



LG Chem is changing.
And so is the future
of chemicals.

action

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