

LG Chem, Ltd.
Interim Financial Statements
March 31, 2006 and 2005

LG Chem, Ltd.

Index

March 31, 2006 and 2005, and December 31, 2005

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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 March 31, 2006, and the related non-consolidated statements of income and cash flows for the three-month periods ended March 31, 2006 and 2005, 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, 2005 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 February 3, 2006. These non-consolidated financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2005, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2005.

SAMIL PRICEWATERHOUSECOOPERS

As discussed in Note 17 to the non-consolidated financial statements, the Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006.

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
April 21, 2006

This report is effective as of April 21, 2006, 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
March 31, 2006 and December 31, 2005
(Unaudited)

<i>(in millions of Korean won)</i>	2006	2005
Assets		
Current assets (Note 17)		
Cash and cash equivalents	₩ 133,687	₩ 189,445
Trade accounts and notes receivable, net (Notes 4, 13 and 15)	690,309	499,382
Other accounts receivable, net (Note 4)	115,623	100,059
Accrued income, net	1,460	55
Advance payments	3,389	3,062
Prepaid expenses	23,727	15,142
Inventories, net (Note 5)	892,772	608,850
Deferred income tax assets	5,636	11,545
Other current assets	10,172	8,756
Total current assets	<u>1,876,775</u>	<u>1,436,296</u>
Long-term financial instruments (Note 3)	59	51
Investment securities	1,939	1,939
Equity-method investments (Notes 6 and 17)	823,553	1,476,532
Long-term trade accounts and notes receivable, net (Note 4)	698	775
Long-term other accounts receivable, net (Note 4)	1,501	1,491
Long-term guarantee deposits	69,059	67,611
Long-term prepaid expenses	20,315	20,470
Other investments	32,571	30,557
Property, plant and equipment, net (Notes 2, 7, 16 and 17)	3,081,877	2,456,822
Intangible assets, net (Notes 8, 16 and 17)	(241,368)	100,855
Total assets	<u>₩ 5,666,979</u>	<u>₩ 5,593,399</u>

LG Chem, Ltd.
Non-Consolidated Balance Sheets
March 31, 2006 and December 31, 2005
(Unaudited)

<i>(in millions of Korean won)</i>	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities (Note 17)		
Short-term borrowings	₩ 100,224	₩ 100,224
Current maturities of long-term debts, net (Note 9)	649,855	740,604
Trade accounts and notes payable (Note 15)	676,293	596,580
Other accounts payable	387,445	372,834
Withholdings	47,881	39,400
Accrued expenses	56,400	30,452
Income tax payable	68,750	63,609
Dividends payable	91,085	57
Other current liabilities	4,681	3,150
Total current liabilities	<u>2,082,614</u>	<u>1,946,910</u>
Long-term debts, net (Notes 2 and 10)	943,309	988,805
Accrued severance benefits, net (Note 11)	104,692	80,410
Deferred income tax liabilities (Note 17)	104,733	111,020
Derivative instrument transaction credit (Note 13)	26,910	23,814
Other long-term liabilities	9,218	3,915
Total liabilities	<u>3,271,476</u>	<u>3,154,874</u>
Commitments and contingencies (Note 13)		
Shareholders' equity (Note 1)		
Common stock	322,126	322,126
Preferred stock	43,306	43,306
	<u>365,432</u>	<u>365,432</u>
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
	<u>739,612</u>	<u>739,612</u>
Retained earnings		
Legal reserve	49,438	40,335
Other reserves	1,221,519	921,393
Unappropriated retained earnings	68,162	400,261
	<u>1,339,119</u>	<u>1,361,989</u>
Capital adjustments		
Gain on valuation of equity-method investments	23,816	36,109
Loss on valuation of equity-method investments	(49,347)	(41,043)
Treasury stock	(23,129)	(23,129)
Loss on valuation of derivative instruments (Note 13)	-	(445)
	<u>(48,660)</u>	<u>(28,508)</u>
Total shareholders' equity	<u>2,395,503</u>	<u>2,438,525</u>
Total liabilities and shareholders' equity	<u>₩ 5,666,979</u>	<u>₩ 5,593,399</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

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LG Chem, Ltd.
Non-Consolidated Statements of Income
Three-Month Periods Ended March 31, 2006 and 2005
(Unaudited)

