

**LG Chem, Ltd.**  
Interim Financial Statements  
September 30, 2007 and 2006

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**LG Chem, Ltd.**  
**Index**  
**September 30, 2007 and 2006**

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## Report of Independent Accountants

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

We have reviewed the accompanying non-consolidated balance sheet of LG Chem, Ltd. (the "Company") as of September 30, 2007, the related non-consolidated statements of income for the three-month and nine-month periods ended September 30, 2007 and 2006, the related non-consolidated statements of cash flows for nine-month periods ended September 30, 2007 and 2006, and the non-consolidated statement of changes in shareholders' equity for the nine-month period ended September 30, 2007, expressed in Korean won. These interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying non-consolidated financial statements are not presented fairly, in all material respects, in accordance with financial accounting standards generally accepted in the Republic of Korea.

We have audited the non-consolidated balance sheet of LG Chem, Ltd. as of December 31, 2006, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those non-consolidated financial statements in our audit report dated March 5, 2007. These non-consolidated financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2006, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2006, except for changes in adjustments of SKFAS No. 21 and KAI Opinion 06-2 which are effective from this year.

# Samil PricewaterhouseCoopers

As discussed in Note 20 to the non-consolidated financial statements, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007.

Accounting principles and review 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 review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or review standards and their application in practice.

Seoul, Korea  
November 12, 2007

This report is effective as of November 12, 2007, the review report date. Certain subsequent events or circumstances, which may occur between the review 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 review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Chem, Ltd.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**  
**(Unaudited)**

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	₩	127,132	₩	115,830
Trade accounts and notes receivable, net (Notes 4, 12 and 17)		1,036,160		818,384
Other accounts receivable, net (Note 4)		89,893		121,142
Accrued income		3,889		1,704
Advance payments		1,710		1,807
Prepaid expenses		22,811		14,130
Inventories, net (Note 5)		928,809		869,138
Deferred income tax assets		19,252		127
Other current assets		8,711		6,959
Total current assets		2,238,367		1,949,221
Long-term financial instruments (Note 3)		50		60
Investment securities		1,699		1,718
Equity-method investments (Note 6)		1,049,860		876,622
Other investments		254		276
Property, plant and equipment, net (Notes 7 and 18)		3,033,724		3,099,022
Intangible assets, net (Notes 8 and 18)		(189,681)		(212,990)
Long-term trade accounts and notes receivable, net (Note 4)		343		465
Long-term other accounts receivable, net (Note 4)		726		1,054
Long-term guarantee deposits		36,445		39,344
Long-term prepaid expenses		19,906		20,107
Other non-current assets		49,606		31,617
Total assets	₩	6,241,299	₩	5,806,516

**LG Chem, Ltd.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**  
**(Unaudited)**

<i>(in millions of Korean won)</i>	2007	2006
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts and notes payable (Note 17)	₩ 716,260	₩ 750,762
Short-term borrowings	110,000	25,076
Other accounts payable	398,262	516,955
Withholdings	62,676	50,488
Accrued expenses	101,379	42,276
Income tax payable	161,458	44,241
Dividends payable	41	39
Current maturities of long-term debts, net	343,399	439,932
Other current liabilities	2,773	2,886
Total current liabilities	1,896,248	1,872,655
Debentures, net (Note 9)	747,049	913,798
Other long-term debts, net	295,412	196,885
Accrued severance benefits, net (Note 10)	100,808	98,415
Deferred income tax liabilities	12,087	89,196
Derivative instrument transaction credit (Note 12)	4,982	3,089
Other non-current liabilities	23,816	9,118
Total liabilities	3,080,402	3,183,156
Commitments and contingencies (Note 12)		
Shareholders' equity (Note 1)		
Common stock	322,126	322,126
Preferred stock	43,306	43,306
	365,432	365,432
Capital surplus		
Paid-in capital in excess of par value	532,002	532,002
Gain on disposal of treasury stock	841	841
Asset revaluation surplus	206,769	206,769
	739,612	739,612
Capital adjustments		
Treasury stock	(23,129)	(23,129)
Accumulated other comprehensive income (Notes 2 and 15)		
Gain on valuation of equity-method investments	41,712	1,355
Loss on valuation of equity-method investments	(35,987)	(45,749)
	5,725	(44,394)
Retained earnings (Notes 2 and 13)		
Legal reserve	56,729	49,438
Other reserves	1,460,097	1,221,519
Unappropriated retained earnings	556,431	314,882
	2,073,257	1,585,839
Total shareholders' equity	3,160,897	2,623,360
Total liabilities and shareholders' equity	₩ 6,241,299	₩ 5,806,516

The accompanying notes are an integral part of these non-consolidated financial statements.  
See Report of Independent Accountants

**LG Chem, Ltd.**  
**Non-Consolidated Statements of Income**  
**Three-Month and Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

