

Solution*Partner*

LG Chem, Ltd.

Sep 2006



LG Chem

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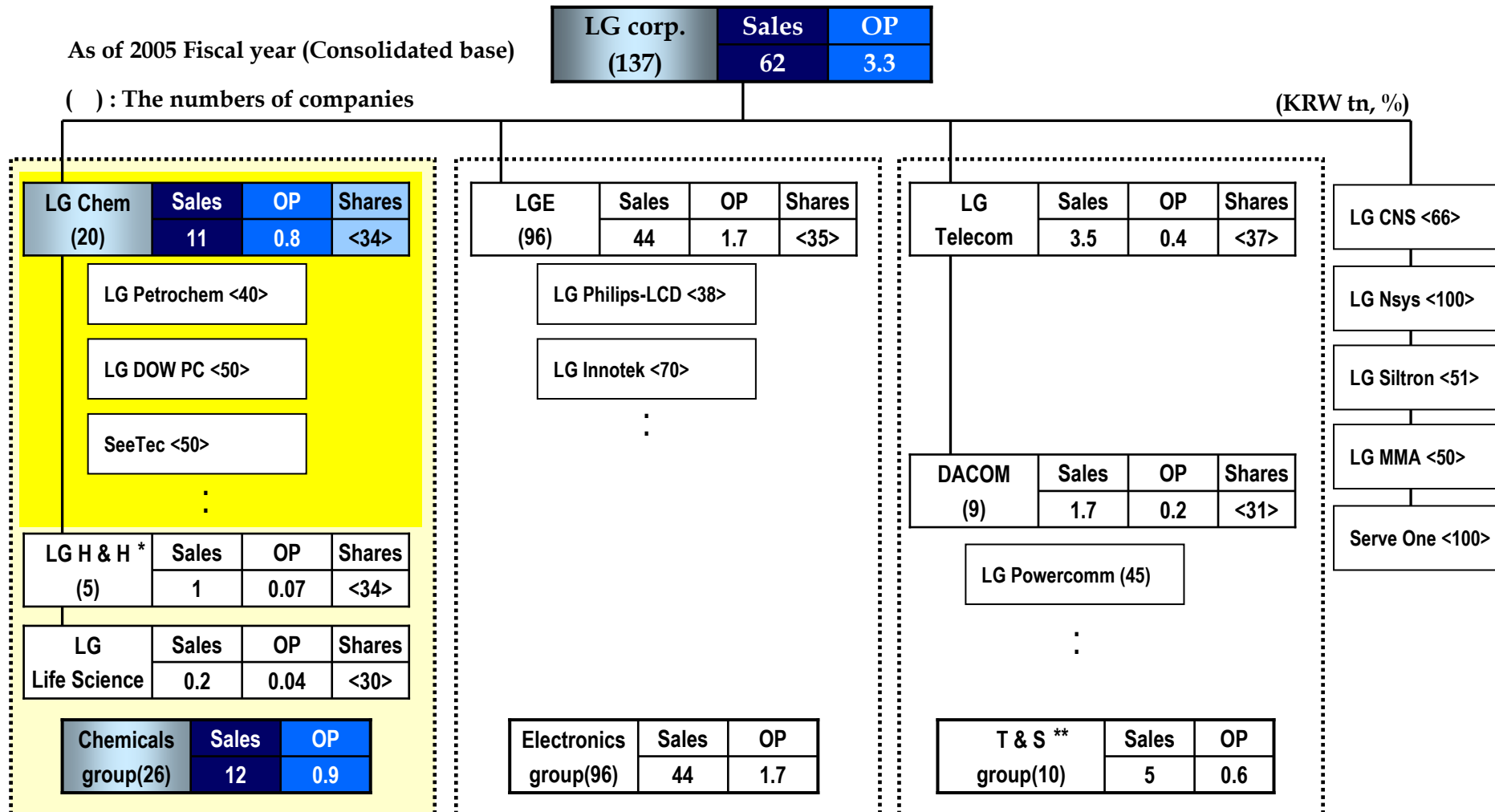
I. General overview

LG group hierarchy

As of 2005 Fiscal year (Consolidated base)