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

	2006	2005
Sales (Notes 15 and 16)	₩ 2,129,080	₩ 1,868,882
Cost of sales (Note 15)	<u>1,822,972</u>	<u>1,516,757</u>
Gross profit	306,108	352,125
Selling and administrative expenses	<u>240,555</u>	<u>210,710</u>
Operating income	<u>65,553</u>	<u>141,415</u>
Non-operating income		
Interest income	2,552	2,964
Foreign exchange gains	17,814	12,419
Gain on foreign currency translation	17,488	12,445
Gain on valuation of equity method investments, net	37,281	51,453
Gain on disposal of property, plant and equipment	513	317
Reversal of negative goodwill (Notes 2 and 17)	9,826	-
Reversal of bad debt allowance	470	-
Reversal of compensation expenses associated with stock options (Note 12)	652	-
Others	<u>3,010</u>	<u>2,847</u>
	<u>89,606</u>	<u>82,445</u>
Non-operating expenses		
Interest expenses	22,697	23,617
Foreign exchange losses	8,173	5,438
Loss on foreign currency translation	1,850	5,408
Loss on disposal of trade accounts receivable	7,837	1,546
Loss on disposal of property, plant and equipment	470	3,152
Loss on valuation of equity method investments, net	8,104	14,440
Impairment loss on investment securities	-	1,882
Impairment loss on property, plant and equipment	-	1,671
Loss on valuation of derivative instruments (Note 13)	3,710	4,291
Donations	2,107	1,232
Others	<u>1,601</u>	<u>5,226</u>
	<u>56,549</u>	<u>67,903</u>
Income before income tax	98,610	155,957
Income tax expense	<u>30,453</u>	<u>37,708</u>
Net income	<u>₩ 68,157</u>	<u>₩ 118,249</u>
Per share data (in won) (Note 14)		
Earnings per share	<u>₩ 939</u>	<u>₩ 1,618</u>
Ordinary income per share	<u>₩ 939</u>	<u>₩ 1,618</u>

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
Three-Month Periods Ended March 31, 2006 and 2005
(Unaudited)

(in millions of Korean won)

	2006	2005
Cash flows from operating activities		
Net income	₩ 68,157	₩ 118,249
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	132,771	92,276
Provision for severance benefits	17,806	14,733
Gain on foreign currency translation, net	(15,766)	(7,898)
Loss on disposal of trade accounts receivable	7,837	1,546
Loss on inventory valuation	3,678	4,482
Impairment loss on investment securities	-	1,882
(Gain) loss on disposal of property, plant and equipment, net	(43)	2,835
Impairment loss on property, plant and equipment	-	1,671
Gain on valuation of equity method investments, net	(29,177)	(37,013)
Loss on valuation of derivative instruments	3,710	4,291
Reversal of negative goodwill	(9,826)	-
Reversal of bad debt allowance	(470)	-
Reversal of compensation expenses associated with stock options	(652)	-
Others, net	2,084	6,922
	<u>111,952</u>	<u>85,727</u>
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(47,673)	(42,588)
Increase in inventories	(107,761)	(16,267)
Decrease in other accounts receivable	15,151	9,678
Increase in accrued income	(1,158)	(1,401)
Increase in advance payments	(327)	(8,422)
Increase in prepaid expenses	(8,349)	(1,948)
Decrease (increase) in deferred income tax assets	5,954	(19,244)
Increase in other current assets	(1,824)	(2,676)
Decrease in long-term trade accounts and notes receivable	101	105
Decrease in trade accounts and notes payable	(279)	(114,524)
Decrease in other accounts payable	(4,741)	(48,228)
Increase in accrued expenses	21,477	35,944
(Decrease) increase in income tax payable	(1,905)	10,011
Increase (decrease) in other current liabilities	4,933	(9,085)
Accrued severance benefits transferred from affiliated companies	320	147
(Decrease) increase in deferred income tax liabilities	(3,644)	13,051
Payment of severance benefits	(11,306)	(11,471)
Others, net	6,520	6,662
	<u>(134,511)</u>	<u>(200,256)</u>
Net cash provided by operating activities	<u>45,598</u>	<u>3,720</u>

LG Chem, Ltd.
Non-Consolidated Statements of Cash Flows
Three-Month Periods Ended March 31, 2006 and 2005
(Unaudited)

(in millions of Korean won)

	2006	2005
Cash flows from investing activities		
Disposal of property, plant and equipment	₩ 1,114	₩ 1,149
Disposal (acquisition) of long-term guarantee deposits, net	1,908	(904)
Acquisition of other investment	(26)	(1,139)
Acquisition of property, plant and equipment	(104,716)	(79,251)
Acquisition of investment securities	-	(8,415)
Acquisition of equity-method investments	(11,160)	(10,515)
Acquisition of intangible assets, net	(4,577)	(6,020)
Others, net	600	2,063
Net cash used in investing activities	<u>(116,857)</u>	<u>(103,032)</u>
Cash flows from financing activities		
Repayment of short-term borrowings, net	(25,717)	(50,000)
Repayment of current maturities of long-term debts	(206,650)	(26,402)
Issuance of debentures	67,858	127,835
Proceeds from long-term debts	-	39,936
Disposal of treasury stock	-	616
Others, net	(1,497)	(4)
Net cash (used in) provided by financing activities	<u>(166,006)</u>	<u>91,981</u>
Cash flows from merger	<u>181,507</u>	<u>-</u>
Net decrease in cash and cash equivalents	(55,758)	(7,331)
Cash and cash equivalents		
Beginning of the period	189,445	413,717
End of the period	<u>₩ 133,687</u>	<u>₩ 406,386</u>

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
March 31, 2006 and 2005, and December 31, 2005
(Unaudited)

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 (Note 17).