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

	2007		2006	
	Three months	Nine months	Three months	Nine months
<b>Sales</b> (Notes 17 and 18)	₩ 2,766,613	₩ 7,791,564	₩ 2,477,669	₩ 6,869,490
<b>Cost of sales</b> (Notes 14 and 17)	2,251,834	6,480,815	2,115,300	5,905,990
Gross profit	514,779	1,310,749	362,369	963,500
<b>Selling and administrative expenses</b>	262,263	768,321	255,044	741,241
Operating income	252,516	542,428	107,325	222,259
<b>Non-operating income</b>				
Interest income	2,265	6,934	2,257	6,464
Foreign exchange gains	12,122	27,756	9,367	45,293
Gain on foreign currency translation	5,690	10,035	11,773	29,405
Gain on valuation of equity-method investments	56,877	159,996	40,538	95,528
Gain on disposal of property, plant and equipment	935	7,303	24	1,774
Gain on disposal of intangible assets	9	9	-	-
Reversal of negative goodwill	9,792	29,377	9,802	29,377
Reversal of bad debt allowance	-	-	11	63
Reversal of compensation expenses associated with stock options (Note 17)	-	-	-	1,041
Gain on valuation of derivative instrument	-	-	105	105
Others	2,161	11,699	27,854	35,491
	89,851	253,109	101,731	244,541
<b>Non-operating expenses</b>				
Interest expenses	19,667	58,594	21,026	67,076
Foreign exchange losses	15,046	29,456	7,882	25,998
Loss on foreign currency translation	3,168	2,589	2,382	2,778
Loss on disposal of trade accounts receivable	9,477	27,582	8,682	24,578
Loss on disposal of investment securities	-	-	-	4
Impairment loss on investment securities	-	19	-	361
Loss on valuation of equity-method investments	4,736	2,242	6,782	18,236
Loss on disposal of property, plant and equipment	5,799	13,306	3,507	5,544
Impairment loss on property, plant and equipment	4,239	4,239	-	-
Loss on disposal of intangible assets	15	91	132	134
Impairment loss on intangible assets	5,751	5,897	398	2,699
Loss on valuation of derivative instruments (Note 12)	1,476	1,892	785	821
Donations	571	2,983	1,236	4,147
Others	652	1,472	4,600	17,406
	70,597	150,362	57,412	169,782
Income from continuing operations before income tax	271,770	645,175	151,644	297,018
<b>Income from continuing operations tax expense</b>	60,805	76,955	30,455	64,004
Income from continuing operations	210,965	568,220	121,189	233,014
<b>Loss from discontinued operations (Note 19)</b>	244	7,894	160	299
Net income	₩ 210,721	₩ 560,326	₩ 121,029	₩ 232,715
<b>Per share data (in won) (Notes 2 and 16)</b>				
Income from continuing operations per share	₩ 2,910	₩ 7,836	₩ 1,671	₩ 3,211
Earnings per share	₩ 2,906	₩ 7,727	₩ 1,668	₩ 3,206
Diluted income from continuing operations per share	₩ 2,910	₩ 7,836	₩ 1,671	₩ 3,211
Diluted earnings per share	₩ 2,906	₩ 7,727	₩ 1,668	₩ 3,206

The accompanying notes are an integral part of these non-consolidated financial statements.  
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**LG Chem, Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
	₩	560,326	₩	232,715
<b>Cash flows from operating activities</b>				
Net income				
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		358,737		400,590
Provision for severance benefits		44,403		51,378
Gain on foreign currency translation, net		(7,298)		(26,955)
Loss on disposal of trade accounts receivable		27,582		24,578
Loss on disposal of investment securities		-		4
Impairment loss on investment securities		19		361
Gain on valuation of equity-method investments, net		(157,754)		(77,292)
Loss on disposal of property, plant and equipment, net		6,003		3,770
Impairment loss on property, plant and equipment		4,239		-
Loss on disposal of intangible assets, net		82		134
Impairment loss on intangible assets		5,897		2,699
Loss on valuation of derivative instruments, net		1,892		716
Reversal of negative goodwill		(29,377)		(29,377)
Reversal of bad debt allowance		-		(63)
Reversal of compensation expenses associated with stock options		-		(1,041)
Others, net		21,222		14,578
		<u>275,647</u>		<u>364,080</u>
<b>Changes in operating assets and liabilities</b>				
Increase in trade accounts and notes receivable		(245,071)		(197,664)
Increase in inventories		(52,684)		(53,260)
Dividends received		58,548		44,259
Decrease (increase) in other accounts receivable		31,661		(32,460)
Increase in accrued income		(2,185)		(3,502)
Decrease in advance payments		97		1,096
Increase in prepaid expenses		(8,681)		(3,690)
(Increase) decrease in deferred income tax assets		(21,386)		343
Increase in other current assets		(1,693)		(3,524)
Decrease in long-term trade accounts and notes receivable		-		305
(Decrease) increase in trade accounts and notes payable		(33,593)		104,100
(Decrease) increase in other accounts payable		(118,380)		26,964
Increase in accrued expenses		47,431		29,249
Increase (decrease) in income tax payable		117,218		(19,404)
(Decrease) increase in other current liabilities		9,835		12,813
Accrued severance benefits transferred from affiliated companies		608		351
Decrease in deferred income tax liabilities		(77,666)		(621)
Payment of severance benefits		(40,145)		(41,116)
Others, net		12,797		2,542
		<u>(323,289)</u>		<u>(133,219)</u>
Net cash provided by operating activities		<u>512,684</u>		<u>463,576</u>



**LG Chem, Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
<b>Cash flows from investing activities</b>				
Disposal of property, plant and equipment	W	15,385	W	5,225
Disposal of long-term guarantee deposits, net		2,903		33,938
Acquisition of property, plant and equipment		(321,617)		(368,430)
Acquisition of investment securities		-		(139)
Acquisition of equity-method investments		(20,980)		(48,146)
Acquisition of intangible assets, net		(12,928)		(19,525)
Others, net		(14,634)		(27,956)
Net cash used in investing activities		<u>(351,871)</u>		<u>(425,033)</u>
<b>Cash flows from financing activities</b>				
Proceeds from (repayment of) short-term borrowings, net		84,924		(46,717)
Repayment of current maturities of long-term debts		(393,963)		(608,647)
Issuance of debentures		94,058		366,691
Payment of dividends		(72,908)		(91,045)
Proceeds from long-term debts, net		139,041		144,415
Others, net		(663)		(3,427)
Net cash used in financing activities		<u>(149,511)</u>		<u>(238,730)</u>
<b>Cash flows from merger</b>		<u>-</u>		<u>181,507</u>
Net increase (decrease) in cash and cash equivalents		11,302		(18,680)
<b>Cash and cash equivalents</b>				
Beginning of the period		115,830		189,445
End of the period	W	<u>127,132</u>	W	<u>170,765</u>