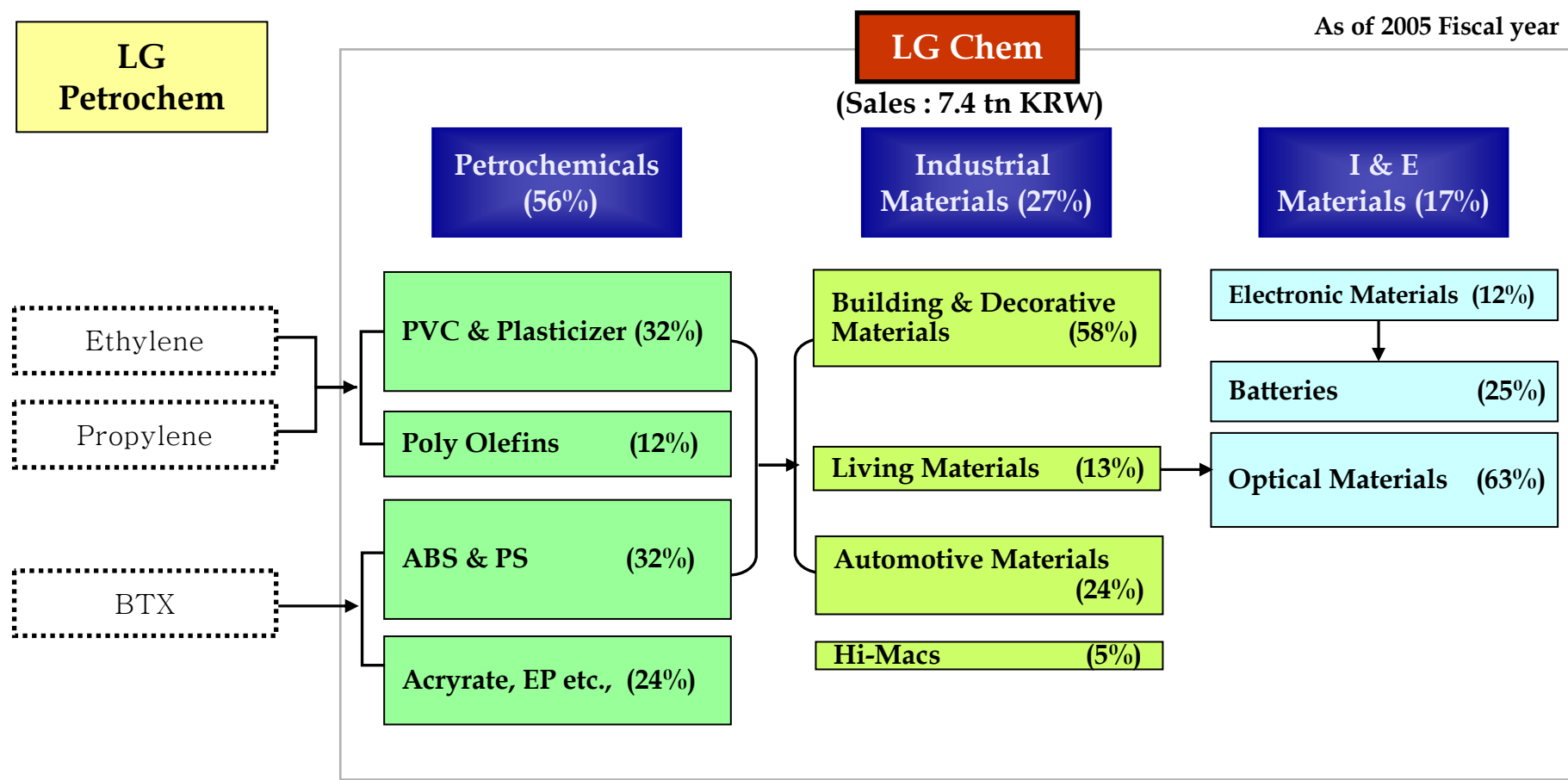
() : The numbers of companies

(KRW tn, %)



* Household and Healthcare

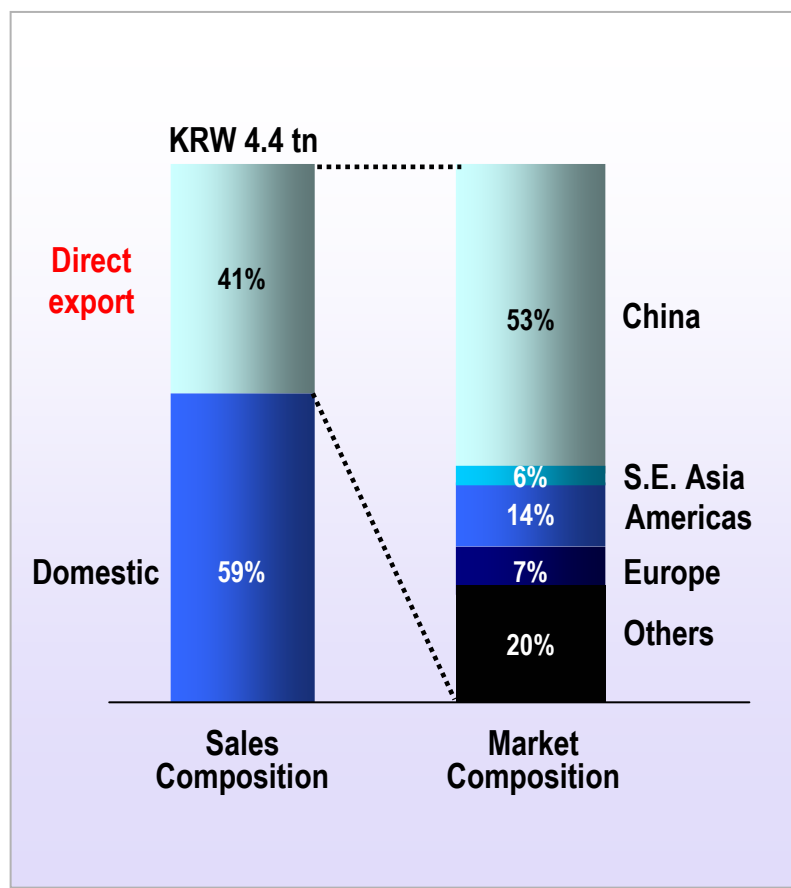
** Telecommunications and Services



- ◆ Petrochemicals : PVC, Plasticizer, ABS/PS, Acrylate, PO, EP, Specialty resin, NCC, Synthetic rubbers
- ◆ Industrial materials : Housing solutions (PVC window frame, Floorings), Living solutions, Automotive solutions, HI-MACS
- ◆ I & E materials : Rechargeable batteries, Optical materials (Polarizer film for TFT-LCD, PDP filter), Electronic materials (Color filter photo resist)

Sales contribution by market

(1H 2006)



Target markets

• Petrochemicals

- PVC : North/South America, Africa, Russia
- ABS : China
- Poly Olefin : China, Africa, South America

• Industrial materials

- Housing solutions : Domestic No1 player
- Living solutions / HI-MACS / Automotive solutions
- North America & China

• Information & Electronic materials

- Batteries : Global top tier makers
- Note book PC : Dell, H/P, (Toshiba)
- Handset : Sony-Ericsson, LGE, (Motorola)
- Polarizer Film : LG-Philips LCD, BOE, AUO, CMO, Other Taiwan & Chinese panel makers

II. Financial highlights

Non-consolidated

Income statement

(Unit : KRW bn)	'03	'04	'05	'06 1H
Sales	5,672	7,127	7,425	4,402
Operating Profit	474	523	422	114
(%)	(8.4)	(7.3)	(5.7)	(2.6)
Recurring Profit	483	720	468	145
(%)	(8.5)	(10.1)	(6.3)	(3.3)
Equity-method Gains	145	311	210	44
Net Income	362	536	400	113