As of March 31, 2006 and December 31, 2005, 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 March 31, 2006 and December 31, 2005, the Company has issued 64,425,064 common shares and 8,661,251 preferred shares. The holders of preferred stock are not granted the right to vote, but are entitled to receive cash dividends at a rate of one percentage point over the common stockholders.

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 language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

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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 Supervisory Commission. The Company's interim financial statements have been prepared in accordance with the SKFAS including Nos. 1 through 20 (excluding Nos.11 and 14). The significant accounting policies adopted for the preparation of the Company's interim financial statements are identical to those adopted for the financial statements for the year ended December 31, 2005, except for SKFAS Nos. 18 through 20 which became effective for the Company on January 1, 2006 and the Accounting Standards for Business Combinations in relation to the merger with LG Daesan Petrochemical Ltd.

Merger

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006. According to the Accounting Standards for Business Combination, this merger was regarded as the merger between a controlling company and its subsidiary. Therefore, assets and liabilities taken over to the Company were assessed at the book value on the consolidated financial statements (Note 17).

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives
Buildings and structures	25 – 50 years
Machinery and equipment	6 – 15 years
Vehicles	6 years
Tools	6 years
Furniture and fixtures	3 years
Others	3 years

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LG Chem, Ltd.
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Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreements. Machinery and equipment acquired under financing lease agreements are recorded as property, plant and equipment at cost and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under financing leases, net of accrued interest, as determined by the total lease payments in excess of the cost of the leased machinery and equipment. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Instead, the related lease rentals are charged to expense on a pro-rata basis over the lease term.

Negative Goodwill

The Company records differences between the investment account and corresponding capital accounts of subsidiaries as a goodwill or negative goodwill in accordance with the Accounting Standards for Business Combination. The goodwill or negative goodwill is amortized using a straight-line method over weighted average useful lives of assets.

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3. Restricted Bank Deposits

As of March 31, 2006, long-term financial instruments of ₩59 million are deposited in connection with bank overdraft agreements (December 31, 2005: ₩51 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 March 31, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Trade accounts and notes receivable	₩ 738,706	₩ 546,511
Less : Allowance for doubtful accounts	(48,397)	(47,129)
	<u>₩ 690,309</u>	<u>₩ 499,382</u>
Other accounts receivable	₩ 138,913	₩ 123,520
Less : Allowance for doubtful accounts	(23,259)	(23,419)
Less : Present value discount	(31)	(42)
	<u>₩ 115,623</u>	<u>₩ 100,059</u>
Long-term trade accounts and notes receivable	₩ 832	₩ 926
Less : Allowance for doubtful accounts	(134)	(151)
	<u>₩ 698</u>	<u>₩ 775</u>
Long-term other accounts receivable	1,690	1,690
Less : Present value discount	(189)	(199)
	<u>₩ 1,501</u>	<u>₩ 1,491</u>

As of March 31, 2006, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩66,939 million (December 31, 2005: ₩49,760 million), are included in the trade accounts receivable (Note 13).

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5. Inventories

Inventories as of March 31, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Merchandise, net of valuation allowance of W830 million (December 31, 2005: W561 million)	₩ 34,094	₩ 29,750
Finished products, net of valuation allowance of ₩15,748 million (December 31, 2005: ₩12,881 million)	446,833	279,431
Work-in-process	94,391	82,377
Raw materials, net of valuation allowance of ₩321 million (December 31, 2005: ₩315 million)	205,130	149,709
Supplies	42,992	17,914
Materials-in-transit	69,332	49,669
	<u>₩ 892,772</u>	<u>₩ 608,850</u>

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6. Equity-Method Investments

Equity-method investments as of March 31, 2006 and December 31, 2005, are summarized as follows:

<i>(in millions of Korean won)</i>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2006	2005	2006	2005	2006	2005	2006	2005
LG Petrochemical Co., Ltd. ¹	40.00	40.00	₩153,790	₩ 153,790	₩ 319,495	₩ 338,017	₩ 306,710	₩ 325,493
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	28,210	30,172	28,237	41,256
Tianjin LG New Building Materials Co., Ltd.	81.47	81.47	19,894	19,894	16,653	16,037	16,501	17,343
Tianjin LG Window & Door Co., Ltd.	90.00	90.00	13,308	13,308	7,003	7,479	7,381	8,290
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	86,417	86,417	110,965	103,608	109,160	107,004
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	42,876	43,441	43,877	44,066
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	5,755	6,141	5,180	5,257
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	2,520	2,270	2,713	2,621
LG Chem America, Inc.	100.00	100.00	9,596	9,596	7,121	5,764	9,962	8,993
M. Dohmen S.A.	49.00	49.00	43,203	43,203	16,261	18,306	16,261	18,306
LG Daesan Petrochemical Ltd. ²	-	100.00	-	554,634	-	650,565	-	1,113,010
SEETEC Co., Ltd.	50.00	50.00	36,643	36,643	48,110	44,663	148,814	145,429
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	76,199	71,534	75,874	70,925
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	10,486	10,486	9,201	9,249	9,325	10,125
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ³	79.75	79.01	43,296	41,679	25,881	28,130	29,866	31,323
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	1,663	1,850	1,664	1,687
LG Chem (China) Investment Co., Ltd. ⁴	100.00	100.00	37,888	31,339	38,039	31,757	38,039	31,666
LG Chem (Taiwan), Ltd.	100.00	100.00	2,291	2,291	3,180	2,113	4,034	3,155
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	10,990	11,873	11,035	11,845
LG Chem Europe Sarl	100.00	100.00	5,635	5,635	-	-	397	196
LG Holdings (HK) Ltd.	18.18	18.18	30,494	30,494	20,478	22,302	17,160	18,904
Ningbo LG Yongxing Latex Co., Ltd.	75.00	75.00	6,843	6,843	6,230	6,158	6,239	6,209
Compact Power Inc.	81.00	81.00	4,635	4,635	1,071	1,120	277	277
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	4,154	4,415	4,462	4,675
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	6,212	6,898	6,257	6,894
Tianjin LG Bohai Chemical Co., Ltd.	22.00	22.07	8,185	8,185	7,484	8,169	8,733	8,206
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	1,754	1,448	1,884	1,840
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O. ⁵	100.00	100.00	5,790	2,795	5,790	2,795	5,790	2,795
			<u>₩ 641,588</u>	<u>₩1,185,061</u>	<u>₩823,553</u>	<u>₩1,476,532</u>	<u>₩ 916,090</u>	<u>₩2,048,048</u>

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(Unaudited)

- ¹ As of March 31, 2006, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩377,872 million.
- ² As the Company has merged with LG Daesan Petrochemical Ltd., this investment was eliminated in 2006.
- ³ The Company acquired new shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩1,617 million in during the current period. As a result, the Company's percentage of ownership in LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. increased from 79.01% to 79.75%.
- ⁴ The Company acquired additional shares of LG Chem (China) Investment Co., Ltd. for ₩6,549 million without any change in its percentage of ownership during the current period.
- ⁵ The Company acquired additional shares of LG Chem Poland Sp. Z.O.O. for ₩2,995 million without any change in its percentage of ownership during the current period.

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(Unaudited)

7. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006		2005	
Buildings	₩	884,714	₩	774,932
Structures		357,774		260,851
Machinery and equipment		3,597,098		3,068,204
Vehicles		25,792		24,087
Tools and furniture		561,569		553,310
Others		12,935		-
		<u>5,439,882</u>		<u>4,681,384</u>
Accumulated depreciation		(3,046,059)		(2,763,240)
Accumulated impairment loss		(23,911)		(23,912)
		<u>2,369,912</u>		<u>1,894,232</u>
Land		430,714		340,755
Construction-in-progress		214,545		179,757
Machinery-in-transit		66,706		42,078
	₩	<u>3,081,877</u>	₩	<u>2,456,822</u>

As of March 31, 2006, the Company has a financing lease agreement on certain property, plant and equipment of the methyl tertiary butyl ether factory, which it previously sold. The book values of the said property, plant and equipment total ₩12,554 million as of March 31, 2006, and their total depreciation expense amounts to ₩544 million for the three-month period then ended (Note 10).

As of March 31, 2006, certain property, plant and equipment have been pledged as collateral for bank loans up to a maximum of ₩364,291 million (December 31, 2005: ₩369,442 million).

