

LG Chem, Ltd.
Interim Financial Statements
June 30, 2006 and 2005

LG Chem, Ltd.
Index
June 30, 2006 and 2005

	Page(s)
Report of Independent Accountants	1 - 2
Non-Consolidated Interim Financial Statements	
Balance Sheets	3 - 4
Statements of Income.....	5
Statements of Cash Flows	6 - 7
Notes to Non-Consolidated Financial Statements	8 - 32

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 June 30, 2006, and the related non-consolidated statements of income and cash flows for the three-month and six-month periods ended June 30, 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 interim 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 interim financial statements referred to above are not presented fairly, in all material respects, in accordance with 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 18 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
August 4, 2006

This report is effective as of August 4, 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
June 30, 2006 and December 31, 2005
(Unaudited)

(in millions of Korean won)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	₩ 141,999	₩ 189,445
Trade accounts and notes receivable, net (Notes 4, 13 and 16)	640,368	499,382
Other accounts receivable, net (Note 4)	103,144	100,059
Accrued income, net	2,232	55
Advance payments	1,765	3,062
Prepaid expenses	27,361	15,142
Inventories, net (Note 5)	817,293	608,850
Deferred income tax assets	3,819	11,545
Other current assets	18,042	8,756
Total current assets	1,756,023	1,436,296
Long-term financial instruments (Note 3)	60	51
Investment securities	1,718	1,939
Equity-method investments (Notes 6 and 18)	830,177	1,476,532
Long-term trade accounts and notes receivable, net (Note 4)	620	775
Long-term other accounts receivable, net (Note 4)	1,396	1,491
Long-term guarantee deposits	37,723	67,611
Long-term prepaid expenses	20,244	20,470
Other investments	32,565	30,557
Property, plant and equipment, net (Notes 2, 7, 17 and 18)	3,078,216	2,456,822
Intangible assets, net (Notes 8, 17 and 18)	(227,599)	100,855
Total assets	₩ 5,531,143	₩ 5,593,399

LG Chem, Ltd.
Non-Consolidated Balance Sheets
June 30, 2006 and December 31, 2005
(Unaudited)

(in millions of Korean won)

	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	₩ 100,224	₩ 100,224
Current maturities of long-term debts, net (Note 9)	429,150	740,604
Trade accounts and notes payable (Note 16)	729,134	596,580
Other accounts payable	395,380	372,834
Withholdings	48,017	39,400
Accrued expenses	51,148	30,452
Income tax payable	28,494	63,609
Dividends payable	43	57
Other current liabilities	4,319	3,150
Total current liabilities	1,785,909	1,946,910
Long-term debts, net (Note 10)	1,004,174	872,470
Long-term borrowings	107,522	116,335
Accrued severance benefits, net (Note 11)	97,413	80,410
Deferred income tax liabilities (Note 18)	100,126	111,020
Derivative instrument transaction credit (Note 13)	36	23,814
Other long-term liabilities	7,055	3,915
Total liabilities	3,102,235	3,154,874
Commitments and contingencies (Note 13)		
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
Retained earnings		
Legal reserve	49,438	40,335
Other reserves	1,221,519	921,393
Unappropriated retained earnings	113,241	400,261
	1,384,198	1,361,989
Capital adjustments		
Gain on valuation of equity-method investments	19,079	36,109
Loss on valuation of equity-method investments	(56,284)	(41,043)
Treasury stock	(23,129)	(23,129)
Loss on valuation of derivative instruments (Note 13)	-	(445)
	(60,334)	(28,508)
Total shareholders' equity	2,428,908	2,438,525
Total liabilities and shareholders' equity	₩ 5,531,143	₩ 5,593,399

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 Six-Month Periods Ended June 30, 2006 and 2005
(Unaudited)

