

# **LG Chem, Ltd.**

**Non-Consolidated Financial Statements  
December 31, 2007 and 2006**

**LG Chem, Ltd.**  
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**December 31, 2007 and 2006**

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## Report of Independent Auditors

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

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. (the "Company") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years ended December 31, 2007 and 2006, and the statement of changes in shareholders' equity for the year ended December 31, 2007, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 6.1% of the Company's total assets as of December 31, 2007 (2006: 5.6%), and the equity in their net profits and losses represent 6.1% of the Company's net income before income taxes for the year ended December 31, 2007 (2006: 4.7%). These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2007 and 2006, and the results of its operations, the changes in its retained earnings and its cash flows for the years ended December 31, 2007 and 2006, and the changes in its shareholders' equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

# SAMIL PRICEWATERHOUSECOOPERS

As discussed in Note 32 to the non-consolidated financial statements, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007.

Accounting principles and auditing 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, changes in shareholders' equity 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 audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.



Seoul, Korea  
March 13, 2008

This report is effective as of March 13, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit 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 audit report should understand that there is a possibility that the above audit 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**  
**December 31, 2007 and 2006**

(in millions of Korean won)

	2007		2006
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 2 and 14)	W 466,438	W	115,830
Short-term investments (Note 4)	106,412		6,311
Trade accounts and notes receivable, net (Notes 2, 5, 6, 14, 18 and 27)	977,305		818,384
Other accounts receivable, net (Notes 6 and 14)	98,400		121,142
Accrued income	3,734		1,704
Advance payments	2,796		1,807
Prepaid expenses	14,826		14,130
Inventories, net (Notes 2 and 7)	1,167,837		869,138
Deferred income tax assets (Note 23)	23,237		127
Other current assets	902		648
Total current assets	2,861,887		1,949,221
Long-term financial instruments (Note 3)	68		60
Investment securities (Note 8)	1,912		1,718
Equity-method investments (Notes 2, 9 and 32)	634,498		876,622
Derivative instrument transaction debit (Note 18)	1,035		-
Other investments	242		276
Property, plant and equipment, net (Notes 2, 10, 29 and 32)	3,621,800		3,099,022
Intangible assets, net (Notes 2, 11, 29 and 32)	(182,776)		(212,990)
Long-term trade accounts and notes receivable, net (Note 6)	207		465
Long-term other accounts receivable, net (Note 6)	639		1,054
Long-term guarantee deposits	35,373		39,344
Long-term prepaid expenses	19,816		20,107
Other non-current assets	55,251		31,617
Total assets	W 7,049,952	W	5,806,516

**LG Chem, Ltd.**  
**Non-Consolidated Balance Sheets**  
**December 31, 2007 and 2006**

(in millions of Korean won)

	2007	2006
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts and notes payable (Notes 14 and 27)	₩ 749,401	₩ 750,762
Short-term borrowings (Note 12)	-	25,076
Other accounts payable (Note 14)	559,180	516,955
Withholdings	58,948	50,488
Accrued expenses (Note 15)	37,333	42,276
Income tax payable (Note 23)	247,641	44,241
Dividends payable	40	39
Current maturities of long-term debts, net (Note 12)	366,283	439,932
Other current liabilities	11,381	2,886
Total current liabilities	2,030,207	1,872,655
Debentures, net (Note 13)	684,007	913,798
Other long-term debts, net (Note 13)	307,304	196,885
Accrued severance benefits, net (Notes 2 and 16)	94,908	98,415
Deferred income tax liabilities (Notes 2 and 23)	20,771	89,196
Derivative instrument transaction credit (Note 18)	1,781	3,089
Other non-current liabilities	32,778	9,118
Total liabilities	3,171,756	3,183,156
Commitments and contingencies (Note 18)		
Shareholders' equity (Note 1)		
Common stock (Note 19)	376,194	322,126
Preferred stock	43,306	43,306
	419,500	365,432
Capital surplus (Note 19)		
Paid-in capital in excess of par value	1,052,640	532,002
Gain on disposal of treasury stock	841	841
Asset revaluation surplus	206,769	206,769
Other capital surplus	39,107	-
	1,299,357	739,612
Capital adjustment		
Treasury stock (Note 21)	(23,475)	(23,129)
Accumulated other comprehensive income (Notes 2 and 24)		
Gain on valuation of equity-method investments (Note 9)	9,744	1,355
Loss on valuation of equity-method investments (Note 9)	(26,066)	(45,749)
	(16,322)	(44,394)
Retained earnings (Note 20)		
Legal reserve	56,729	49,438
Other reserves	1,460,097	1,221,519
Unappropriated retained earnings (Note 2)	682,310	314,882
	2,199,136	1,585,839
Total shareholders' equity	3,878,196	2,623,360
Total liabilities and shareholders' equity	₩ 7,049,952	₩ 5,806,516