The accompanying notes are an integral part of these non-consolidated financial statements.  
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**LG Chem, Ltd.**

**Non-Consolidated Statement of Changes in Shareholders' Equity**

**Nine-Month Period Ended September 30, 2007**

**(Unaudited)**

*(in millions of Korean won)*

	<b>Capital stock</b>	<b>Capital surplus</b>	<b>Capital adjustment</b>	<b>Accumulated other comprehensive Income</b>	<b>Retained earnings</b>	<b>Total</b>
Balance as of January 1, 2007	₩ 365,432	₩ 739,612	₩ (23,129)	₩ (54,419)	₩ 1,589,744	₩ 2,617,240
Cumulative effects of restatements(Note 2)	-	-	-	10,025	(3,905)	6,120
Restated beginning balance	365,432	739,612	(23,129)	(44,394)	1,585,839	2,623,360
Dividends	-	-	-	-	(72,908)	(72,908)
Net income	-	-	-	-	560,326	560,326
Changes in equity arising from equity-method investments (Note 15)	-	-	-	50,119	-	50,119
Balance as of September 30, 2007	₩ 365,432	₩ 739,612	₩ (23,129)	₩ 5,725	₩ 2,073,257	₩ 3,160,897

The accompanying notes are an integral part of these non-consolidated financial statements.  
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**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**  
**(Unaudited)**

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**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, industrial materials, and information and electronic materials. The Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan and Ochang.

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006.

As of September 30, 2007 and December 31, 2006, 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 September 30, 2007 and December 31, 2006, the Company has issued 64,425,064 common shares and 8,661,251 preferred shares. Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.

**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 financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

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**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**  
**(Unaudited)**

**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 and Supervisory Commission. The Company has adopted SKFAS No.1 through No. 23, except No. 14, in its financial statements as of and for the nine-month period ended September 30, 2007. Significant accounting policies adopted by the Company for the interim financial statement are identical to the accounting policies followed by the Company for the annual financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21 through 23, which became effective for the Company on January 1, 2007. However, the non-consolidated statement of changes in shareholders' equity is not presented comparatively in accordance with SKFAS No. 21. As the Company adopted early the amendment to the SKFAS No. 2, the Company presented the non-consolidated statements of cash flows and changes in shareholders' equity only for the nine-month periods.

**Restatement of Prior Year Financial Statements**

In the preparation of the financial statements for the three-month and nine-month periods ended September 30, 2007, the Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*. The financial statements as of and for the three-month and nine-month periods ended September 30, 2006, and as of and for the year ended December 31, 2006, have been retroactively restated to reflect the changes in accordance with SKFAS No. 1. As a result, retained earnings decreased by ₩3,905 million and accumulated other comprehensive income increased by ₩10,025 million as of January 1, 2007, respectively. The financial statements as of and for the year ended December 31, 2005, also have been retroactively restated to reflect the changes, resulting in the decrease of retained earnings by ₩1,123 million, and increase of accumulated other comprehensive income by ₩7,339 million as of January 1, 2006.

The effects on the financial statements caused by the above changes, as of and for the nine-month periods ended September 30, 2007 and 2006, and as of and for the years ended December 31, 2006 and 2005, are as follows:

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

	2007 Nine-months		2006		2006 Nine-months		2005	
	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before Adjustment	After adjustment
Income from continuing operations	₩567,631	₩568,220	₩319,632	₩316,851	₩234,567	₩233,014	1	1
Net income	559,737	560,326	318,782	316,000	234,269	232,715	400,258	403,611
Income from continuing operations per share (won)	7,828	7,836	4,404	4,366	3,232	3,211	1	1
Earnings per share (won)	7,719	7,727	4,392	4,354	1,559	3,206	5,501	5,547
Valuation of equity-method investments	(1,507)	5,725	(54,419)	(44,394)	(36,735)	(26,581)	(4,934)	2,405

<sup>1</sup> Not applicable for 2005.

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**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**(Unaudited)**

**3. Restricted Bank Deposits**

As of September 30, 2007, long-term financial instruments of ₩50 million are deposited in connection with bank overdraft agreements (December 31, 2006: ₩60 million). The withdrawal of these deposits is restricted.

Further, the withdrawal of group severance insurance deposits is restricted to employees' severance payments.

**4. Receivables**

Receivables and allowance for doubtful accounts as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Trade accounts and notes receivable	₩ 1,083,531	₩ 864,339
Less : Allowance for doubtful accounts	(47,371)	(45,955)
	<u>₩ 1,036,160</u>	<u>₩ 818,384</u>
Other accounts receivable	₩ 114,658	₩ 145,889
Less : Allowance for doubtful accounts	(24,719)	(24,719)
Less : Present value discount	(46)	(28)
	<u>₩ 89,893</u>	<u>₩ 121,142</u>
Long-term trade accounts and notes receivable	₩ 400	₩ 550
Less : Allowance for doubtful accounts	(57)	(85)
	<u>₩ 343</u>	<u>₩ 465</u>
Long-term other accounts receivable	786	1,188
Less : Present value discount	(60)	(134)
	<u>₩ 726</u>	<u>₩ 1,054</u>

As of September 30, 2007, 2<sup>nd</sup> beneficiary certificates acquired from the trust companies, amounting to ₩132,228 million (December 31, 2006: ₩123,761 million), are included in the trade accounts receivable (Note 12).