Balance sheet

(Unit : KRW bn)	'03	'04	'05	'06 1H
Assets	4,762	5,679	5,593	5,531
(Cash and equivalents)	257	414	189	142
Liabilities	2,947	3,484	3,155	3,102
(Borrowings)	1,706	1,980	1,865	1,650
Shareholder's Equity	1,815	2,195	2,438	2,429
Total Liabilities / Equity (%)	162	159	129	128
Net Debt / Equity (%)	94	90	77	68
ROE (%)	21	27	17	9
EBITDA	750	877	794	383
CAPEX	841	570	502	275

Income statement

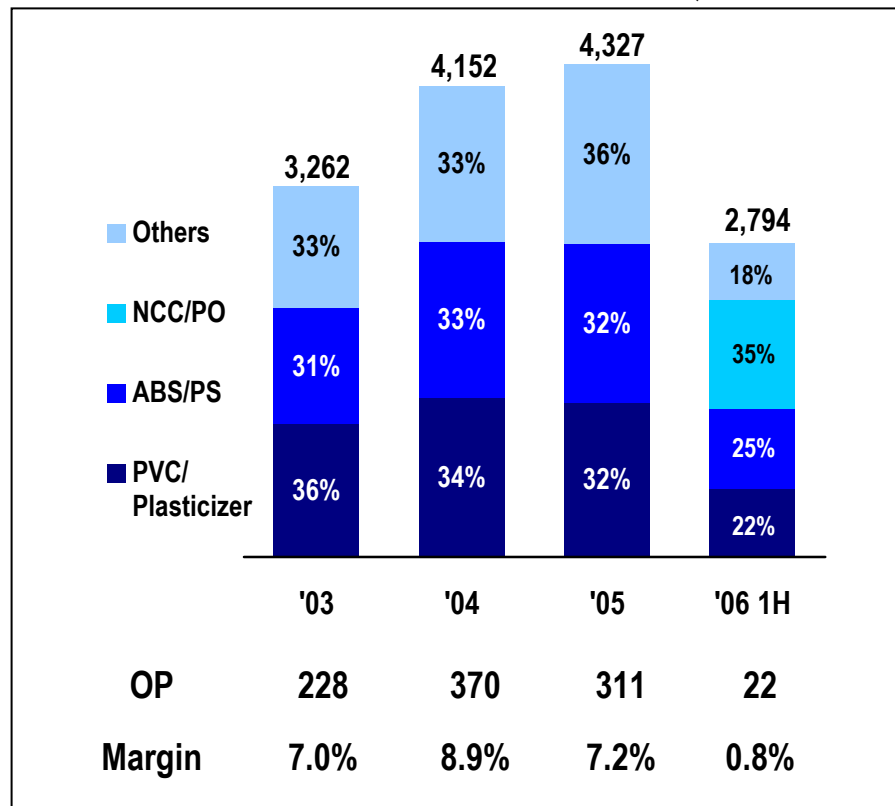
(Unit : KRW bn)	'03	'04	'05	'06 1H
Sales	6,897	8,817	10,785	5,495
Operating Profit	673	890	841	230
(%)	(9.8)	(10.1)	(7.8)	(4.2)
Recurring Profit	601	936	718	214
(%)	(8.7)	(10.6)	(6.7)	(3.9)
Equity-method Gains	72	188	△5	3
Net Income	362	538	402	113

Balance sheet

(Unit : KRW bn)	'03	'04	'05	'06 1H
Assets	5,835	6,897	7,291	7,174
(Cash and equivalents)	334	528	608	261
Liabilities	3,618	4,196	4,221	4,147
(Borrowings)	2,314	2,576	2,615	2,487
Shareholder's Equity	2,217	2,701	3,070	3,027
Total Liabilities / Equity (%)	163	155	138	137
Net Debt / Equity (%)	104	95	85	82
ROE (%)	21	28	19	11

Business results

(Unit : KRW bn)



Analysis & Outlook

• Analysis

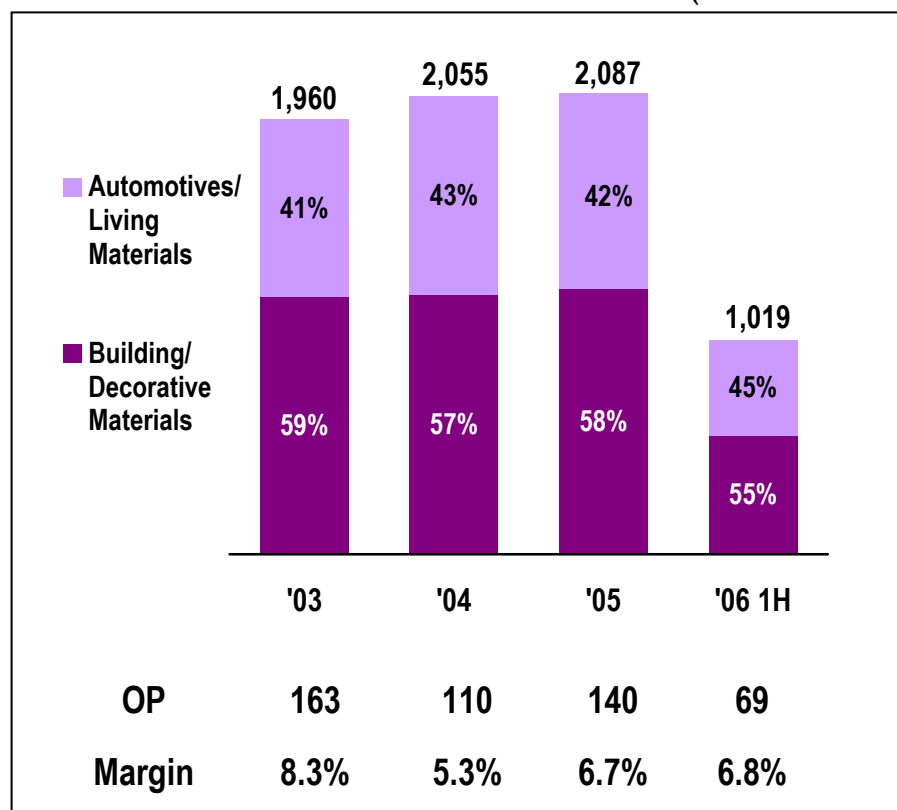
- Passed the peak of petrochemical cycle
 - 3Q 2004 ~ 1Q 2005
- Strong crude oil
 - High cost structure in down stream chemicals from late 2005
- Capacity expansion in China
 - Severe competition with Chinese carbide PVC
- Delaying Middle-East expansion plan
- Maintenance shut down in Yeosu for 3 weeks in 2006
- Despite firm price, margin declined by strong raw materials

• Outlook

- Tight supply due to series of Asian NCC maintenances
- Possibility for voluntary utilization adjustment in 2H
- Relatively soft sentiment of front-line industries
- Expected better margin in 2H, but limited.