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

**LG Chem, Ltd.**  
**Non-Consolidated Statements of Income**  
**Years Ended December 31, 2007 and 2006**

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

	2007		2006	
	₩		₩	
Sales (Notes 27 and 29)		10,795,320		9,280,154
Cost of sales (Notes 22 and 27)		8,981,994		7,946,851
Gross profit		1,813,326		1,333,303
Selling and administrative expenses (Note 27)		1,049,704		996,963
Operating income		763,622		336,340
<b>Non-operating income</b>				
Interest income		14,673		8,880
Foreign exchange gains		46,380		62,554
Gain on foreign currency translation (Note 14)		6,859		32,152
Gain on valuation of equity-method investments (Notes 2 and 9)		179,886		133,491
Gain on disposal of equity-method investment		750		-
Gain on disposal of property, plant and equipment		6,828		1,940
Gain on disposal of intangible assets		9		-
Reversal of negative goodwill (Notes 2 and 32)		39,170		39,170
Reversal of bad debt allowance		550		63
Reversal of compensation expenses associated with stock options (Note 17)		-		1,039
Gain on valuation of derivative instrument		2,342		-
Others		19,364		41,302
		316,811		320,591
<b>Non-operating expenses</b>				
Interest expenses		76,610		88,095
Foreign exchange losses		46,422		34,120
Loss on foreign currency translation (Note 14)		8,936		2,568
Loss on disposal of trade accounts receivable (Note 2)		36,399		33,951
Loss on disposal of investment securities		549		5
Impairment loss on investment securities (Note 8)		19		361
Loss on valuation of equity-method investments (Note 2 and 9)		11,891		27,471
Loss on disposal of property, plant and equipment (Note 2)		25,933		10,300
Impairment loss on property, plant and equipment		9,909		-
Loss on disposal of intangible assets		1,030		135
Impairment loss on intangible assets (Note 11)		16,596		2,715
Loss on valuation of derivative instruments		-		3,089
Donations		8,190		6,498
Others		15,502		49,830
		257,986		259,138
Income from continuing operations before income tax		822,447		397,793
<b>Income from continuing operations tax expense (Notes 2 and 23)</b>		121,250		79,725
Income from continuing operations		701,197		318,068
<b>Loss from discontinued operations (Note 30)</b>		14,992		2,068
Net income	₩	686,205	₩	316,000
<b>Per share data (in won) (Notes 2 and 25)</b>				
Income from continuing operations per share	₩	9,466	₩	4,383
Earnings per share	₩	9,264	₩	4,354
Diluted income from continuing operations per share	₩	9,466	₩	4,383
Diluted earnings per share	₩	9,264	₩	4,354

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

**LG Chem, Ltd.****Non-Consolidated Statements of Appropriations of Retained Earnings****Years Ended December 31, 2007 and 2006****(Date of appropriations: March 21, 2008 and March 16, 2007  
for the years ended December 31, 2007 and 2006, respectively)***(in millions of Korean won)*

	2007	2006
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior year	₩ (3,895)	₩ 5
Cumulative effect of accounting changes	-	(1,123)
Net income	686,205	316,000
	<u>682,310</u>	<u>314,882</u>
<b>Transfers from other reserves</b>		
Reserve for technology development	76,667	63,333
<b>Appropriation of retained earnings</b>		
Legal reserve	16,701	7,291
Dividends	167,006	72,908
Reserve for technology development	445,200	220,120
Reserve for investment losses	130,063	81,791
	<u>758,970</u>	<u>382,110</u>
<b>Unappropriated retained earnings carried forward to subsequent year</b>	<u>₩ 7</u>	<u>₩ (3,895)</u>