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

	2006		2005	
	Three months	Six months	Three months	Six months
Sales (Notes 16 and 17)	₩ 2,272,549	₩ 4,401,629	₩ 1,795,685	₩ 3,664,567
Cost of sales (Note 16)	1,975,998	3,798,970	1,479,336	2,996,093
Gross profit	296,551	602,659	316,349	668,474
Selling and administrative expenses (Note 16)	248,477	489,033	230,747	441,457
Operating income	48,074	113,626	85,602	227,017
Non-operating income				
Interest income	1,671	4,223	2,835	5,799
Foreign exchange gains	18,192	36,007	13,213	25,631
Gain on foreign currency translation	5,281	19,959	1,054	8,819
Gain on disposal of investment securities	-	-	10,306	10,306
Gain on valuation of equity-method investments (Note 14)	24,462	60,026	72,419	147,849
Gain on disposal of property, plant and equipment	1,247	1,760	2,009	2,325
Reversal of negative goodwill (Notes 2 and 18)	9,749	19,575	-	-
Reversal of bad debt allowance	563	1,033	315	-
Reversal of compensation expenses associated with stock options (Note 12)	389	1,042	-	-
Gain on valuation of derivative instruments (Note 13)	-	-	2,087	-
Gain on interim period adjustment (Note 14)	-	-	24,545	-
Others	4,634	7,644	4,933	7,782
	66,188	151,269	133,716	208,511
Non-operating expenses				
Interest expenses	23,497	46,194	24,558	48,175
Foreign exchange losses	9,987	18,160	3,772	9,211
Loss on foreign currency translation	3,658	2,698	8,296	9,024
Loss on disposal of trade accounts receivable	8,114	15,951	6,593	8,139
Loss on disposal of investment securities	3	4	-	-
Loss on disposal of property, plant and equipment	1,574	2,045	1,512	4,664
Loss on valuation of equity-method investments	9,820	16,207	14,569	28,442
Impairment loss on investment securities	361	361	-	1,882
Impairment loss on property, plant and equipment	-	-	1,671	3,342
Impairment loss on intangible assets	2,363	2,363	21,739	21,739
Loss on valuation of derivative instruments (Note 13)	36	36	-	2,203
Donations	804	2,912	383	1,615
Others	7,519	12,828	5,997	10,908
	67,736	119,759	89,090	149,344
Income before income tax	46,526	145,136	130,228	286,184
Income tax expense	1,446	31,900	42,654	80,361
Net income	₩ 45,080	₩ 113,236	₩ 87,574	₩ 205,823
Per share data (in won) (Note 15)				
Earnings per share	₩ 620	₩ 1,559	₩ 1,203	₩ 2,821
Ordinary income per share	₩ 620	₩ 1,559	₩ 1,203	₩ 2,821

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 Cash Flows

Three-Month and Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)