Business results

(Unit : KRW bn)



Analysis & Outlook

• Analysis

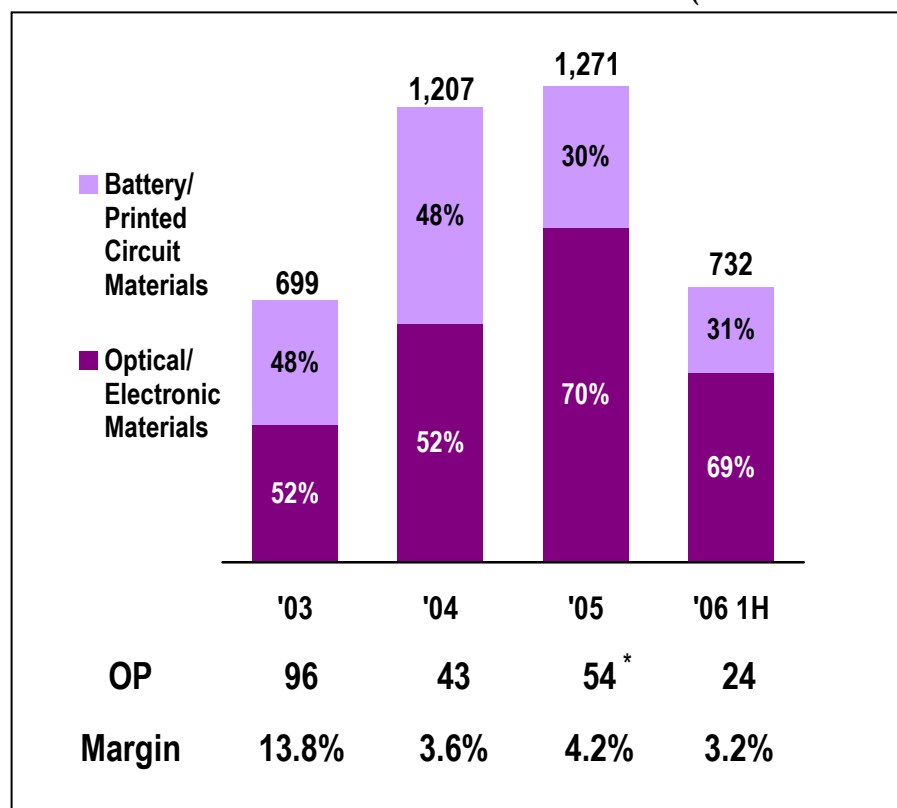
- Passed the bottom in the 4Q 2004
- Improved product-mix
 - Value-added window frame (balcony window frame)
 - Automotive skin
- Business paradigm transformation
 - Shifting from in-house manufacturing to out-source
 - Intensifying design, development, and distribution
- Launched Z:in brand for high-end product

• Outlook

- Slow but continuous recovery in domestic economy
- Maximizing the profit by changing manufacturing-oriented business into channel-oriented
- Master brand "Z:IN" is successfully working

Business results

(Unit : KRW bn)



* Excluded one time expense (Approximately KRW 80billion)

Analysis & Outlook

• Analysis

- Special expense (KRW 80 billion) from battery recall in 2005
- Focusing on quality stabilization and increasing long-term contract volume in battery business
- Continuous price pressure for LCD and PDP components
- Volume growth for LPL and the large-sized TV polarizer

• Outlook

- **Market growth ('06)**
 - Battery : Note-Book PC 13%, Handset 10%
 - Optical materials : LCD TV 70%, LCD Monitor 17%, Note-Book PC 13%
- **Stabilization of battery business compared with 1H but limited improvement**
- **Less pressure on ASP for polarizer film**

Panel	'06.1	'06.6	'06.9
Monitor (17")	U\$ 150	U\$ 105 -30%	U\$ 125 +19%
TV (42")	U\$ 990	U\$ 825 -17%	U\$ 750 -9%

- **Remarkable growth of PDP filter and Color filter photo resist**
 - PDP filter 90 % ↑ , Color filter photo resist 38% ↑ (YoY)