8. Intangible Assets

Intangible assets as of March 31, 2006 and December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	2006		2005	
Intellectual property rights	₩	12,333	₩	10,966
Exclusive facility use rights		153		169
Development costs, net		80,794		83,392
Others		7,879		6,328
Negative goodwill		(342,527)		-
	₩	<u>(241,368)</u>	₩	<u>100,855</u>

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9. Current Maturities of Long-Term Debts

Current maturities of long-term debts as of March 31, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)		2006	2005
	2006	2005		
Debentures	3.5~LIBOR+0.95	LIBOR+0.45~5.0	₩ 592,229	₩ 696,495
Won currency loans	3.0~10.5	3.0~7.0	1,308	195
Foreign currency loans	LIBOR+0.6-1.1	LIBOR+0.6-0.92	58,554	46,847
			<u>652,091</u>	<u>743,537</u>
Less : Discount on debentures issued			(2,236)	(2,933)
			<u>₩ 649,855</u>	<u>₩ 740,604</u>

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10. Debentures and Capital Lease Liabilities

(1) Debentures as of March 31, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)			2006		2005
	2006	2005				
Publicly offered debentures, payable through 2010	3.5-5.0	3.5-5.0	₩	1,100,000	₩	1,200,000
Privately offered debentures, payable through 2006	-	CD+0.7		-		100,000
Foreign debentures, payable through 2009 ¹	LIBOR+0.4-0.95	LIBOR+0.45-0.92		<u>336,686</u>		<u>278,575</u>
				1,436,686		1,578,575
Less : Current maturities				(592,229)		(696,495)
Discount on debentures issued				(8,481)		(9,610)
			₩	<u>835,976</u>	₩	<u>872,470</u>

¹ Floating rate notes were issued on March 11, 2005 to mature on March 11, 2008; on May 25, 2005 to mature on November 25, 2007 and November 25, 2008. Term notes issued on April 17 and December 22, 2003, and June 24, 2004, will mature on April 17, 2006, December 22, 2006 and June 24, 2007, respectively; while term notes issued on March 23, 2006, will mature on September 23, 2008 and September 23, 2009.

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(2) Capital lease liabilities as of March 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<u>Annual Interest Rate (%)</u>		
Capital lease	10.5	₩	15,759
Less: Current maturities			(1,161)
		<u>₩</u>	<u>14,598</u>

Capital lease liabilities are liabilities associated with a financing lease of property, plant and equipment of methyl tertiary butyl ether factory after the sale of the property, plant and equipment.

The annual maturities of capital lease liabilities as of March 31, 2006, are as follows:

<i>(in millions of Korean won)</i>			
Year			
2007.4.1~2008.3.31	₩	2,724	
2008.4.1~2009.3.31		2,717	
2009.4.1~2010.3.31		2,720	
2010.4.1~2011.3.31		2,720	
Thereafter		10,360	
		<u>21,241</u>	
Less: Unearned interest		(6,643)	
	₩	<u>14,598</u>	

11. Accrued Severance Benefits

Accrued severance benefits as of March 31, 2006 and December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	2006		2005	
Provision for severance benefits	₩	250,139	₩	209,759
Less: Group severance insurance deposits		(140,968)		(125,737)
Contribution to National Pension Plan		(4,479)		(3,612)
Ending balance	₩	<u>104,692</u>	₩	<u>80,410</u>

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12. Stock Options

Based on 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 technology 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:

Grant date	Number of Common Shares Granted	Grant Method	Exercise Price (in Korean won)	Exercise Period
March 25, 2005	221,000	To compensate price difference	₩ 42,530	March 26, 2008 to March 25, 2012

¹ In 2005, stock options for 347,000 shares were forfeited due to the early termination of employment of the related employees.

During the current period, the Company reversed stock compensation expense of ₩652 million due to the decline in the stock price of the Company.

13. Commitments and Contingencies

As of March 31, 2006, the Company has provided a joint guarantee for obligations existing prior to the spin-off, which are 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 guarantee to customers.

As of March 31, 2006 and December 31, 2005, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of March 31, 2006, 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 March 31, 2006, amounted to ₩190,464 million (December 31, 2005: ₩204,241 million) (Note 14).

As of March 31, 2006, 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 ₩450,189 million. Also, as of March 31, 2006, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩226,939 million (Note 4).

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As of March 31, 2006, the Company has bank overdraft agreements with several banks for up to ₩57,500 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩86,600 million and US \$ 583 million.

As of March 31, 2006, 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 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 March 31, 2006, the Company has a long-term purchase contract for certain raw materials and provided US \$ 22,085 thousand (December 31, 2005: US\$30,833 thousand) as a guarantee for the contract performance.

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 March 31, 2006, the Company's outstanding contracts and options include currency swap of US\$100 million. As of December 31, 2005, the Company had currency swap of US\$100 million and interest rate swap of ₩100,000 million.

As of March 31, 2006 and December 31, 2005, 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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14. Earnings Per Share

Basic ordinary income per share and earnings per share for the year ended December 31, 2005, were ₩5,501.