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



**LG Chem, Ltd.**

**Non-Consolidated Statement of Changes in Shareholders' Equity**  
**Year Ended December 31, 2007**

*(in millions of Korean won)*

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustment</u>	<u>Accumulated other comprehensive Income</u>	<u>Retained earnings</u>	<u>Total</u>
Balances as of January 1, 2007	₩ 365,432	₩ 739,612	₩ (23,129)	₩ (54,419)	₩ 1,589,744	₩ 2,617,240
Cumulative effects of restatements (Note 2)	-	-	-	10,025	(3,905)	6,120
Restated beginning balance	365,432	739,612	(23,129)	(44,394)	1,585,839	2,623,360
Dividends (Note 26)	-	-	-	-	(72,908)	(72,908)
Issuance of stock due to merger (Note 19)	54,068	520,638	-	-	-	574,706
Other capital surplus	-	39,107	-	-	-	39,107
Net income	-	-	-	-	686,205	686,205
Acquisition of treasury stock	-	-	(346)	-	-	(346)
Changes in equity arising from equity-method investments (Note 24)	-	-	-	28,072	-	28,072
Balances as of December 31, 2007	₩ 419,500	₩ 1,299,357	₩ (23,475)	₩ (16,322)	₩ 2,199,136	₩ 3,878,196

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

**LG Chem, Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2007 and 2006**

(in millions of Korean won)

	2007		2006	
	W		W	
<b>Cash flows from operating activities</b>				
Net income		686,205		316,000
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		463,673		529,519
Provision for severance benefits		63,003		65,981
Loss (gain) on foreign currency translation, net		3,170		(30,121)
Loss on disposal of trade accounts receivable		36,399		33,951
Loss on disposal of investment securities		549		5
Impairment loss on investment securities		19		361
Gain on valuation of equity-method investments, net		(167,995)		(106,020)
Gain on disposal of equity-method investment		(750)		-
Loss on disposal of property, plant and equipment, net		19,105		8,360
Impairment loss on property, plant and equipment		9,909		-
Loss on disposal of intangible assets, net		1,021		135
Impairment loss on intangible assets		16,596		2,715
(Gain) loss on valuation of derivative instruments, net		(2,342)		3,089
Reversal of negative goodwill		(39,170)		(39,170)
Reversal of bad debt allowance		(550)		(63)
Reversal of compensation expenses associated with stock options		-		(1,039)
Others, net		39,931		34,061
		<u>442,568</u>		<u>501,764</u>
<b>Changes in operating assets and liabilities</b>				
Increase in trade accounts and notes receivable		(91,086)		(209,801)
Increase in inventories		(180,158)		(71,669)
Dividends received		58,548		46,899
Decrease (increase) in other accounts receivable		24,826		(10,565)
Increase in accrued income		(382)		(1,402)
Decrease in advance payments		488		1,255
Decrease in prepaid expenses		205		1,249
(Increase) decrease in deferred income tax assets		(25,283)		11,486
(Increase) decrease in other current assets		(231)		1,230
Increase in trade accounts and notes payable		58,995		76,137
Increase in other accounts payable		17,219		124,662
(Decrease) increase in accrued expenses		(26,463)		7,353
Increase (decrease) in income tax payable		139,800		(26,415)
Increase in other current liabilities		14,377		9,558
Accrued severance benefits transferred from affiliated companies		608		351
Decrease in deferred income tax liabilities		(70,898)		(2,048)
Payment of severance benefits		(60,589)		(64,166)
Others, net		10,479		6,194
		<u>(129,545)</u>		<u>(99,692)</u>
Net cash provided by operating activities		<u>999,228</u>		<u>718,072</u>

**LG Chem, Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2007 and 2006**

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from investing activities</b>		
(Acquisition) disposal of short-term investments, net	₩ (50,103)	₩ 560
Disposal of property, plant and equipment	21,519	6,463
Disposal of long-term guarantee deposits, net	4,543	31,663
Acquisition of property, plant and equipment	(450,671)	(527,215)
Acquisition of investment securities	-	(140)
Acquisition of equity-method investments, net	(26,801)	(64,170)
Acquisition of intangible assets, net	(19,157)	(22,416)
Others, net	(15,707)	(28,485)
Net cash used in investing activities	<u>(536,377)</u>	<u>(603,740)</u>
<b>Cash flows from financing activities</b>		
Repayment of short-term borrowings, net	(25,076)	(100,865)
Repayment of current maturities of long-term debts	(441,218)	(732,158)
Issuance of debentures	94,059	419,750
Payment of dividends	(72,907)	(91,046)
Proceeds from long-term debts, net	139,041	138,532
Others, net	(509)	(3,667)
Net cash used in financing activities	<u>(306,610)</u>	<u>(369,454)</u>
<b>Cash flows from merger</b>	<u>194,367</u>	<u>181,507</u>
Net increase (decrease) in cash and cash equivalents	<u>350,608</u>	<u>(73,615)</u>
<b>Cash and cash equivalents</b>		
Beginning of the year	115,830	189,445
End of the year	<u>₩ 466,438</u>	<u>₩ 115,830</u>

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

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**1. The Company**

The Company was spun off from LG Chem Investment Ltd. (formerly LG Chemical Ltd.) on April 1, 2001, and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, industrial materials, and information and electronic materials. The Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan and Ochang.