IV. Business strategies

Vision

**“To be a global leader -
Growing with customers by providing
Innovative materials and solutions”**

Basic strategies

Petrochem

- Maximizing cash flow from the current business

Industrial Materials

- Shifting high-functional product-mix
- Clarifying long-term business model

Batteries

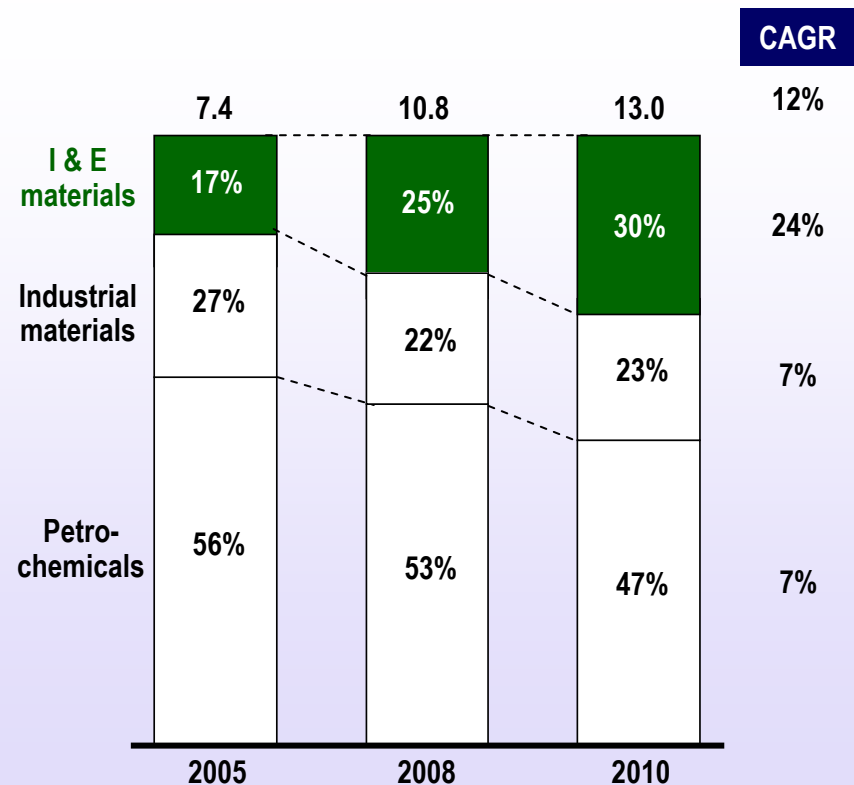
- Normalizing the business first
- For longer-term, enhancing competitiveness by internalizing raw materials and promoting mid-large sized batteries

I&E Materials

- Actively developing new business for the future growth

Long-term target

(Unit: KRW tn)



Business strategies

- ❑ Improving profitability through vertical integration
- ❑ Reforming and rationalizing operating system
- ❑ Selectively focusing on differentiated products
 - ABS/EP compounds, SBS, acrylic derivatives

Action plans

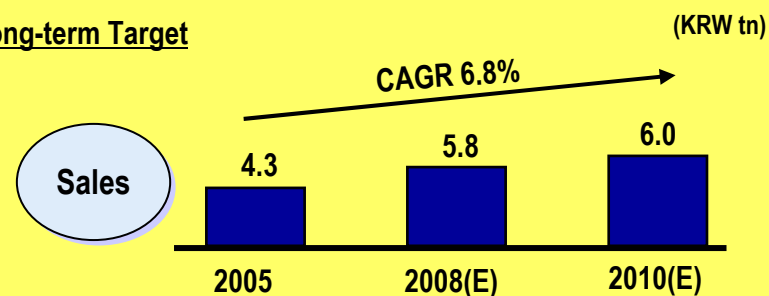
Down-turn counter plan

- Rationalizing inefficient facilities
- Divestment of marginal business
- Finding alliance opportunity with competitors

Strengthen profitability

- Investment on EP compound in China
- Launching acrylic derivatives business (adhesive, water treatment chemicals, etc.)

Long-term Target



Business strategies

❑ High functional product mix

- Brand integration
- Enlargement the core product lines
- Improve technology platform

❑ Clarifying business model

- Total interior solution business with premium brand (Z:in)
- High-quality material business by R&D resources

❑ Securing core competence through strong execution

- Key factors : Development, design and distributing channel

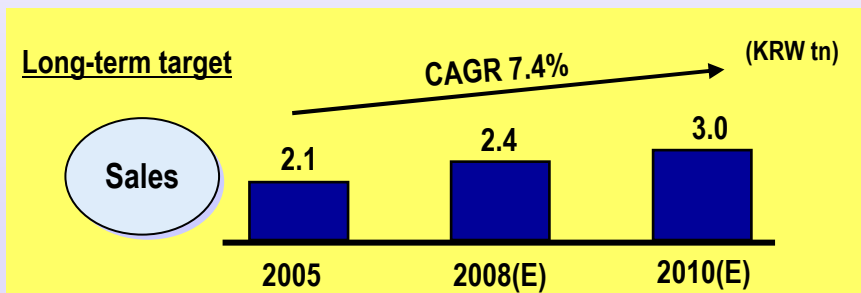
Action plans

❑ Building/Decorative

- Premium integrated interior brand: “Z:in”
- Eco friendly and high-end product sales :
1.2 tn ('05) → 1.9 tn ('10)

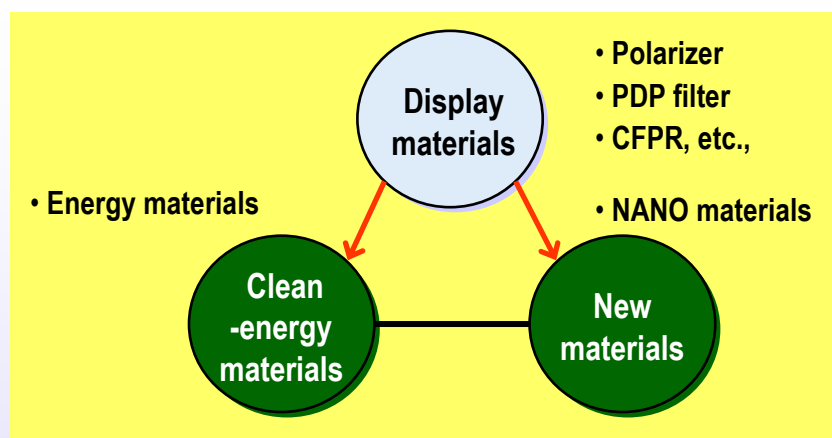
❑ Functional Materials

- Increase technology outsourcing
- New item sales : 19% ('05) → 37% ('10)



Business strategies

□ Business domain



□ Basic strategies

- Raising the competitiveness by pursuing differentiated and material-oriented business
- Expanding the current business portfolio by reinforcing internal capability
- New business launching by outsourcing

Action plans

□ Display materials

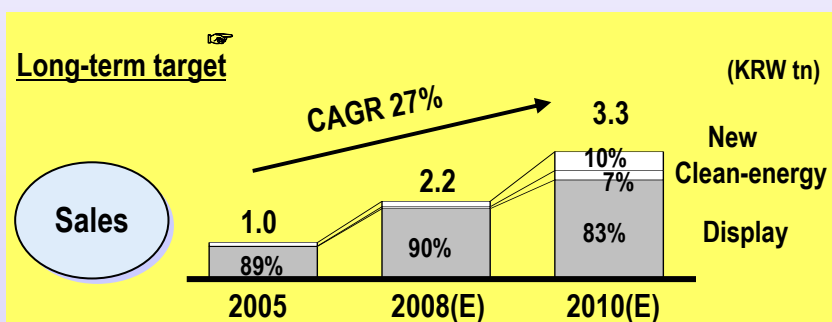
- Reflecting the customers' requests
- Offering the differentiated value (High-end products, etc.,)