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**Notes to Non-Consolidated Financial Statements**  
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**(Unaudited)**

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**5. Inventories**

Inventories as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Merchandise, net of valuation allowance of ₩1,090 million (December 31, 2006: ₩649 million)	₩ 38,650	₩ 47,064
Finished products, net of valuation allowance of ₩5,093 million (December 31, 2006: ₩11,973 million)	395,544	375,421
Work-in-process	132,937	104,860
Raw materials, net of valuation allowance of ₩660 million (December 31, 2006: ₩414 million)	236,951	212,788
Supplies	36,218	30,559
Materials-in-transit	88,509	98,446
	<u>₩ 928,809</u>	<u>₩ 869,138</u>

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**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**  
**(Unaudited)**

**6. Equity-Method Investments**

Equity-method investments as of September 30, 2007 and December 31, 2006, are summarized as follows:

Investee <sup>8</sup>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2007	2006	2007	2006	2007	2006	2007	2006
	<i>(in millions of Korean won)</i>							
LG Petrochemical Co., Ltd. <sup>1</sup>	40.00	40.00	₩ 153,790	₩ 153,790	₩ 464,470	₩ 352,579	₩459,658	₩ 342,029
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,440	17,440	22,183	21,465	22,213	21,502
Tianjin LG New Building Materials Co., Ltd. <sup>2</sup>	85.35	82.80	33,649	20,341	29,203	16,849	35,210	21,609
Tianjin LG Window & Door Co., Ltd. <sup>2</sup>	-	90.00	-	13,308	-	7,689	-	8,955
Ningbo LG Yongxing Chemical Co., Ltd. <sup>3</sup>	75.00	75.00	103,904	95,237	123,472	112,539	122,652	111,924
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	48,573	40,906	48,573	40,906
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	6,905	6,669	6,907	6,120
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	1,848	2,239	2,393	2,549
LG Chem America, Inc.	100.00	100.00	9,596	9,596	6,138	5,200	9,443	8,388
M. Dohmen S.A.	49.00	49.00	43,203	43,203	993	993	14,835	14,835
SEETEC Co., Ltd.	50.00	50.00	36,643	36,643	64,188	54,749	156,015	152,280
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	79,933	80,246	78,815	79,287
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. <sup>4</sup>	100.00	100.00	13,091	10,486	14,027	11,301	14,065	11,325
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	73.43	73.43	43,296	43,296	25,957	21,370	40,193	35,687
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	1,666	1,653	1,681	1,656
LG Chem (China) Investment Co., Ltd.	100.00	100.00	40,340	40,340	41,388	40,298	41,387	40,298
LG Chem (Taiwan), Ltd. <sup>5</sup>	100.00	100.00	6,888	2,291	6,571	1,158	9,472	4,341
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	9,126	9,850	9,436	10,229
LG Chem Europe Sarl	100.00	100.00	5,635	5,635	1,441	1,441	1,441	1,441
LG Holdings (HK) Ltd. <sup>6</sup>	18.18	18.18	41,582	41,582	28,010	28,682	25,523	25,802
Ningbo LG Yongxing Latex Co., Ltd.	75.00	75.00	6,843	6,843	4,745	4,748	4,754	4,759
Compact Power Inc.	81.00	81.00	4,635	4,635	991	545	991	545
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	6,353	4,639	6,985	5,419
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	6,393	4,977	7,154	5,526
Tianjin LG Bohai Chemical Co., Ltd. <sup>7</sup>	45.00	43.89	43,556	38,445	45,087	37,294	55,094	47,377
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	2,888	933	3,503	1,964
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O	100.00	100.00	5,790	5,790	7,053	5,352	7,037	5,352
			<u>₩715,577</u>	<u>₩694,597</u>	<u>₩ 1,049,860</u>	<u>₩ 876,622</u>	<u>₩1,185,688</u>	<u>₩1,012,363</u>

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- <sup>1</sup> As of September 30, 2007, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩822,640 million.
- <sup>2</sup> On July 1, 2007, Tianjin LG New Building Materials Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd.
- <sup>3</sup> During the current period, the Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,667 million without any changes in its percentage of ownership.
- <sup>4</sup> During the current period, the Company acquired additional shares of LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. for ₩2,605 million without any changes in its percentage of ownership.
- <sup>5</sup> During the current period, the Company acquired additional shares of LG Chem (Taiwan), Ltd. for ₩4,597 million without any changes in its percentage of ownership.
- <sup>6</sup> 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%.
- <sup>7</sup> During the current period, the Company acquired additional shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩5,111 million. As a result, the Company's percentage of ownership in Tianjin LG Bohai Chemical Co., Ltd. increased from 43.89% to 45%.
- <sup>8</sup> As of September 30, 2007, the Company has control over all the investees, except for M. Dohmen S.A., SEETEC Co., Ltd. and LG Holdings (HK) Ltd.

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**7. Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Buildings	₩ 958,537	₩ 925,972
Structures	381,777	366,588
Machinery and equipment	3,968,955	3,737,563
Vehicles	26,057	26,356
Tools and furniture	610,617	596,301
Others	12,935	12,935
	<u>5,958,878</u>	<u>5,665,715</u>
Accumulated depreciation	(3,557,193)	(3,346,920)
Accumulated impairment loss	(8,617)	(19,510)
	<u>2,393,068</u>	<u>2,299,285</u>
Land	426,403	430,480
Construction-in-progress	200,381	324,841
Machinery-in-transit	13,872	44,416
	<u>₩ 3,033,724</u>	<u>₩ 3,099,022</u>

As of September 30, 2007, certain property, plant and equipment have been pledged as collaterals for bank loans up to a maximum of ₩357,054 million (December 31, 2006: ₩356,988 million).