	2006		2005	
	Three months	Six months	Three months	Six months
Cash flows from operating activities				
Net income	₩ 45,080	₩ 113,236	₩ 87,574	₩ 205,823
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	136,656	269,426	94,698	186,973
Provision for severance benefits	18,738	36,544	14,100	28,833
(Gain) loss on foreign currency translation, net	(1,659)	(17,424)	6,853	(1,045)
Loss on disposal of trade accounts receivable	8,114	15,951	6,593	8,139
Loss on inventory valuation	-	1,432	5,695	10,177
Loss (gain) on disposal of investment securities, net	3	4	(10,306)	(10,306)
Impairment loss on investment securities	361	361	-	1,882
Gain on valuation of equity-method investments, net	(14,642)	(43,819)	(57,850)	(119,407)
Loss (gain) on disposal of property, plant and equipment, net	327	285	(497)	2,339
Impairment loss on property, plant and equipment	-	-	1,671	3,342
Impairment loss on intangible asset	2,363	2,363	21,739	21,739
Loss (gain) on valuation of derivative instrument, net	36	36	(2,087)	2,203
Reversal of negative goodwill	(9,749)	(19,575)	-	-
Reversal of bad debt allowance	(563)	(1,033)	(315)	-
Reversal of compensation expenses associated with stock option	(389)	(1,042)	-	-
Gain on interim period adjustment	-	-	(24,545)	-
Others, net	2,983	11,022	9,056	15,664
	<u>142,579</u>	<u>254,531</u>	<u>64,805</u>	<u>150,533</u>
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable	43,374	(4,299)	(38,564)	(81,152)
Decrease (increase) in inventories	78,592	(29,169)	5,429	(10,838)
(Increase) decrease in other accounts receivable	(5,879)	9,273	(32,516)	(22,806)
Increase in accrued income	(772)	(1,930)	(869)	(2,270)
Decrease in advance payments	1,624	1,297	9,224	802
Increase in prepaid expenses	(3,634)	(11,983)	(4,633)	(6,581)
Decrease (increase) in deferred income tax assets	1,794	7,748	(3,731)	(22,974)
(Increase) decrease in other current assets	(8,042)	(9,866)	2,130	(546)
Decrease in long-term trade accounts and notes receivable	102	203	122	227
Increase (decrease) in trade accounts and notes payable	51,610	51,331	(74,806)	(189,330)
Increase (decrease) in other accounts payable	1,980	(2,761)	(8,258)	(56,486)
(Decrease) increase in accrued expenses	(5,253)	16,224	17,655	53,599
(Decrease) increase in income taxes payable	(40,256)	(42,161)	8,937	18,948
(Decrease) increase in other current liabilities	(383)	4,550	(643)	(9,728)
Accrued severance benefits transferred from affiliated companies	9	329	112	258
(Decrease) increase in deferred income tax liabilities	(2,806)	(6,451)	(7,396)	5,655
Payment of severance benefits	(17,524)	(28,829)	(11,249)	(22,720)
Dividends received	43,531	43,531	63,022	63,022
Others, net	(8,683)	(2,163)	(4,706)	1,956
	<u>129,384</u>	<u>(5,126)</u>	<u>(80,740)</u>	<u>(280,964)</u>
Net cash provided by operating activities	<u>317,043</u>	<u>362,641</u>	<u>71,639</u>	<u>75,392</u>

LG Chem, Ltd.
Non-Consolidated Statements of Cash Flows
Three-Month and Six-Month Periods Ended June 30, 2006 and 2005
(Unaudited)

(in millions of Korean won)

	2006		2005	
	Three months	Six months	Three months	Six months
Cash flows from investing activities				
Disposal of property, plant and equipment	₩ 2,691	₩ 3,805	₩ 5,005	₩ 6,122
Disposal (acquisition) of long-term guarantee deposits, net	31,333	33,241	(335)	(1,295)
Acquisition of other investment, net	(10)	(35)	(321)	(1,463)
Acquisition of property, plant and equipment	(133,171)	(237,888)	(117,844)	(197,095)
Disposal (acquisition) of investment securities, net	(139)	(139)	23,013	22,874
Acquisition of equity-method investments	(30,712)	(41,872)	(35,280)	(54,070)
Acquisition of intangible assets, net	(4,517)	(9,094)	(6,383)	(12,402)
Others, net	(28,577)	(27,977)	(19,392)	(17,273)
Net cash used in investing activities	(163,102)	(279,959)	(151,537)	(254,602)
Cash flows from financing activities				
Proceeds from (repayment of) short-term borrowings, net	-	(25,717)	105,032	55,032
Repayment of current maturities of long-term debts	(401,647)	(608,297)	(204,048)	(230,450)
Issuance of debentures	298,833	366,691	99,509	227,344
Payment of dividends	(91,042)	(91,042)	(109,948)	(109,948)
Proceeds from (repayment of) long-term debt, net	50,000	50,000	(24)	39,912
Others, net	(1,773)	(3,270)	(22,280)	(21,667)
Net cash used in financing activities	(145,629)	(311,635)	(131,759)	(39,777)
Cash flows from merger	-	181,507	-	-
Net increase (decrease) in cash and cash equivalents	8,312	(47,446)	(211,657)	(218,987)
Cash and cash equivalents				
Beginning of the period	133,687	189,445	406,387	413,717
End of the period	₩ 141,999	₩ 141,999	₩ 194,730	₩ 194,730

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 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 18).

As of June 30, 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 June 30, 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 that of 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.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(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 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 18).

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 revaluation date.

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	6 years
Others	3 years

Lease Transactions

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

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 negative goodwill is amortized using a straight-line method over weighted average useful lives of assets.