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006. Also, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007 (Note 32).

As of December 31, 2007, the Company has an outstanding capital stock of ₩419,500 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 with par value of ₩5,000 per share. As of December 31, 2007, the Company has issued 75,238,770 common shares (2006: 64,425,064 common shares) and 8,661,251 preferred shares (2006: 8,661,251 preferred shares). Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.

**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

**Basis of Financial Statements Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language, in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean 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.

**Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Commission. The Company has adopted SKFAS No. 1 through No. 23, except No. 14, in its financial statements as of and for the year ended December 31, 2007. Significant accounting policies adopted by the Company for the annual financial statements are identical to the accounting policies followed by the Company for the annual financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21 through 23, which became effective

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

for the Company on January 1, 2007, and the Accounting Standards for Business Combinations in relation to the merger with LG Petrochemical Co., Ltd. However, the non-consolidated statement of changes in shareholders' equity is not presented comparatively in accordance with SKFAS No. 21.

In accordance with SKFAS No. 21, *Preparation and Presentation of Financial Statements I*, the Company's financial statements include the statements of changes in shareholders' equity. The Company classified its capital adjustments account into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of its comprehensive income in the notes to the financial statements. In addition, the Company disclosed its earnings per share on the face of its statements of income.

Certain prior year accounts, presented herein for comparative purposes, have been reclassified to conform to current year's financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

**Restatement of Prior Year Financial Statements**

In the preparation of the financial statements for the year ended December 31, 2007, the Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*. The financial statements as of and for the year ended December 31, 2006, have been retroactively restated to reflect the changes in accordance with SKFAS No. 1. As a result, income tax decreased by ₩238 million, retained earnings decreased by ₩3,667 million, gain on valuation of equity-method investments decreased by ₩2,642 million, loss on valuation of equity-method investments decreased by ₩5,704 million, and deferred income tax liabilities increased by ₩605 million as of and for the year ended December 31, 2007.

The effects on the financial statements caused by the above changes, as of and for the year ended December 31, 2006 and 2005, are as follows:

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

	2006		2005	
	Before adjustment	After adjustment	Before Adjustment	After adjustment
Deferred income tax liabilities	₩95,316	₩89,196	₩111,020	₩104,804
Unappropriated retained earnings	318,787	314,882	400,261	399,138
Changes in equity arising from equity-method investments	(54,419)	(44,394)	(4,934)	2,405
Income from continuing operations	320,850	318,068	3	3
Income tax <sup>1</sup>	76,519	79,301	67,420	64,066
Net income	318,782	316,000	400,258	403,612
Income from continuing operations per share (won) <sup>2</sup>	4,421	4,383	3	3
Earnings per share (won) <sup>2</sup>	4,392	4,354	5,501	5,547

<sup>1</sup> Includes income tax effect from discontinued operations.

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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<sup>2</sup> There are no outstanding convertible bonds or other dilutive securities as of December 31, 2007 and 2006. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

<sup>3</sup> Not applicable for 2005.

**Mergers**

The Company merged with LG Petrochemical Co., Ltd. on November 1, 2007, and LG Daesan Petrochemical Ltd. on January 1, 2006. According to the Accounting Standards for Business Combination, these mergers were regarded as the mergers between a parent company and its subsidiaries. Therefore, assets and liabilities taken over by the Company were assessed at their book values on the consolidated financial statements (Note 32).

**Accounting Estimates**

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

**Revenue Recognition**

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

**Government Grants**

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

**Asset-Backed Securities**

The Company recognizes interest and issuance expenses as losses on disposal of trade accounts receivable.

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

**Inventories**

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

**Securities**

Costs of securities are determined using the moving-weighted average method.

Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**Equity-Method Investments**

In the non-consolidated financial statements of the Company, investments in business entities, over which the Company exercises significant control or influence over the operating and financial policies of such entities, are recorded using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the changes in the Company's proportionate ownership in the book value of the investee in current operations, as accumulated other comprehensive income and expenses or as adjustments to retained earnings, depending on the nature of the underlying change in the net book value of the investee. Unrealized profit arising from intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. The Company's proportionate unrealized profit arising from sales between the Company and equity-method investees or sales between equity-method investees is eliminated. However, unrealized profit arising from sales by the Company to its consolidated subsidiaries is fully eliminated.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investee equals the costs of the investments, and until the subsequent accumulated proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Even if the book value of the investments, including other investment-type assets such as the preferred shares or long-term debts of the investees becomes zero or negative, the Company still continues to record its share in the net losses of the investees until its proportionate net loss of the investee equals the book value of such assets.