**8. Intangible Assets**

Intangible assets as of September 30, 2007 and December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Intellectual property rights	₩ 23,693	₩ 17,761
Exclusive facility use rights	1,291	1,443
Development costs, net	54,791	66,345
Others	14,524	14,818
Negative goodwill	(283,980)	(313,357)
	<u>₩ (189,681)</u>	<u>₩ (212,990)</u>

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**9. Debentures**

Debentures as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)			
	2007	2006	2007	2006
Publicly offered debentures, payable through 2013	3.5~5.02	3.5~5.02	₩ 680,000	₩ 980,000
Privately offered debentures, payable through 2009	5.02~5.32	5.02~5.32	100,000	100,000
Foreign debentures, payable through 2010 <sup>1</sup>	LIBOR+0.2-0.60	LIBOR+0.4-0.95	276,210	213,808
			1,056,210	1,293,808
Less : Current maturities			(305,880)	(374,368)
Discount on debentures issued			(3,281)	(5,642)
			₩ 747,049	₩ 913,798

<sup>1</sup> Floating rate notes were issued 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 issued on March 23, 2006, will mature on September 23, 2008 and September 23, 2009. Further, the Company issued floating rate notes on March 20, 2007, and will redeem these on September 23, 2009 and September 17, 2010.

**10. Accrued Severance Benefits**

Accrued severance benefits as of September 30, 2007 and December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>	2007		2006	
Provision for severance benefits	₩	251,702	₩	246,543
Less: Group severance insurance deposits		(147,742)		(144,394)
Contribution to National Pension Plan		(3,152)		(3,734)
Ending balance	₩	100,808	₩	98,415

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**11. Stock Options**

In accordance with the Commercial Code of Korea, the Company may grant stock options to directors and employees who have contributed or can contribute to the Company's establishment, management, overseas business or technological renovation through a resolution of the Board of Directors or Shareholders. In 2005, the Company granted stock options pursuant to the resolution of the Board of Directors.

Details of the stock options granted are as follows:

<b>Date of grant</b>	<b>Granted number of Common shares (shares)</b>	<b>Grant Method</b>	<b>Exercise Price per share</b>	<b>Exercisable Period</b>
March 25, 2005	221,000	To compensate price difference	₩ 42,530	March 26, 2008 to March 25, 2012

<sup>1</sup> In 2005, stock options for 347,000 shares were forfeited due to the early termination of employment of the grantee employees. Further, if the increase in the stock price is not higher than the increase of the Korea Composite Stock Price Index in the three years after the grant date, the final number of common shares exercised will be only 50% of the number of common shares first granted.

During the current period, the Company recognized ₩11,672 million in stock compensation expense.

**12. Commitments and Contingencies**

As of September 30, 2007, the Company has provided 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. Also, the Company has provided a joint guarantee for obligations outstanding on January 1, 2005, for Lotte Daesan Petrochemical Ltd. and SEETEC Co., Ltd. In addition, the Company has provided financial guarantees to customers.

As of September 30, 2007, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of September 30, 2007, the Company has provided one blank promissory note to the Korea National Oil Corporation as a collateral in relation to petroleum import surcharges.

The Company has guaranteed repayments of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of September 30, 2007, amounted to ₩136,002 million (Note 17).

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As of September 30, 2007, the Company is contingently liable for notes receivable from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩575,485 million. Also, as of September 30, 2007, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩292,228 million (Note 4).

As of September 30, 2007, the Company has bank overdraft agreements with several banks for up to ₩57,300 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\$ 543 million. The Company has entered into contracts with several financial institutions for discounting notes from export for up to ₩15,000 million and US\$ 904 million, and for other notes up to ₩70,000 million.

As of September 30, 2007, the Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

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

As of September 30, 2007, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 4 million guarantee for this contract. Further, as of September 30, 2007, the Company provided EUR 1 million and US\$ 1 million additional guarantees for customs clearance and refund of advances.

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 September 30, 2007, the Company's outstanding contracts and options include currency swap of US\$ 242 million. As of December 31, 2006, the Company had currency swap of US\$ 152 million.

As of September 30, 2007, the Company has been named as a defendant and plaintiff in various legal actions. Management believes that these legal actions will not have a material adverse impact on the Company's operations or financial position although the outcome of these legal actions is uncertain.

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**13. Retained earnings**

Retained earnings as of September 30, 2007 and December 31, 2006, consist of:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Appropriations				
Legal reserve	₩	56,729	₩	49,438
Reserve for business rationalization		4,000		4,000
Reserve for technology development		997,664		840,877
Reserve for investment losses		246,313		164,522
Voluntary reserve		212,120		212,120
		<u>1,516,826</u>		<u>1,270,957</u>
Unappropriated retained earnings		556,431		314,882
	₩	<u>2,073,257</u>	₩	<u>1,585,839</u>

**14. Cost of Sales**

Cost of sales for the three-month and nine-month periods ended September 30, 2007 and 2006, are as follows:

*(in millions of Korean won)*

	<b>2007</b>		<b>2006</b>	
	Three months	Nine months	Three months	Nine months
Products				
Beginning balance of inventories	₩ 503,453	₩ 480,039	₩ 459,268	₩ 455,918
Cost of goods manufactured	1,945,030	5,539,942	1,812,368	5,108,546
Ending balance of inventories	(528,067)	(528,067)	(457,844)	(457,844)
	<u>1,920,416</u>	<u>5,491,914</u>	<u>1,813,792</u>	<u>5,106,620</u>
Others	(10,297)	(33,193)	(16,890)	(49,707)
Discontinued operations	(1,062)	(5,584)	(4,140)	(12,368)
	<u>1,909,057</u>	<u>5,453,137</u>	<u>1,792,762</u>	<u>5,044,545</u>
Merchandise				
Beginning balance of inventories	35,520	47,064	37,297	37,294
Purchases	334,812	993,217	317,560	847,400
Ending balance of inventories	(38,650)	(38,650)	(33,685)	(33,685)
	<u>331,682</u>	<u>1,001,631</u>	<u>321,172</u>	<u>851,009</u>
Discontinued operations	-	(15)	(33)	(78)
	<u>331,682</u>	<u>1,001,616</u>	<u>321,139</u>	<u>850,931</u>
Others	11,095	26,062	1,399	10,514
Total	<u>₩ 2,251,834</u>	<u>₩ 6,480,815</u>	<u>₩ 2,115,300</u>	<u>₩ 5,905,990</u>

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**15. Comprehensive Income and Expenses**

Comprehensive income and expenses for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Net income	₩	560,326	₩	232,715
Valuation of equity-method investments in capital adjustments <sup>1</sup>		50,119		(28,985)
	₩	<u>610,445</u>	₩	<u>203,730</u>

<sup>1</sup> Income tax effect of ₩2,819 million was reflected (2006: ₩(8,374) million).

**16. Earnings Per Share**

Basic income from continuing operations per share and earnings per share for the year ended December 31, 2006, were ₩4,366 and ₩4,354, respectively.

Basic income from continuing operations per share and earnings per share for the three-month period ended March 31, 2007, were ₩1,619 and ₩1,558, respectively, and basic income from continuing operations per share and earnings per share for the three-month period ended March 31, 2006, were ₩915 and ₩914, respectively.

Further, basic income from continuing operations per share and earnings per share for the three-month periods ended June 30, 2007, were ₩3,307 and ₩3,263, respectively, and basic income from continuing operations per share and earnings per share for the three-month period ended June 30, 2006, were ₩625 and ₩624, respectively.

Basic income from continuing operations per share and earnings per share for the three-month and nine-month periods ended September 30, 2007 and 2006, are computed as follows:

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

	<b>2007</b>		<b>2006</b>	
	Three months	Nine months	Three months	Nine months
Income from continuing operations	₩ 210,965	₩ 568,220	₩ 121,189	₩ 233,014
Preferred stock dividends <sup>1</sup>	(2,273)	(6,818)	(2,814)	(8,441)
Preferred stock share in the remaining profit available for dividend	<u>(23,023)</u>	<u>(61,345)</u>	<u>(11,758)</u>	<u>(19,679)</u>
Income from continuing operations available for common stock (A)	₩ 185,669	₩ 500,057	₩ 106,617	₩ 204,894
Weighted average number of shares of outstanding common stock (B) <sup>2</sup>	<u>63,818,182</u>	<u>63,818,182</u>	<u>63,818,183</u>	<u>63,818,183</u>
Basic income from continuing operations per share (A/B)	<u>₩ 2,910</u>	<u>₩ 7,836</u>	<u>₩ 1,671</u>	<u>₩ 3,211</u>

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

	2007		2006	
	Three months	Nine months	Three months	Nine months
Net income	₩ 210,721	₩ 560,326	₩ 121,029	₩ 232,715
Preferred stock dividends <sup>1</sup>	(2,273)	(6,818)	(2,814)	(8,441)
Preferred stock share in the remaining profit available for dividends	(22,994)	(60,402)	(11,739)	(19,643)
Net income available for common stock (A)	₩ 185,454	₩ 493,106	₩ 106,476	₩ 204,631
Weighted average number of shares of outstanding common stock (B) <sup>2</sup>	63,818,182	63,818,182	63,818,183	63,818,183
Basic earnings per share (A/B)	₩ 2,906	₩ 7,727	₩ 1,668	₩ 3,206

<sup>1</sup> Preferred stock dividends for the nine-month periods ended September 30, 2007 and 2006, were calculated equivalent to three quarters of the dividends paid for the previous years.

<sup>2</sup> Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of September 30, 2007 and 2006. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

Basic and diluted loss from discontinued operations per share for the nine-month periods ended September 30, 2007 and 2006, are as follows:

	2007	2006
Loss from discontinued operations per share	₩ 109	₩ 5

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**17. Related Party Transactions**

LG Corp. is the Parent of the Company, and issues the consolidated financial statements.

Significant transactions, which occurred in the ordinary course of business with related companies for the nine-month periods ended September 30, 2007 and 2006, and the related account balances as of September 30, 2007 and December 31, 2006, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Sales</b>	<b>Purchases</b>	<b>Receivables<sup>3</sup></b>	<b>Payables</b>
Controlling company	₩ 1	₩ 23,108	₩ 6,994	₩ 2,722
Subsidiaries <sup>1</sup>	838,072	1,299,004	41,900	228,009
Equity method investees <sup>1</sup>	39,482	116,793	9,651	17,663
Other related companies <sup>2</sup>	1,181,832	362,704	352,367	95,387
2007 Total	<u>₩2,059,387</u>	<u>₩1,801,609</u>	<u>₩ 410,912</u>	<u>₩ 343,781</u>
2006 Total	<u>₩1,833,646</u>	<u>₩1,803,618</u>	<u>₩ 278,056</u>	<u>₩ 332,563</u>

<sup>1</sup> Please refer to Note 6 for percentage of ownership, acquisition cost, net asset value and book value of the Company's investments in its related parties. And it includes LG Solid Source, LLC, a subsidiary of LG Chem America Inc., and Ningbo Bond International Trade, a subsidiary of Ningbo LG Yongxing Chemical Co., Ltd.