□ Clean-energy materials

- Using an internally developed raw materials
- Next-generation energy materials

□ New materials

- Launching new business quickly by outsourcing



☞ Figures included overseas sales but excluded Li-ion & Polymer batteries

Business strategies

❑ Pursuing performance oriented R&D

- Strengthen IT & electronic material research
- Create value by acquiring advanced technology for the raw material
- Improve R&D efficiency through selective resource allocation

❑ Extending R&D flexibility

- Active R&D outsourcing to secure core capabilities
 - Display, energy, nano-tech, etc.,
- Strengthen R&D network
 - Utilizing overseas R&D bases and out-side technology channels

Action plans

Display

- Enlarge functional film business by applying coating, adhesion, processing technology
- Align with key customer's product road map

Clean energy

- Co-development for mid-large sized battery
- Focusing on basic materials of solar cell & fuel cell

I&E Materials

- Cost-cut by internalizing key raw materials
- Securing premium quality through distinctive materials

Petrochem

- Developing high margin specialties

Business performance (Divisional)

Appendix

(Unit : KRW bn)

		2005					2006				
		1Q	2Q	3Q	4Q	Sum	1Q	2Q	3Q	4Q	Sum
Sales		1,868.9	1,795.7	1,849.8	1,910.7	7,425.1	2,129.1	2,272.5			4,401.6
Operating Profit		141.4	85.6	92.1	102.6	421.7	65.6	48.0			113.6
Petrochemicals		1,160.7	1,050.5	1,069.5	1,046.5	4,327.2	1,364.8	1,429.6			2,794.4
	PVC/Plasticizer	382.2	335.7	348.5	354.7	1,421.1	310.4	322.2			632.6
	ABS/PS	391.0	347.4	366.1	346.1	1,450.6	366.3	359.4			725.7
	Poly Olefin	148.1	130.6	133.6	133.0	545.2	319.2	316.3			635.5
	Acrylates	139.6	130.3	115.9	111.4	497.1	108.4	113.8			222.2
	EP	78.6	78.6	80.7	85.0	322.8	78.0	81.1			159.1
	Specialty Resin	70.5	74.7	71.6	64.2	281.0	68.1	74.7			142.8
	NCC	-	-	-	-	-	324.3	335.8			660.1
	Synthetic Rubber	-	-	-	-	-	64.5	74.4			138.9
	Operating Profit	116.4	69.0	73.7	51.9	311.0	27.5	△5.5			22.0
Industrial Materials		495.0	535.5	518.3	537.7	2,086.5	476.0	543.3			1,019.3
	Building/Decorative	293.8	332.7	327.4	314.2	1,268.0	253.7	314.1			567.8
	Living/Automotive	227.9	237.8	220.9	248.8	935.3	224.1	231.7			455.8
	Operating Profit	27.5	36.3	39.3	36.9	140.0	27.4	41.9			69.3
I & E Materials		282.1	277.0	319.9	392.4	1,271.3	361.2	370.4			731.6
	Battery/PCM	90.0	69.6	86.3	132.7	378.6	108.6	120.8			229.4
	Optical/Electronic	192.0	207.8	234.4	261.8	896.0	254.8	253.3			508.1
	Operating Profit	△1.4	△19.1	△20.5	15.2	△25.8	10.5	13.1			23.6

* Difference between total of all business divisions and total of each business unit indicates inter-company business sales.

		'05	'06 1H			'05	'06 1H
(Unit : KRW bn)				(Unit : KRW bn)			
LGPC	Sales	1,989	964	Assets	1,040	1,019	
	Operating Profit (%)	242 (12.1)	53 (5.5)	Liabilities	226	258	
	Net Income	193	43	Equity	814	761	
Overseas*	Sales	1,305	676	Asset	908	1,154	
	Operating profit (%)	37 (2.8)	37 (5.5)	Liabilities	525	744	
	Net Income	27	25	Equity	383	410	

* Figures is the sum of overseas manufacturing subsidiaries'

(Unit : KRW bn)

		'04 Results	'05 Results	'06 Plan	'06 1H
Petrochemicals	New/Expansion	11.8	23.7	127.4	26.1
	Maintenance	52.7	69.1	81.3	47.7
	Equity Investment	6.6	41.2	28.5	19.6
	Total	71.1	134.0	237.2	93.4
Industrial Materials	New/Expansion	4.9	17.1	42.8	1.2
	Maintenance	42.7	49.1	44.8	28.8
	Equity Investment	25.7	3.5	10.1	-
	Total	73.3	69.6	97.7	30.0
I & E Materials	New/Expansion	160.7	147.4	168.2	67.5
	Maintenance	31.8	39.0	36.5	20.0
	Equity Investment	35.6	20.5	14.5	8.2
	Total	228.1	206.9	219.2	95.7
Common Expenses	New/Expansion	22.0	-	2.5	1.8
	Maintenance	42.0	88.0	86.1	39.6
	Equity Investment	133.0	3.2	3.4	14.0
	Total	197.0	91.3	92.0	55.4
Total	New/Expansion	199.4	188.2	340.9	96.6
	Maintenance	169.2	245.2	248.7	136.1
	Equity Investment	200.9	68.5	56.5	41.8
	Total	569.5	501.8	646.1	274.5

Borrowings

(Unit : KRW bn)