Basic ordinary income per share and earnings per share for the three-month periods ended March 31, 2006 and 2005, are computed as follows:

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

	2006		2005
Net income	₩ 68,157	₩	118,249
Preferred stock dividends ¹	(2,814)		(3,355)
Preferred stock share in the remaining profit available for dividend	(5,423)		(10,758)
Net income and ordinary income available for common stock (A)	59,920		104,136
Weighted average number of shares of outstanding common stock (B) ²	63,818,183		64,372,165
Basic earnings per share and ordinary income per share (A/B)	₩ 939	₩	1,618

¹ Preferred stock dividends were assumed to be one fourth of dividends paid for the previous years.

² Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of March 31, 2006 and 2005. Accordingly basic earnings and ordinary income per share are identical to fully diluted earnings and ordinary income per share.

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15. Related Party Transactions

LG Corp., the Parent of the Company, is the most significant controlling company and issues the consolidated financial statements.

Significant transactions, which occurred in the ordinary course of business with related companies for the three-month periods ended March 31, 2006 and 2005, and the related account balances as of March 31, 2006 and December 31, 2005, are summarized as follows:

		<i>(in millions of Korean won)</i>			
		Sales	Purchases	Receivables ¹	Payables
Controlling company	LG Corp.	₩ -	₩ 5,167	₩ 35,478	₩ 28,677
Subsidiaries	LG Petrochemical Co., Ltd.	1,784	365,322	1,204	180,947
	LG Dow Polycarbonate Ltd.	35	15,228	28	4,421
	Overseas related companies	273,732	62,937	16,839	42,420
Equity method investees	SEETEC Co., Ltd.	9,947	42,458	4,288	19,043
	Others	1,075	-	1,588	-
Other related companies	LG Household & Health Care, Ltd.	3,915	3,171	1,420	1,337
	LG Electronics Inc.	74,965	216	44,881	1,260
	LG MMA Corp.	2,696	16,338	1,447	4,723
	LG International Corp.	55,433	9,693	10,941	6,724
	LG CNS	-	8,073	-	2,373
	LG Philips LCD	128,473	-	50,160	-
	Others	14,801	64,471	24,551	45,187
	2006 Total	₩ 566,856	₩ 593,074	₩ 192,825	₩ 337,112
2005 Total	₩ 535,312	₩ 523,052	₩ 171,552	₩ 292,121	

¹ Allowance for doubtful accounts for the outstanding balance amounts to ₩1,260 million. Bad debt expense recognized in the current period is ₩93 million.

Compensation for key management officers for three-month period ended March 31, 2006, is as follows:

(in millions of Korean won)

Salary for employees on a short-term contract basis	₩ 4,956
Salary paid after retirement	949
Salary	-
Termination pay	-
Compensation cost based on stock	(652)
Total	₩ 5,253

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

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The details of guarantees provided by the Company as of March 31, 2006 and December 31, 2005, are as follows:

(in millions of Korean won)

		2006	
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 11,711	Pudong Shanghai Development Bank	₩ 11,710
	17,566	Agricultural Bank of China	17,566
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	24,398	Bank of China	24,398
	24,398	Woori Bank	19,518
LG Chem America, Inc.	9,759	Woori Bank	-
LG Chem Industrial Materials Inc.	24,690	Wachovia Bank	24,960
LG Chemical Hong Kong Ltd.	34,156	Bank of America	7,124
LG Chem Europe Sarl	1,188	Credit Agricole	650
	3,562	Societe Generale	1,250
Tianjin LG Bohai Chemical Co., Ltd.	39,036	Export-Import Bank of Korea	10,735
	<u>₩ 190,464</u>		<u>₩ 117,641</u>

(in millions of Korean won)

		2005	
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 12,156	Pudong Shanghai Development Bank	₩ 12,156
	18,234	Agricultural Bank of China	18,234
Tianjin LG New Building Materials Co., Ltd.	2,026	Industrial and Commercial Bank of China	1,520
	4,660	Korea Development Bank	4,660
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	25,325	Bank of China	25,325
	25,325	Woori Bank	20,260
LG Chem America, Inc.	10,130	Woori Bank	-
LG Chem Industrial Materials Inc.	25,629	Wachovia Bank	25,629
LG Chemical Hong Kong Ltd.	35,455	Bank of America	7,395
LG Chem Europe Sarl	1,195	Credit Agricole	1,378
	3,586	Societe Generale	1,384
Tianjin LG Bohai Chemical Co., Ltd.	40,520	Export-Import Bank of Korea	7,091
	<u>₩ 204,241</u>		<u>₩ 125,032</u>

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16. Segment Information

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

(1) Industry Segment Information

Industry	Products or Services	Major Customers
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 and others