<sup>2</sup> Includes LG Electronics Inc. and LG Philips LCD Co., Ltd.

<sup>3</sup> Allowance for doubtful accounts for the outstanding balance as of September 30, 2007, amounts to ₩2,918 million. Bad debt expense recognized in the current period is ₩574 million.

Compensation for key management officers for nine-month periods ended September 30, 2007 and 2006, consists of:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Short-term employee benefits	₩ 19,976	₩ 14,918
Post-employment benefits	2,526	2,367
Other long-term employee benefits	15,361	-
Share-based payments		
(Reversal of share-based compensation)	11,672	(1,042)
Total	<u>₩ 49,535</u>	<u>₩ 16,243</u>

Key management officers include directors and audit committee members having duties and responsibilities over planning, operations and control of the Company's business activities.

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The details of guarantees provided by the Company as of September 30, 2007 and December 31, 2006, are as follows:

*(in millions of Korean won)*

2007			
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 19,105	Bank of China	₩ 19,105
	18,414	Woori Bank	18,414
	15,560	Korea Exchange Bank	6,445
LG Chem Industrial Materials Inc.	23,294	Wachovia Bank	23,294
LG Chem Europe GmbH	3,909	Societe Generale	-
Tianjin LG Bohai Chemical Co., Ltd.	36,828	Export-Import Bank of Korea	18,414
LG Chem Poland Sp.Z.O.O	13,029	Export-Import Bank of Korea	13,029
	5,863	Nordea Bank	3,909
	<u>₩ 136,002</u>		<u>₩ 102,610</u>

*(in millions of Korean won)*

2006			
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 23,240	Bank of China	₩ 23,240
	18,592	Woori Bank	18,592
LG Chem Industrial Materials Inc.	23,519	Wachovia Bank	23,519
LG Chem Europe GmbH	3,667	Societe Generale	-
Tianjin LG Bohai Chemical Co., Ltd.	37,184	Export-Import Bank of Korea	18,592
LG Chem Poland Sp.Z.O.O	12,222	Export-Import Bank of Korea	12,222
	<u>₩ 118,424</u>		<u>₩ 96,165</u>

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**18. Segment Information**

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

(1) Industry Segment Information

<b>Industry</b>	<b>Products or Services</b>	<b>Major Customers</b>
Petrochemicals	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP, ethylene, propylene 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, polarizers	LG Electronics Inc. LG. Philips LCD Co., Ltd. and others

Financial information on industry segments for the nine-month periods ended September 30, 2007 and 2006, follows:

<i>(in millions of Korean won)</i>	<b>2007</b>				<b>Total</b>
	<b>Petrochemicals</b>	<b>Industrial Materials</b>	<b>Information &amp; Electronic Materials</b>	<b>Others</b>	
<b>Sales</b>					
External sales <sup>1</sup>	₩ 4,679,443	₩ 1,566,746	₩ 1,534,258	₩ 11,117	₩ 7,791,564
Inter-segment sales	208,945	1,535	1,793	109,021	321,294
	<u>₩ 4,888,388</u>	<u>₩ 1,568,281</u>	<u>₩ 1,536,051</u>	<u>₩ 120,138</u>	<u>₩ 8,112,858</u>
<b>Operating income</b>	<u>₩ 359,450</u>	<u>₩ 90,053</u>	<u>₩ 91,603</u>	<u>₩ 1,322</u>	<u>₩ 542,428</u>
<b>Property, plant and equipment and intangible assets<sup>2</sup></b>	<u>₩ 1,383,930</u>	<u>₩ 458,324</u>	<u>₩ 874,535</u>	<u>₩ 411,234</u>	<u>₩ 3,128,023</u>
<b>Depreciation and amortization</b>	<u>₩ 197,715</u>	<u>₩ 46,423</u>	<u>₩ 111,629</u>	<u>₩ 2,970</u>	<u>₩ 358,737</u>

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<i>(in millions of Korean won)</i>	2006				
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales <sup>1</sup>	₩ 4,169,661	₩ 1,511,498	₩ 1,175,758	₩ 12,573	₩ 6,869,490
Inter-segment sales	206,973	14,729	4,319	72,356	298,377
	<u>₩ 4,376,634</u>	<u>₩ 1,526,227</u>	<u>₩ 1,180,077</u>	<u>₩ 84,929</u>	<u>₩ 7,167,867</u>
Operating income	<u>₩ 84,933</u>	<u>₩ 94,325</u>	<u>₩ 42,480</u>	<u>₩ 521</u>	<u>₩ 222,259</u>
Property, plant and equipment and intangible assets <sup>2</sup>	<u>₩ 1,426,610</u>	<u>₩ 455,859</u>	<u>₩ 880,938</u>	<u>₩ 415,159</u>	<u>₩ 3,178,566</u>
Depreciation and Amortization	<u>₩ 250,455</u>	<u>₩ 48,884</u>	<u>₩ 98,308</u>	<u>₩ 2,943</u>	<u>₩ 400,590</u>

<sup>1</sup> External sales of continuing operations.

<sup>2</sup> Excludes negative goodwill, incurred from the merger, which is deducted from intangible assets.

