry segments for the years ended December 31, 2005 and 2004 is as follows:

(in millions of Korean won)

	2005									
	Chemicals & Polymers		Industrial Materials		Information & Electronic Materials		Others		Total	
Sales										
External sales	₩	4,065,677	₩	2,078,903	₩	1,267,973	₩	12,551	₩	7,425,104
Inter-segment sales		261,058		7,823		3,413		47,689		319,983
	₩	4,326,735	₩	2,086,726	₩	1,271,386	₩	60,240	₩	7,745,087
Operating income	₩	310,497	₩	140,264	₩	(24,986)	₩	(4,061)	₩	421,714
Property, plant and equipment, and intangible assets	₩	857,017	₩	441,664	₩	829,451	₩	429,545	₩	2,557,677
Depreciation and amortization	₩	164,690	₩	62,961	₩	139,547	₩	4,894	₩	372,092

(in millions of Korean won)

	2004									
	Chemicals & Polymers		Industrial Materials		Information & Electronic Materials		Others		Total	
Sales										
External sales	₩	3,884,777	₩	2,033,589	₩	1,206,057	₩	2,988	₩	7,127,411
Inter-segment sales		267,526		22,243		627		46,471		336,867
	₩	4,152,303	₩	2,055,832	₩	1,206,684	₩	49,459	₩	7,464,278
Operating income	₩	365,735	₩	109,528	₩	43,144	₩	4,511	₩	522,918
Property, plant and equipment, and intangible assets	₩	947,674	₩	434,413	₩	788,841	₩	432,790	₩	2,603,718
Depreciation and amortization	₩	162,211	₩	64,270	₩	122,964	₩	4,406	₩	353,851

(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	Domestic [1]		China		North America		South America		South-East Asia		Western Europe		Others		Total	
2005	₩	4,400,623	₩	1,650,030	₩	374,390	₩	69,370	₩	146,389	₩	219,111	₩	565,191	₩	7,425,104
2004	₩	4,320,580	₩	1,543,240	₩	313,232	₩	38,988	₩	156,933	₩	209,527	₩	544,911	₩	7,127,411

1 I Domestic sales include the exports made through local letters of credit.

(3) Discontinued Operations

The Company discontinued or disposed of some businesses, including the POM business, and realized a gain on the disposal of the segment amounting to ₩8,315 million in 2005.

The financial results of the discontinued operations are as follows:

(in millions of Korean won)

	2005		2004	
Sales	₩	22,599	₩	37,559
Cost of sales		23,275		34,322
Gross profit (loss)		(676)		3,237
Selling and administrative expenses		1,526		5,757
Operating loss	₩	(2,202)	₩	(2,520)

On August 31, 2004, the Company disposed of its methanol business and realized a gain on the disposal of the segment amounting to ₩5,100 million.

The financial results of the discontinued operations were as follows:

(in millions of Korean won)

	Jan. 1 ~ Aug. 30, 2004		2003	
Sales	₩	40,315	₩	71,887
Cost of sales		38,613		63,651
Gross profit (loss)		1,702		8,236
Selling and administrative expenses		740		2,492
Operating loss	₩	962	₩	5,744

23. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

As of December 31, 2005 and 2004, monetary assets and liabilities denominated in foreign currencies, excluding items referred to in Notes 11 and 12, consist of the following:

	Foreign Currency (in thousands)				Korean Won (in millions)	
	2005		2004		2005	2004
Cash and cash equivalents	US$	1,864	US$	3,983	₩ 2,920	₩ 4,909
	EUR	483	EUR	203		
	GBP	197	GBP	105		
	JPY	12,688	JPY	24,223		
Trade accounts and notes receivable	US$	77,828	US$	90,804	97,761	185,211
	EUR	2,463	EUR	549		
	GBP	44	GBP	68		
	JPY	1,847,268	JPY	8,413,950		
Other accounts receivable	US$	7,313	US$	2,825	12,287	3,209
	EUR	53	EUR	41		
Trade accounts and notes payable	US$	78,185	US$	140,726	210,924	221,127
	EUR	523	EUR	479		
	JPY	15,221,656	JPY	6,902,454		
Other accounts payable	US$	41,547	US$	27,119	55,968	32,059
	JPY	1,474,255	JPY	228,256		
	EUR	974	EUR	549		
Accrued expenses	US$	-	US$	1,788	-	1,892
	JPY	-	JPY	8,057		

24. SUPPLEMENTAL CASH FLOW INFORMATION

Major transactions not involving an inflow or outflow of cash and cash equivalents for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	2005	2004
Reclassification of construction-in-progress to property, plant and equipment	₩ 310,536	₩ 519,248
Reclassification of machinery-in-transit to machinery and equipment	92,143	132,053
Reclassification of depreciation expenses to development costs	3,929	5,225
Gain on valuation of investment using the equity method of accounting (capital adjustment)	17,248	32,415
Reclassification of long-term debt to current maturities of long-term debts	48,466	60,478
Reclassification of long-term debt to current maturities of debentures	700,037	261,789
Gain on valuation of derivatives (capital adjustment)	3,197	887

25. SUBSEQUENT EVENT

As approved by the Board of Directors on October 13, 2005, the Company entered into a merger contract with LG Daesan Petrochemicals Ltd. on October 19, 2005. As this merger was considered small scale under the Commercial Code of Korea, the Company did not need the approval of the shareholders. Instead, the Board of Directors approved the merger contract on November 16, 2005.