3. Restricted Bank Deposits

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

As of June 30, 2006, long-term financial instruments of ₩60 million are deposited in connection with bank overdraft agreements (December 31, 2005: ₩51 million). The withdrawal of these deposits is restricted.

The withdrawal of group severance insurance deposits is also restricted to employees' severance payments.

4. Receivables

Receivables and allowance for doubtful accounts as of June 30, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Trade accounts and notes receivable	₩ 688,035	₩ 546,511
Less : Allowance for doubtful accounts	(47,667)	(47,129)
	<u>₩ 640,368</u>	<u>₩ 499,382</u>
Other accounts receivable	₩ 126,826	₩ 123,520
Less : Allowance for doubtful accounts	(23,675)	(23,419)
Less : Present value discount	(7)	(42)
	<u>₩ 103,144</u>	<u>₩ 100,059</u>
Long-term trade accounts and notes receivable	₩ 738	₩ 926
Less : Allowance for doubtful accounts	(118)	(151)
	<u>₩ 620</u>	<u>₩ 775</u>
Long-term other accounts receivable	₩ 1,588	₩ 1,690
Less : Present value discount	(192)	(199)
	<u>₩ 1,396</u>	<u>₩ 1,491</u>

As of June 30, 2006, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩50,005 million (December 31, 2005: ₩49,760 million), are included in the trade accounts receivable (Note 13).

5. Inventories

Inventories as of June 30, 2006 and December 31, 2005, consist of the following:

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

<i>(in millions of Korean won)</i>	2006	2005
Merchandise, net of valuation allowance of ₩648 million (December 31, 2005: ₩561 million)	₩ 37,297	₩ 29,750
Finished products, net of valuation allowance of ₩12,979 million (December 31, 2005: ₩12,881 million)	366,701	279,431
Work-in-process	92,887	82,377
Raw materials, net of valuation allowance of ₩1,026 million (December 31, 2005: ₩315 million)	204,295	149,709
Supplies	41,110	17,914
Materials-in-transit	75,003	49,669
	<u>₩ 817,293</u>	<u>₩ 608,850</u>

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

6. Equity-Method Investments

Equity-method investments as of June 30, 2006 and December 31, 2005, are summarized as follows:

(in millions of Korean won)

Investee companies ⁹	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	₩ 317,297	₩ 338,017	₩ 303,538	₩ 325,493
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	24,151	30,172	24,196	41,256
Tianjin LG New Building Materials Co., Ltd.	81.47	81.47	19,894	19,894	17,212	16,037	17,082	17,343
Tianjin LG Window & Door Co., Ltd.	90.00	90.00	13,308	13,308	6,903	7,479	7,312	8,290
Ningbo LG Yongxing Chemical Co., Ltd. ²	75.00	75.00	95,237	86,417	101,062	103,608	100,864	107,004
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	41,317	43,441	42,303	44,066
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	6,641	6,141	5,807	5,257
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	2,902	2,270	2,967	2,621
LG Chem America, Inc.	100.00	100.00	9,596	9,596	7,624	5,764	10,579	8,993
M. Dohmen S.A.	49.00	49.00	43,203	43,203	15,987	18,306	15,987	18,306
LG Daesan Petrochemical Ltd. ³	-	100.00	-	554,634	-	650,565	-	1,113,010
SEETEC Co., Ltd.	50.00	50.00	36,643	36,643	51,229	44,663	150,933	145,429
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	78,237	71,534	77,085	70,925
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	10,486	10,486	9,641	9,249	9,666	10,125
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁴	73.43	79.01	43,296	41,679	22,999	28,130	27,823	31,323
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	1,640	1,850	1,658	1,687
LG Chem (China) Investment Co., Ltd. ⁵	100.00	100.00	37,888	31,339	38,014	31,757	38,013	31,666
LG Chem (Taiwan), Ltd.	100.00	100.00	2,291	2,291	2,132	2,113	3,612	3,155
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	11,455	11,873	11,533	11,845
LG Chem Europe Sarl	100.00	100.00	5,635	5,635	-	-	-	196
LG Holdings (HK) Ltd. ⁶	18.18	18.18	41,581	30,494	30,514	22,302	27,379	18,904
Ningbo LG Yongxing Latex Co., Ltd.	75.00	75.00	6,843	6,843	6,247	6,158	6,255	6,209
Compact Power Inc.	81.00	81.00	4,635	4,635	1,700	1,120	937	277
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	4,532	4,415	4,829	4,675
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	4,793	6,898	5,449	6,894
Tianjin LG Bohai Chemical Co., Ltd. ⁷	31.43	22.07	18,989	8,185	17,960	8,169	18,745	8,206
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	1,940	1,448	1,973	1,840
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O. ⁸	100.00	100.00	5,790	2,795	5,790	2,795	5,790	2,795
			<u>₩ 672,299</u>	<u>₩1,185,061</u>	<u>₩830,177</u>	<u>₩1,476,532</u>	<u>₩ 922,573</u>	<u>₩2,048,048</u>