(2) Geographical Segment Information

The sales by geographical segments for the nine-month periods ended September 30, 2007 and 2006, are as follows:

	<i>(in millions of Korean won)</i>							
	Domestic <sup>1</sup>	China	North America	South America	South-East Asia	Western Europe	Others	Total
2007	<u>₩4,222,937</u>	<u>₩2,006,183</u>	<u>₩248,579</u>	<u>₩53,901</u>	<u>₩194,001</u>	<u>₩300,437</u>	<u>₩765,526</u>	<u>₩7,791,564</u>
2006	<u>₩3,936,777</u>	<u>₩1,593,528</u>	<u>₩305,019</u>	<u>₩80,687</u>	<u>₩192,965</u>	<u>₩213,023</u>	<u>₩547,491</u>	<u>₩6,869,490</u>

<sup>1</sup> Domestic sales include the exports made based on local letters of credit.

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**19. Discontinued Operations**

(1) Safety materials Business

The Company will sell its safety materials business as approved by the CEO of the Company. The Company expects the disposal date to be November 30, 2007.

The loss before tax from discontinued operations of the safety materials business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Impairment loss on discontinued operations	₩ (3,292)	₩ -
Loss from the safety materials business <sup>1</sup>	(3,330)	(1,007)
Loss before tax from discontinued operations	<u>₩ (6,622)</u>	<u>₩ (1,007)</u>

<sup>1</sup> Excludes impairment loss on discontinued operations.

Book value of the assets which will be disposed of, as of September 30, 2007 and December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Inventories	₩ 286	₩ 2,313
Property, plant and equipment	5,048	9,165
	<u>₩ 5,334</u>	<u>₩ 11,478</u>

The income statements of the safety materials business, excluding impairment loss on discontinued operations, for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Sales	₩ 3,241	₩ 11,031
Cost of sales	(4,354)	(9,614)
Gross profit (loss)	(1,113)	1,417
Selling and administrative expenses	(2,416)	(2,462)
Operating loss	(3,529)	(1,045)
Non-operating income	360	489
Non-operating expenses	(161)	(451)
Loss from the safety materials business	<u>₩ (3,330)</u>	<u>₩ (1,007)</u>

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The loss after tax from discontinued operations on the safety materials business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Loss before tax from discontinued operations	₩ (6,622)	₩ (1,007)
Income tax effects	1,508	277
Loss after tax from discontinued operations	<u>₩ (5,114)</u>	<u>₩ (730)</u>

Cash flows from the safety materials business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Cash flows from operating activities	₩ 1,106	₩ (943)
Cash flows from investing activities	495	30
Cash flows from financing activities	(1,601)	913
Total	<u>₩ -</u>	<u>₩ -</u>

(2) T-tape Business

On June 5, 2007, the Company decided to dispose of its T-tape business as approved by the representative director of the Company.

The profit (loss) before tax from discontinued operations of the T-tape business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Impairment loss on discontinued operations	₩ (1,324)	₩ -
Profit (loss) from the T-tape business <sup>1</sup>	(1,456)	491
Profit (loss) before tax from discontinued operations	<u>₩ (2,780)</u>	<u>₩ 491</u>

<sup>1</sup> Excludes impairment loss on discontinued operations.

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Book value of the assets which will be disposed of, as of September 30, 2007 and December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Inventories	₩ 33	₩ 280
Property, plant and equipment	1,409	3,598
	<u>₩ 1,442</u>	<u>₩ 3,878</u>

The income statements of the T-tape business, excluding impairment loss on discontinued operations, for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Sales	₩ 1,289	₩ 3,620
Cost of sales	(1,295)	(2,842)
Gross profit (loss)	(6)	778
Selling and administrative expenses	(249)	(306)
Operating profit (loss)	(255)	472
Non-operating income	39	91
Non-operating expenses	(1,240)	(72)
Profit (loss) from the T-tape business	<u>₩ (1,456)</u>	<u>₩ 491</u>

The profit (loss) after tax from discontinued operations on the T-tape business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Profit (loss) before tax from discontinued operations	₩ (2,780)	₩ 491
Income tax effects	-	(60)
Profit (loss) after tax from discontinued operations	<u>₩ (2,780)</u>	<u>₩ 431</u>

Cash flows from the T-tape business for the nine-month periods ended September 30, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Cash flows from operating activities	₩ (363)	₩ 189
Cash flows from investing activities	(24)	(801)
Cash flows from financing activities	387	612
Total	<u>₩ -</u>	<u>₩ -</u>

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**20. Subsequent Event**

On November 1, 2007, the Company merged with LG Petrochemical Co., Ltd., as approved by the shareholders on September 14, 2007. This merger was previously approved by the Board of Directors on July 5, 2007, and was formalized in a merger contract with LG Petrochemical Co., Ltd. on July 10, 2007.

Upon the merger, LG Chem Ltd. issued shares to the shareholders of LG Petrochemical Co., Ltd. in accordance with the merger contract, which provided that for one common share of LG Petrochemical Co., Ltd. with a par value of W5,000 per share, 0.480533 common share of LG Chem, Ltd. is issued in exchange. The Company did not issue new shares for its 18,080,000 shares in LG Petrochemical Co., Ltd., representing its previous ownership of 40%, and for LG Petrochemical Co. Ltd.'s 4,615,042 treasury shares, which represented 10.21% of the total LG Petrochemical Co. Ltd. shares issued.

As this merger was regarded as a merger between a parent and its subsidiary, the surviving company recorded the assumed assets and liabilities according to their book values at the time of the merger

**21. Reclassification of Prior Period Financial Statements**

Due to the adoption of SKFAS No.21, certain amounts in the December 31, 2006 and September 30, 2006 financial statements were reclassified to conform with the September 30, 2007 financial statement presentation. These reclassifications had no effect on the previously reported net income, shareholders' equity or cash flows.

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