On January 1, 2006, the Company merged with LG Daesan Petrochemicals Ltd., increasing its assets and liabilities by W173,105 million. A negative goodwill of W353,752 is also expected to be recorded. The merger was officially announced by the Board of Directors on January 3, 2006.

26. APPROVAL OF FINANCIAL STATEMENTS

The December 31, 2005 non-consolidated financial statements were approved on January 25, 2006 by the Board of Directors of the Company.

27. RECLASSIFICATION OF PRIOR YEARS' FINANCIAL STATEMENTS

Certain amounts in the December 31, 2004 financial statements were reclassified to conform with the December 31, 2005 financial statement presentation. These reclassifications had no effect on the previously reported net income, shareholder's equity or cash flows.

MILESTONES

1940s~1950s

Jan	1947	Established as Lucky Chemical Industrial Corporation
Nov	1951	Produced Korea's first injection-molded products
Jun	1954	Commissioned first mass-production injection-molding plant

1960s~1970s

Aug	1962	Established floorcovering maker Lucky Vinyl Ltd.
Jan	1966	Renamed as Lucky Chemical Industries Co., Ltd.
Oct	1969	Listed on Korea Stock Exchange
Feb	1974	Renamed as Lucky Ltd.
Nov	1976	Commissioned Yeocheon PVC straight resin plant
Aug	1978	Commissioned Ulsan plastics processing plant
Dec	1979	Opened Lucky Central R&D Center in Daejeon

1980s~1990s

Sep	1982	Commissioned Yeocheon PVC paste resin plant
Mar	1984	Acquired Korea General Chemicals' Naju octanol plant
Jan	1985	Commissioned Yeocheon PS plant
May	1987	Commissioned Naju acrylate plant
Oct	1992	Commissioned Yeocheon PA plant
Oct	1994	Completed Lucky Research Park in Daejeon
Feb	1995	Renamed as LG Chemical Ltd.
Nov	1996	Acquired Hindustan Polymers Ltd. in India (LG Polymer India)
Apr	1997	Completed expansion of Yeosu acrylate, EDC/CA, and VCM plants
Dec	1997	Named one of the Asia's Best Companies by *Euromoney*
May	1998	Commissioned Tianjin PVC and PVC flooring plants
Jul	1998	Commissioned Ningbo ABS plant
Feb	1999	Issued 2 million global depository receipts
Sep	1999	Commissioned Cheongju lithium-ion battery, phosphor, and copper-clad laminate plants
Oct	1999	Commercialized color filter photoresists for LCD panels

2000s

Oct	2000	Completed 90,000 mtpa Ningbo ABS plant expansion
Nov	2000	Acquired Hyundai Petrochemicals' PVC business
Mar	2001	Co-founded battery developer Compact Power, Inc. in the USA
Apr	2001	Demerged into three separate companies: LG Chem, LG Chem Investment, and LG Household & Health Care
Oct	2001	Completed 90,000 mtpa Tianjin PVC plant expansion
Feb	2002	Completed Cheongju polarizer plant expansion
Aug	2002	Commissioned Guangzhou EP compound plant
Aug	2002	Established LG Chemical Trading Co., Ltd. in Shanghai
Dec	2002	Completed 150,000 mtpa expansion of Ningbo ABS plant
Mar	2003	Commissioned Tianjin window profile and door plant
Jun	2003	Acquired 50% equity stake in Hyundai Petrochemicals
Jul	2003	Completed 100,000 mtpa expansion of Tianjin PVC plant
Aug	2003	Established Nanjing battery and polarizer post-processing facilities
Nov	2003	Established LG Chem Industrial Materials, Inc. in the USA
Mar	2004	Completed Ochang Techno Park production complex for Information & Electronic Materials Group
Jun	2004	Established Ningbo styrene-butadiene latex joint venture
Nov	2004	Commissioned Guangzhou ABS plant
Jan	2005	Established LG Chem (China) Investment Co., Ltd. in Beijing
Jan	2005	Completed business split of Hyundai Petrochemicals and established LG Daesan Petrochemicals
Jun	2005	Established joint R&D lab with Moscow State University
Jul	2005	Established sales subsidiary LG Chem Europe GmbH in Frankfurt
Oct	2005	Commissioned Hi-Macs solid acrylic surface plant in the USA
Jan	2006	Merged with LG Daesan Petrochemicals

2006 IR PLANS

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	PLANS	SCHEDULE
Capability Development	• Provide IR feedback to each business unit (Performance and marketing data) • Facilitate seamless collaboration between related business units (Business and promotion)	Year round
Content Development	• Provide in-depth reviews and in-house input on major issues • Provide real-time industry information updates • Provide consistent and systematic responses to frequently asked questions • Provide financial statements for subsidiaries on a consolidated basis (Sales, ordinary income, debt-to-equity ratio information)	Year round
Special Events	• Provide greater investor access to top management • Hold regular meetings to review business performance • Host events at Korean and overseas production sites	Year round Quarterly 12 times a year
Activities Targeting Foreign Investors	• Hold overseas roadshows 2~3 times a year • Attend overseas conferences 2~4 times a year • Increase frequency of conference calls with prospective overseas investors • Provide timely updates and new content on English website	May, October Year round Once or more quarterly Ongoing basis
Shareholders' General Meeting and Public Disclosure	• Deepen team expertise on matters related to the shareholders' general meeting and public disclosure • Improve processes for effective public disclosure • Update internal measures to prevent incorrect disclosures	Year round