Financial information on industry segments for the three-month periods ended March 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	2006				Total
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	
Sales					
External sales	₩1,202,377	₩ 470,579	₩ 359,736	₩ 96,388	₩2,129,080
Inter-segment sales	162,470	5,452	1,487	150,574	319,983
	<u>₩1,364,847</u>	<u>₩ 476,031</u>	<u>₩ 361,223</u>	<u>₩ 246,962</u>	<u>₩2,449,063</u>
Operating income	<u>₩ 27,525</u>	<u>₩ 27,444</u>	<u>₩ 10,542</u>	<u>₩ 42</u>	<u>₩ 65,553</u>
Property, plant and equipment and intangible assets ¹	<u>₩1,467,099</u>	<u>₩ 444,976</u>	<u>₩ 854,960</u>	<u>₩ 416,001</u>	<u>₩3,183,036</u>
Depreciation and amortization	<u>₩ 49,450</u>	<u>₩ 15,763</u>	<u>₩ 30,973</u>	<u>₩ 36,585</u>	<u>₩ 132,771</u>

¹ Excludes negative goodwill, incurred from merger, which is deducted from intangible assets.

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<i>(in millions of Korean won)</i>	2005				
	Chemicals & Polymers	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 1,089,371	₩ 494,629	₩ 281,904	₩ 2,978	₩ 1,868,882
Inter-segment sales	71,361	380	198	13,682	85,621
	<u>₩ 1,160,732</u>	<u>₩ 495,009</u>	<u>₩ 282,102</u>	<u>₩ 16,660</u>	<u>₩ 1,954,503</u>
Operating income	<u>₩ 114,797</u>	<u>₩ 27,520</u>	<u>₩ (1,414)</u>	<u>₩ 512</u>	<u>₩ 141,415</u>
Property, plant and equipment and intangible assets	<u>₩ 907,110</u>	<u>₩ 441,121</u>	<u>₩ 800,559</u>	<u>₩ 441,413</u>	<u>₩ 2,590,203</u>
Depreciation and amortization	<u>₩ 40,032</u>	<u>₩ 15,389</u>	<u>₩ 35,604</u>	<u>₩ 1,251</u>	<u>₩ 92,276</u>

(2) Geographical Segment Information

The sales by geographical segments for the three-month periods ended March 31, 2006 and 2005, are as follows:

	<i>(in millions of Korean won)</i>							
	Domestic ¹	China	North America	South America	South-East Asia	Western Europe	Others	Total
2006	<u>₩1,225,591</u>	<u>₩464,530</u>	<u>₩103,379</u>	<u>₩29,492</u>	<u>₩53,245</u>	<u>₩67,729</u>	<u>₩155,114</u>	<u>₩2,129,080</u>
2005	<u>₩1,089,512</u>	<u>₩404,887</u>	<u>₩ 84,478</u>	<u>₩19,291</u>	<u>₩26,401</u>	<u>₩61,509</u>	<u>₩182,804</u>	<u>₩1,868,882</u>

¹ Domestic sales include the exports made based on local letters of credit.

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17. Merger

Hyundai Petrochemical Co., Ltd. (HPCL) was acquired by a consortium consisting of the Company and Honam Petrochemical Corp. in 2003. On January 1, 2005, HPCL spun off its petrochemical business to the newly established LG Daesan Petrochemical Ltd. (LGPL) and Lotte Daesan Petrochemical Ltd. (LDPL). The spin-off resulted in the Company owning 50% of LGPL, LDPL and SEETEC Co., Ltd. On April 30, 2005, the Company swapped its 50% ownership in LDPL for Honam Petrochemical's 50% ownership in LGPL. Pursuant to the Q&A of the Financial Supervisory Services, the acquisition date of LG Daesan Petrochemical Ltd. is deemed to be January 1, 2005, the spin-off date.

As approved by the Board of Directors on October 13, 2005, the Company merged with LG Daesan Polychemicals Co., Ltd. on January 1, 2006. As this merger was considered small scale under the Commercial Code of Korea, the Company did not need the approval of the shareholders. Instead, the Board of Directors approved of the merger on November 16, 2005. The merger was officially announced by the Board of Directors on January 3, 2006.

The major businesses and the CEOs of LG Chem, Ltd. and LG Daesan Petrochemical Ltd. are as follows:

Entity	CEO	Major Business	Relationship
LG Chem, Ltd.	Nor Ki-ho	Manufacturing, processing and marketing of petrochemical products	Controlling Company
LG Daesan Petrochemical Ltd.	Kim Ban-suk	Manufacturing and marketing of petrochemical products	Subsidiary

Pursuant to the Accounting Standards for Business Combination, this merger was regarded as the merger between a controlling company and its subsidiary. Accordingly, assets and liabilities taken over to the Company were assessed at the book value on the consolidated financial statements.