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

- ¹ As of June 30, 2006, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩334,480 million.
- ² The Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,820 million without any change in its percentage of ownership during the current period.
- ³ As the Company merged with LG Daesan Petrochemical Ltd., this investment was eliminated in 2006 (Note 18).
- ⁴ The Company acquired new shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩1,617 million during the current period. As a result, the Company's percentage of ownership in LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. decreased from 79.01% to 73.43%.
- ⁵ 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.
- ⁶ The Company acquired additional shares of LG Holdings (HK) Ltd. for ₩11,087 million without any change in its percentage of ownership during the current period.
- ⁷ The Company acquired new shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩10,804 million during the current period. As a result, the Company's percentage of ownership in Tianjin LG Bohai Chemical Co., Ltd. increased from 22.07% to 31.43%.
- ⁸ 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.
- ⁹ As of June 30, 2006, the Company has control over all the investee companies except for M. Dohmen S.A., SEETEC Co., Ltd. and LG Holdings (HK) Ltd.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

7. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Buildings	₩ 893,947	₩ 774,932
Structures	359,798	260,851
Machinery and equipment	3,642,387	3,068,204
Vehicles	25,791	24,087
Tools and furniture	579,462	553,310
Others	12,935	-
	<u>5,514,320</u>	<u>4,681,384</u>
Accumulated depreciation	(3,151,383)	(2,763,240)
Accumulated impairment loss	(19,509)	(23,912)
	<u>2,343,428</u>	<u>1,894,232</u>
Land	430,465	340,755
Construction-in-progress	251,155	179,757
Machinery-in-transit	53,168	42,078
	<u>₩ 3,078,216</u>	<u>₩ 2,456,822</u>

As of June 30, 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 ₩12,009 million as of June 30, 2006, and their total depreciation expense amounts to ₩1,089 million for the six-month period then ended (Note 10).

As of June 30, 2006, certain property, plant and equipment have been pledged as collaterals for bank loans up to a maximum of ₩362,977 million (December 31, 2005: ₩369,442 million).

8. Intangible Assets

Intangible assets as of June 30, 2006 and December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	2006	2005
Intellectual property rights	₩ 14,016	₩ 10,966
Exclusive facility use rights	1,720	169
Development costs, net	75,216	83,392
Others	14,400	6,328
Negative goodwill	(332,951)	-
	<u>₩ (227,599)</u>	<u>₩ 100,855</u>

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

9. Current Maturities of Long-Term Debts

Current maturities of long-term debts as of June 30, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	Annual			2006		2005
	Interest Rate (%)					
	2006	2005				
Debentures	4.0~LIBOR+0.95	LIBOR+0.45~5.0	₩	332,817	₩	696,495
Won currency loans	3.0~9.0	3.0~7.0		1,317		195
Foreign currency loans	LIBOR+0.6-0.65	LIBOR+0.6-0.92		96,030		46,847
				430,164		743,537
Less : Discount on debentures issued				(1,014)		(2,933)
			₩	429,150	₩	740,604

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

10. Debentures and Capital Lease Liabilities

(1) Debentures as of June 30, 2006 and December 31, 2005, consist of the following:

<i>(in millions of Korean won)</i>	Annual		2006	2005
	Interest Rate (%)			
	2006	2005		
Publicly offered debentures, payable through 2010	3.5-5.0	3.5-5.0	₩ 1,000,000	₩ 1,200,000
Privately offered debentures, payable through 2009	5.02-5.32	CD+0.7	100,000	100,000
Foreign debentures, payable through 2009 ¹	LIBOR+0.4-0.95	LIBOR+0.45-0.92	244,877	278,575
			1,344,877	1,578,575
Less : Current maturities			(332,817)	(696,495)
Discount on debentures issued			(7,886)	(9,610)
			₩ 1,004,174	₩ 872,470

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 December 22, 2003, and June 24, 2004, will mature on 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.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

(2) Capital lease liabilities as of June 30, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<u>Annual Interest Rate (%)</u>		
Capital lease	9.0	₩	15,463
Less: Current maturities			(1,219)
		₩	<u>14,244</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 June 30, 2006, are as follows:

<i>(in millions of Korean won)</i>			
Year			
2007.7.1~2008.6.30	₩	2,481	
2008.7.1~2009.6.30		2,481	
2009.7.1~2010.6.30		2,481	
2010.7.1~2011.6.30		2,481	
Thereafter		9,396	
		<u>19,320</u>	
Less: Unearned interest		(5,076)	
	₩	<u>14,244</u>	

11. Accrued Severance Benefits

Accrued severance benefits as of June 30, 2006 and December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	2006		2005	
Provision for severance benefits	₩	251,542	₩	209,759
Less: Group severance insurance deposits		(149,861)		(125,737)
Contribution to National Pension Plan		(4,268)		(3,612)
Ending balance	₩	<u>97,413</u>	₩	<u>80,410</u>

12. Stock Options

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

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 with the approval 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 grantee employees.

During the current period, the Company reversed stock compensation expense of ₩1,042 million due to the decline in the stock price of the Company.

13. Commitments and Contingencies

As of June 30, 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 June 30, 2006 and December 31, 2005, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of June 30, 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 June 30, 2006, amounted to ₩131,656 million (December 31, 2005: ₩204,241 million) (Note 16).

As of June 30, 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 ₩504,053 million. Also, as of June 30, 2006, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩210,005 million (Note 4).

As of June 30, 2006, the Company has bank overdraft agreements with several banks for up

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

to ₩57,500 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩88,600 million and US \$ 602 million.

As of June 30, 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 June 30, 2006, the Company has a long-term purchase contract for certain raw materials and provided US \$ 14,428 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 June 30, 2006, the Company's outstanding contracts and options include currency swap of US \$ 52 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 June 30, 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.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

14. Gain on interim period adjustment

In the second quarter of the year 2005, in accordance with Interpretation No. 8360-00338 of Financial Supervisory Service, the Company adjusted its accounting error on the application of the equity method of accounting which occurred in the first quarter of 2005 with respect to the spin off of Hyundai Petrochemical Co., Ltd.

The details of gain on interim period adjustment are as follows:

<i>(in millions of Korean won)</i>	LG Daesan Petrochemical Ltd.	SEETEC Co., Ltd.	Total
Gain on valuation of equity method investments before adjustment	₩ 18,817	₩ 533	₩ 19,350
Gain on valuation of equity method investments after adjustment	42,861	1,034	43,895
Gain on interim period adjustment	<u>₩ 24,044</u>	<u>₩ 501</u>	<u>₩ 24,545</u>

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

15. 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 ₩939 and ₩1,618.

Basic ordinary income per share and earnings per share for the six-month periods June 30, 2006 and 2005, are computed as follows:

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

	2006		2005	
	Three months	Six months	Three months	Six months
Net income	₩ 45,080	₩ 113,236	₩ 87,574	₩ 205,823
Preferred stock dividends ¹	(2,814)	(5,627)	(3,355)	(6,710)
Preferred stock share of remaining profit available for dividends	(2,667)	(8,090)	(7,178)	(17,969)
Net income and ordinary income available for common stock (A)	39,599	99,519	77,041	181,144
Weighted average number of shares of outstanding common stock (B) ²	<u>63,818,183Shares</u>	<u>63,818,183shares</u>	<u>64,057,883shares</u>	<u>64,214,156shares</u>
Basic earnings per share and ordinary income per share (A/B)	<u>₩ 620</u>	<u>₩ 1,559</u>	<u>₩ 1,203</u>	<u>₩ 2,821</u>

¹ Preferred stock dividends for the six-month periods ended June 30, 2006 and 2005, were assumed to be half of dividends paid for the previous years.

² Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of June 30, 2006 and 2005. Accordingly, basic earnings and ordinary income per share are equal to fully diluted earnings and ordinary income per share.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

16. 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 six-month periods ended June 30, 2006 and 2005, and the related account balances as of June 30, 2006 and December 31, 2005, are summarized as follows:

<i>(in millions of Korean won)</i>		Sales	Purchases	Receivables²	Payables
Controlling company	LG Corp.	₩ -	₩ 12,362	₩ 6,720	₩ -
Subsidiaries (Note 6)	LG Petrochemical Co., Ltd.	3,489	668,598	1,427	191,786
	LG Dow Polycarbonate Ltd.	70	26,621	28	4,066
	LG Chem America, Inc.	175,099	543	3,333	118
	LG Chemical Hong Kong Ltd.	174,918	112,863	11,576	33,771
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	79,710	12,008	489	7,868
	LG Chem (Taiwan), Ltd.	68,846	244	14	887
	Others ¹	44,009	23,219	12,253	4,065
	Equity method investees	SEETEC Co., Ltd.	20,753	77,660	3,875
	Others	8,102	797	1,496	37
Other related companies	LG Household & Health Care, Ltd.	7,469	6,453	1,612	1,168
	LG Electronics Inc.	142,792	2,600	39,508	2,482
	LG MMA Corp.	5,504	32,811	1,604	6,799
	LG International Corp.	109,710	19,422	9,966	6,173
	LG CNS	-	16,481	-	2,010
	LG Philips LCD	267,731	-	44,321	-
	Others	43,110	137,799	23,601	48,350
	2006 Total	<u>₩ 1,151,312</u>	<u>₩ 1,150,481</u>	<u>₩ 161,823</u>	<u>₩ 326,385</u>
2005 Total	<u>₩ 1,048,472</u>	<u>₩ 1,038,567</u>	<u>₩ 171,552</u>	<u>₩ 292,121</u>	

¹ Includes LG Solid Source, LLC, a subsidiary of LG Chem America Inc., and Ningbo Bond International Trade, a subsidiary of LG Youngxing Chemical Co., Ltd.

² Allowance for doubtful accounts for the outstanding balance as of June 30, 2006, amounts to ₩1,205 million. Bad debt expense recognized in the current period is ₩39 million.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

Compensation for key management officers for three-month period ended June 30, 2006, is as follows:

(in millions of Korean won)

Short-term employee benefits	₩ 10,603
Post-employment benefits	1,766
Reversal of share-based compensation	<u>(1,041)</u>
Total	<u>₩ 11,328</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.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

The details of guarantees provided by the Company as of June 30, 2006 and December 31, 2005, are as follows:

(in millions of Korean won)

Guarantee Beneficiary	2006		
	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 7,682	Agricultural Bank of China	₩ 7,682
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	24,008	Bank of China	24,008
	24,008	Woori Bank	19,206
LG Chem America, Inc.	9,603	Woori Bank	-
LG Chem Industrial Materials Inc.	24,295	Wachovia Bank	24,295
LG Chem Europe Sarl	-	Credit Agricole	365
	3,648	Societe Generale	1,050
Tianjin LG Bohai Chemical Co., Ltd.	38,412	Export-Import Bank of Korea	19,206
	<u>₩ 131,656</u>		<u>₩ 95,812</u>

(in millions of Korean won)

Guarantee Beneficiary	2005		
	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>

17. Segment Information

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

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 six-month periods ended June 30, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	2006				
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 2,657,357	₩ 1,009,337	₩ 728,102	₩ 6,833	₩ 4,401,629
Inter-segment sales	137,014	9,979	3,480	58,118	208,591
	₩ 2,794,371	₩ 1,019,316	₩ 731,582	₩ 64,951	₩ 4,610,220
Operating income	₩ 21,972	₩ 69,310	₩ 23,646	₩ (1,302)	₩ 113,626
Property, plant and equipment and intangible assets ¹	₩ 1,446,645	₩ 450,893	₩ 870,383	₩ 415,647	₩ 3,183,568
Depreciation and amortization	₩ 171,226	₩ 32,426	₩ 63,801	₩ 1,973	₩ 269,426