	Balance			'06 (P)
	'05	'06 1H	Changes	
Total	1,865.4 (100%)	1,650.0 (100%)	△215.4	1,766.0 (100%)
KRW Currency	1,529.8 (82%)	1,270.7 (77%)	△259.1	1,359.8 (77%)
C P	100.0	100.0	-	120.1
C B	1,300.0	1,100.0	△200.0	1,220.0
Others	129.8	70.7	△59.1	19.7
Foreign Currency	335.6 (18%)	379.3 (23%)	43.7	406.2 (23%)
FRN	187.4	244.9	57.5	233.0
Others	148.2	134.4	△13.8	173.2
Short-term	845.2 (45%)	529.1 (32%)	△316.1	573.1 (32%)
Long-term	1,020.2 (55%)	1,120.9 (68%)	100.7	1,192.9 (68%)

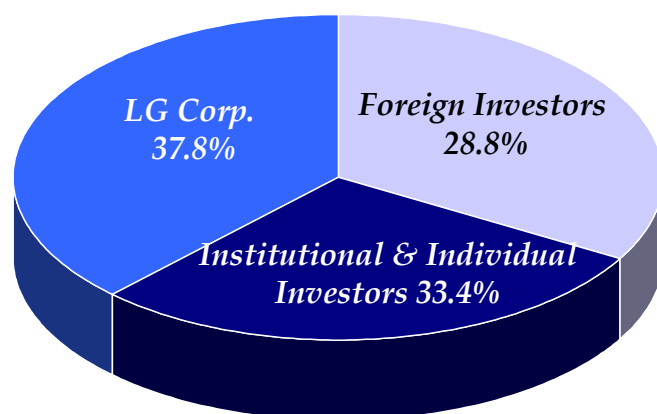
☞ The % is calculated to total borrowings
Discounts of bond is not included

Cash Flow

(Unit : KRW bn)

	'05	'06 1H
Net Income	400.3	113.2
Depreciation	344.5	255.3
Investment	△501.8	△274.5
Working Capital	△214.6	40.6
Dividend	△110.0	△91.0
Others	219.1	171.8
Borrowing Increase	△137.5	△215.4

Shareholders



Common Stock as of August 31, 2006

* Treasury stock : 610,538 shares (as of August 31, 2006)

** Final proportion of LG Corp after purchasing total shares that was disclosed will be reached at 39.2%

*** Our GDR is listed on LSE under the rule of 144A : Price US\$ 20.4, outstanding shares 73,494 as of August 31

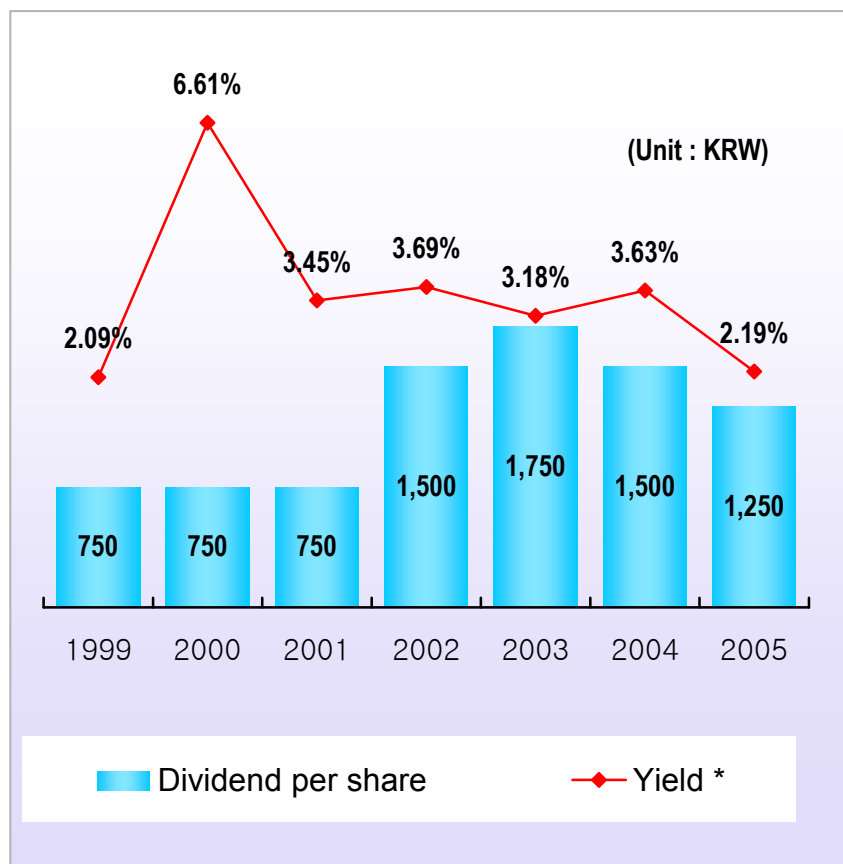
Market Cap.

(Unit : KRW)

	No. of Shares	Dec 31, '05	August 31, '06	
		Price	Price	Market Cap
Common	64,425,064	57,000	39,150	2.5 tn
Preferred	8,661,251	40,000	23,600	0.2 tn
Total	73,086,315			2.7 tn

Par value : KRW 5,000

Dividend History



* Yield was calculated based on the year-end price of common stock

Dividend Policy

Expected Dividend =
Approximately 30% × Adjusted Net-income *

+

α

* Adjusted Net-income =

+	Net-income
+	Dividend revenues
-	Equity-method gains
-	Legal reserves

Production capacity by product

Appendix

(Unit : kMT/Yr)