Negative goodwill as of January 1, 2005, when the Company came to have a significant control over to LG Daesan Petrochemical Ltd., amounts to ₩393,058 million and is computed as follows:

(in millions of Korean won)

Net asset fair value of LG Daesan Petrochemical Ltd.	₩	947,692
Acquisition cost		(554,634)
Negative goodwill	₩	<u>393,058</u>

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Acquisition cost is calculated as follows:

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Acquisition of shares of LGPL due to the spin-off	₩	272,901
Acquisition of shares of LGPL due to the exchange of share		281,733
Total	₩	<u>554,634</u>

Changes of the negative goodwill from January 1, 2005 to March 31, 2006, are as follows:

(in millions of Korean won)

January 1, 2005 (purchase date) ¹	₩	393,058
Reversal ¹		(39,306)
December 31, 2005 ¹	₩	<u>353,752</u>
January 1, 2006 ²	₩	353,752
Reversal		(9,826)
Identifiable assets and liabilities after the purchase date		(1,399)
March 31, 2006	₩	<u>342,527</u>

¹ Difference between the investment and the Company's proportionate ownership in the net asset fair value of LG Daesan Petrochemical Ltd. according to the equity-method application. The reversal amount is recorded as a gain on valuation of investments using the equity method.

² The negative goodwill on January 1, 2006, is computed as follows:

(in millions of Korean won)

Net asset fair value of LG Daesan Petrochemical Ltd. ³	₩	1,004,317
Acquisition cost ⁴		(650,565)
Negative goodwill	₩	<u>353,752</u>

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³ Fair value of assets and liabilities taken over by the Company as of January 1, 2006, is as follows:

(in millions of Korean won)

Current assets ⁵	₩	534,345
Investments		5,369
Property, plant and equipment		648,357
Intangible assets		1,929
Total assets		<u>1,190,000</u>
Current liabilities ⁵		152,530
Long-term liabilities		33,153
Total liabilities		<u>(185,683)</u>
Fair value of net asset	₩	<u>1,004,317</u>

⁴ Acquisition is the book value of the investment as of December 31, 2005.

⁵ Balances of assets and liabilities before receivables and payables balances were offset.

From January 1, 2005, goodwill is amortized using a straight-line method over ten years, a weighted average useful life of amortizable assets out of non-monetary assets acquired. As of January 1, 2006, the remaining useful life is nine years.

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The condensed financial statements of the Company and LG Daesan Petrochemical Ltd. for the year ended December 31, 2005 and the condensed balance sheet as of January 1, 2005, are as follows:

Condensed Balance Sheets as of December 31, 2005

<i>(in millions of Korean won)</i>	LG Chem, Ltd.	LG Daesan Petrochemical Ltd.
Current assets	₩1,436,296	₩ 533,824
Investments	1,599,426	5,369
Property, plant and equipment	2,456,822	759,501
Intangible assets	100,855	-
Total assets	<u>₩5,593,399</u>	<u>₩1,298,694</u>
Current liabilities	₩1,946,910	₩ 152,530
Long-term liabilities	1,207,964	33,154
Total liabilities	3,154,874	185,684
Total shareholders' equity	<u>2,438,525</u>	<u>1,113,010</u>
Total liabilities and shareholders' equity	<u>₩5,593,399</u>	<u>₩1,298,694</u>

Condensed Income Statements for the year ended December 31, 2005

<i>(in millions of Korean won)</i>	LG Chem, Ltd.	LG Daesan Petrochemical Ltd.
Sales	₩ 7,425,104	₩ 1,631,874
Cost of sales	<u>(6,107,725)</u>	<u>(1,485,898)</u>
Gross profit	1,317,379	145,976
Selling and administrative expenses	<u>(895,665)</u>	<u>(102,585)</u>
Operating income	421,714	43,391
Non-operating income and expenses	<u>45,964</u>	<u>(1,887)</u>
Income before income taxes	467,678	41,504
Income tax expense	<u>(67,420)</u>	<u>(25,893)</u>
Net income	<u>₩ 400,258</u>	<u>₩ 15,611</u>

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Condensed Balance Sheets as of January 1, 2005

<i>(in millions of Korean won)</i>	LG Chem, Ltd.	LG Daesan Petrochemical Ltd.
Current assets	₩1,656,707	₩ 329,671
Investments	1,419,104	209
Property, plant and equipment	2,453,255	950,808
Intangible assets	150,463	-
Total assets	<u>₩5,679,529</u>	<u>₩1,208,688</u>
Current liabilities	₩1,779,045	₩ 155,527
Long-term liabilities	1,705,342	27,762
Total liabilities	3,484,387	183,289
Total shareholders' equity	<u>2,195,142</u>	<u>1,097,399</u>
Total liabilities and shareholders' equity	<u>₩5,679,529</u>	<u>₩1,280,688</u>

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