PETROCHEMICALS

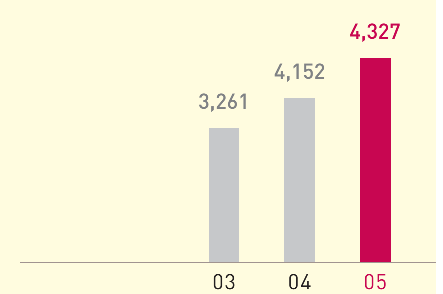
We make the chemicals and polymers that are a ubiquitous part of modern life.

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.

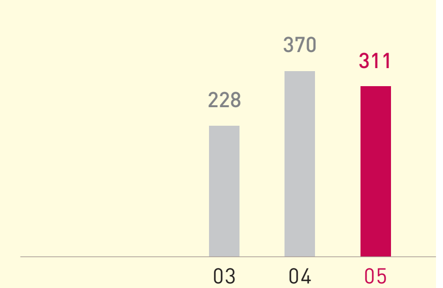
PORTION OF TOTAL SALES

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.

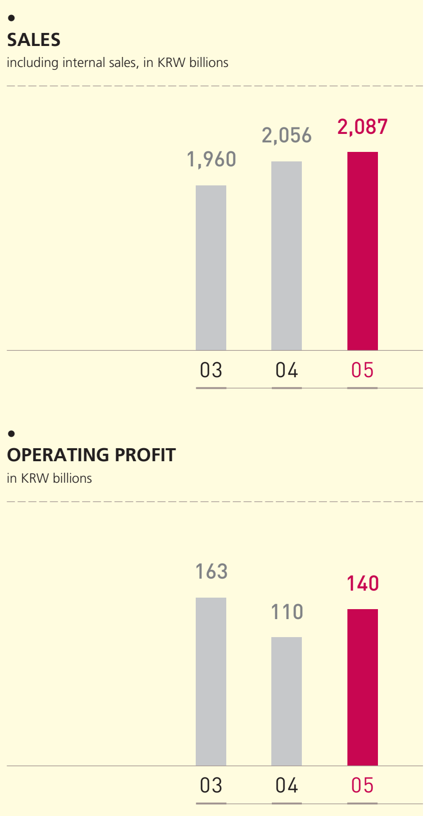
INDUSTRIAL MATERIALS

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%



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

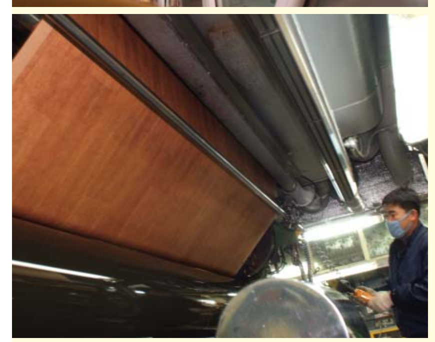
We believe that Korea's underperforming economy and increasingly regulated construction and real estate sectors make it unlikely that our home market will generate much growth for the industrial materials industry in 2006. There will be a few bright spots like the booming full-service remodeling segment 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.



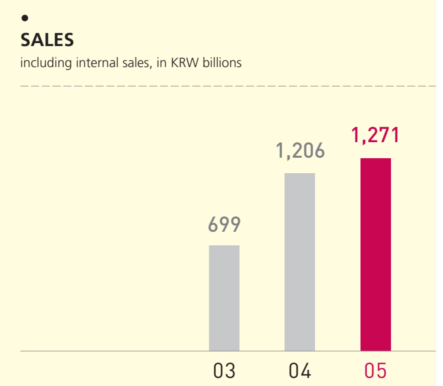
INFORMATION & ELECTRONIC MATERIALS

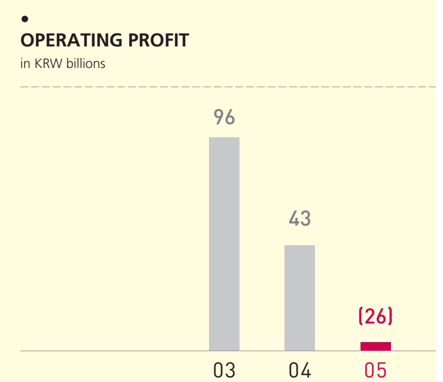
We make the flat-panel display materials and batteries that are driving the digital convergence revolution.

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.

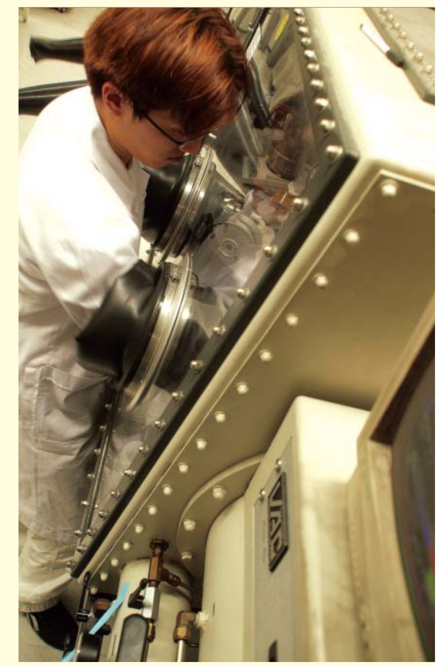
LCD POLARIZERS

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.

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.



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.

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.