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

2005

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

<i>(in millions of Korean won)</i>	Chemicals & Polymers	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 2,072,465	₩ 1,029,200	₩ 557,079	₩ 5,823	₩ 3,664,567
Inter-segment sales	138,790	1,323	1,977	25,437	167,527
	<u>₩ 2,211,255</u>	<u>₩ 1,030,523</u>	<u>₩ 559,056</u>	<u>₩ 31,260</u>	<u>₩ 3,832,094</u>
Operating income	<u>₩ 182,715</u>	<u>₩ 63,835</u>	<u>₩ (20,469)</u>	<u>₩ 936</u>	<u>₩ 227,017</u>
Property, plant and equipment and intangible assets	<u>₩ 894,043</u>	<u>₩ 450,819</u>	<u>₩ 832,696</u>	<u>₩ 413,839</u>	<u>₩ 2,591,397</u>
Depreciation and amortization	<u>₩ 80,745</u>	<u>₩ 31,027</u>	<u>₩ 72,904</u>	<u>₩ 2,297</u>	<u>₩ 186,973</u>

(2) Geographical Segment Information

The sales by geographical segments for the three-month periods ended June 30, 2006 and 2005, are as follows:

	<i>(in millions of Korean won)</i>							
	Domestic¹	China	North America	South America	South-East Asia	Western Europe	Others	Total
2006	<u>₩2,583,187</u>	<u>₩965,993</u>	<u>₩206,721</u>	<u>₩56,662</u>	<u>₩112,689</u>	<u>₩135,803</u>	<u>₩340,574</u>	<u>₩4,401,629</u>
2005	<u>₩2,171,634</u>	<u>₩790,019</u>	<u>₩180,491</u>	<u>₩32,173</u>	<u>₩ 60,881</u>	<u>₩114,349</u>	<u>₩315,020</u>	<u>₩3,664,567</u>

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

18. 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:

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

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

Acquisition cost is calculated as follows:

(in millions of Korean won)

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

Changes in negative goodwill from January 1, 2005 to June 30, 2006, are as follows:

(in millions of Korean won)

January 1, 2005 (purchase date) ¹	₩	393,058
Reversal ¹		<u>(39,306)</u>
December 31, 2005 ¹	₩	<u>353,752</u>
January 1, 2006 ²	₩	353,752
Reversal		(19,575)
Identifiable assets and liabilities after the purchase date		<u>(1,226)</u>
June 30, 2006	₩	<u>332,951</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 equity method investments.

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		<u>(650,565)</u>
Negative goodwill	₩	<u>353,752</u>

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

³ Fair values of assets and liabilities taken over by the Company as of January 1, 2006, are 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		<u>33,153</u>
Total liabilities		<u>(185,683)</u>
Fair value of net assets	₩	<u>1,004,317</u>

⁴ Acquisition cost is the book value of the investments as of December 31, 2005 (Note 6).

⁵ Balances of assets and liabilities before offsetting of receivables and payables.

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.

The condensed income statements for the year ended December 31, 2005 and condensed
 See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

balance sheets as of January 1, 2005 and December 31, 2005, of the Company and LG Daesan Petrochemical Ltd., 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	-
	<u>₩5,593,39</u>	
Total assets	<u>9</u>	<u>₩1,298,694</u>
	₩1,946,91	
Current liabilities	0	₩ 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>
	₩5,593,39	
Total liabilities and shareholders' equity	<u>9</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>

See Report of Independent Accountants

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
June 30, 2006 and 2005, and December 31, 2005
(Unaudited)

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>₩1,280,688</u>
Current liabilities	₩1,779,045	₩ 155,527
Long-term liabilities	<u>1,705,342</u>	<u>27,762</u>
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>

See Report of Independent Accountants