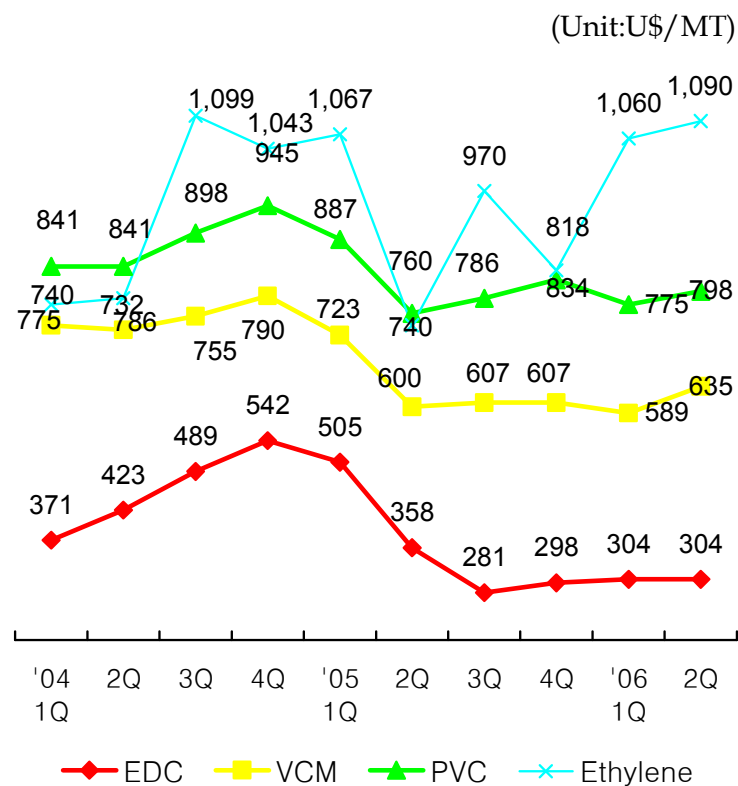
Item	Region	'04	'05	'08	'10
PVC	Yeosu	560	560	550	550
	Daesan	200	200	200	200
	China	350	350	360	400
	Total	1,110	1,110	1,110	1,150
VCM	Yeosu	720	720	720	720
	Daesan	180	180	180	180
	China	0	0	360	400
	Total	900	900	1,260	1,300
EDC ¹⁾	Yeosu	250	260	260	260
	China	0	0	320	360
	Total	250	260	580	620
NaOH ²⁾	Yeosu	200	200	200	200
	China	0	0	260	260
	Total	200	200	460	460
LDPE	Yeosu	156	156	156	156
	Daesan	135	135	138	138
LLDPE	Daesan	80	80	80	80
HDPE	Yeosu	300	300	330	330
	Daesan	140	140	162	162
PP	Daesan	250	250	300	550

1) Direct Chlorination Only

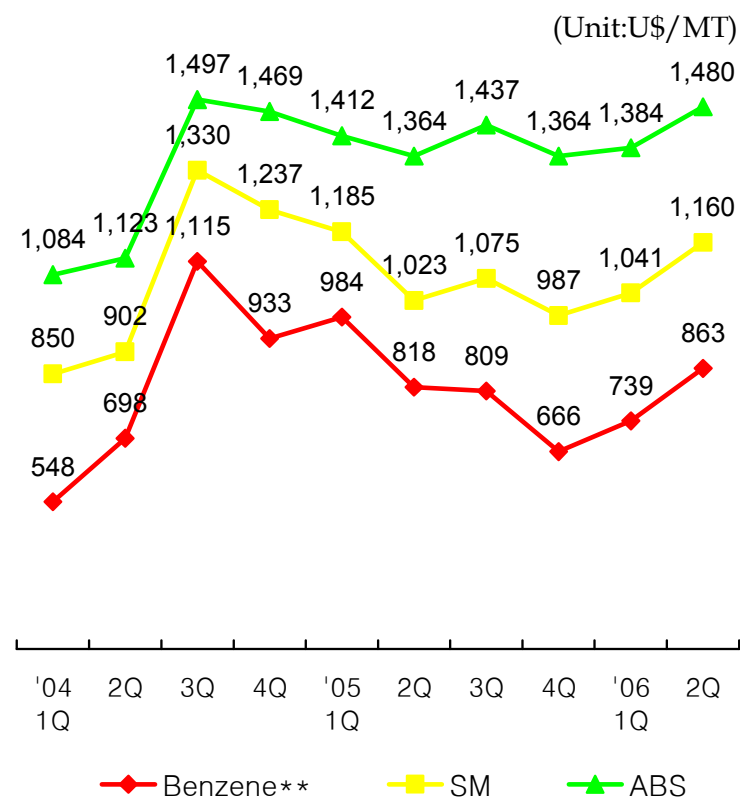
2) Dry basis

Item	Region	'04	'05	'08	'10
ABS	Yeosu	560	560	560	560
	Ningbo	330	330	500	500
	India	0	0	0	80
	Total	890	890	1,060	1,140
PS	Yeosu	210	210	140	140
	India	80	80	80	80
	Total	290	290	220	220
EPS	Yeosu	84	84	84	84
	India	16	16	16	16
SM	Yeosu	500	500	500	500
	Daesan	150	150	170	170
	Total	650	650	670	670
Acrylic Acid	Korea	160	160	160	240
	Overseas	0	0	0	0
	Total	160	160	160	240

Vinyls



Styrenics



• The prices are average price of CFR FE Asia for general grade in each product group.

** Average of FOB Korea price

	Name	Career	Remark
Chairman	Kang, Yu-Sig	BA (Business Administration), Seoul National Univ. Vice Chairman of LG Executive Office for Corporate Restructuring *Vice Chairman & President of LG Corp.	During his tenure
CEO	Kim, Bahn-Suk	BA (Chemical Engineering), Seoul National Univ. CEO of LG Petrochemical, CEO of LG Daesan Petrochemical *President & CEO of LG Chem	Newly Elected
CFO	Cho, Suk-Jeh	BA (Business Administration), Busan National Univ. Executive Vice President, CFO of LG Corp. *Executive Vice President & CFO of LG Chem	During his tenure
Independent Director	Oh, Ho-Soo	BA (Law), Yonsei Univ. Chairman of the Korea Securities Dealers Association *Chairman of Investus Global Corp.	During his tenure
Independent Director	Lee, Young-Moo	Ph.D. (Polymer Engineering), Univ. of North Carolina Senior researcher of 3M *Professor, Division of Applied Chemical Engineering & Bio Engineering, Han yang Univ.	During his tenure
Independent Director	Kim, Kon-Sik	Ph.D. (Corporate law), Univ. of Washington Independent director of SK Telecom *Professor of Law, Seoul National Univ.	During his tenure
Independent Director	Ahn, Sang-Hyung	Ph.D. (Industrial Administration), Carnegie Mellon Univ. Independent director of LG Petrochemical *Dean, College of Business Administration, Seoul National Univ.	Newly Elected