

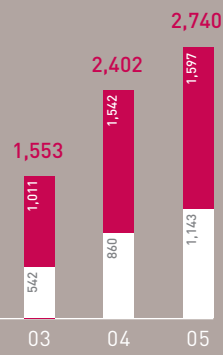
CHINA OPERATIONS

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

- Exports
- Local Production



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.