The difference between the Company's initial proportionate ownership in the net fair value and the net book value of the investee, which is the net of the fair value and the net book value of the recognizable assets and liabilities, is amortized according to the investee's accounting policy for the related assets and liabilities.

When the initial purchase price exceeds or is below the Company's initial proportionate ownership in the net fair value of the investee, which is the net of the fair value of the investee's recognizable assets and liabilities, the Company considers the difference as goodwill (negative goodwill) and amortizes it in accordance with the Accounting Standards for Business Combination.

In cases where the investee is the Company's consolidated subsidiary, the difference between change of the Company's proportionate ownership in the net book value of the investee and purchase price, which is paid for the Company's additional acquisition of shares or investee's issuance of new shares, is accounted for as accumulated other comprehensive income and expenses as gain or loss on valuation of equity-method investments in shareholders' equity.

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rate for income statements. Any resulting translation gain or loss is accounted for as accumulated other comprehensive income and expense as gain or loss on valuation of equity-method investments in shareholders' equity.



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In the application of the equity method of accounting, the overseas investee companies apply the same accounting policies as the Company. For example, the Company made adjustments to the financial statements of overseas investees whose estimated useful lives on their property, plant and equipment are different from those used by the Company. As a result of these adjustments, the gain on valuation of equity-method of accounting decreased by ₩7,101 million for the year ended December 31, 2007.

**Property, Plant and Equipment, and Related Depreciation**

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:

	<b>Estimated Useful Lives</b>
Buildings and structures	25 – 50 years
Machinery and equipment	6 – 15 years
Vehicles	4 – 6 years
Tools	4 – 6 years
Furniture and fixtures and others	4 – 6 years

The Company capitalizes interest expense incurred on borrowings used to finance the cost of constructing property, plant and equipment.

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or extend the useful lives of the related assets, are capitalized.

The Company recognized loss on disposal of property, plant and equipment (including that of discontinued operations) of ₩35,312 million for the year ended 2007 (2006: ₩10,379 million).

**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.

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**Intangible Assets**

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Intangible assets, consisting of intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from three to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. For the year ended December 31, 2007, the Company expensed ₩ 212,038 million (2006: ₩198,198 million) as normal development expense.

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill (negative goodwill) is amortized in accordance with the Accounting Standards for Business Combination.

**Impairment of Assets**

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

**Revaluation of Receivables**

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

**Premiums or Discounts on Debentures**

The Company accounts for the difference between the face amount and issued amount of debentures as an addition to or deduction from debentures. Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

**LG Chem, Ltd.**  
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**Derivative Financial Instruments**

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

**Share-based Compensation**

The Company recognizes a difference between the stock compensation price as of December 31, 2007 and the exercise price, as stock compensation expense and long-term payables.

**Discontinued Operations**

The Company reports its operating and non-operating income or loss as income or loss from discontinued operations, net of income tax effect. The discontinued operations income or loss includes direct costs from discontinued operations and impairment loss on assets due to discontinued operations.

**Approval of Financial Statements**

The December 31, 2007 non-consolidated financial statements of the Company were approved by the board of directors on January 29, 2008.

**3. Restricted Bank Deposits**

As of December 31, 2007, long-term financial instruments of ₩68 million (2006: ₩60 million) are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

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

**4. Short-Term Investments**

*(in millions of Korean won)*

	<b>2007</b>	<b>2006</b>
Time deposits	₩ 100,000	₩ -
Available-for-sale <sup>1</sup>	4	-
Short-term loans receivable	6,408	6,311
	<u>₩ 106,412</u>	<u>₩ 6,311</u>

<sup>1</sup> Available-for-sale consists of government and public bonds.

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**5. Asset-Backed Securitization**

In accordance with the Asset Securitization Law, on December 27, 2004, the Company transferred ₩229,625 million of trade accounts receivable outstanding as of November 30, 2004, to LG Chem 3<sup>rd</sup> Special Purpose Company. Through the asset-backed securitization of trade receivables, the Company acquired beneficiary certificates. The maturity dates of these beneficiary certificates are January 28, 2008 (₩50,000 million), February 28, 2008 (₩50,000 million) and March 28, 2008 (₩60,000 million).

As of December 31, 2007, 2<sup>nd</sup> beneficiary certificates acquired from the trust companies, amounting to ₩126,959 million (2006: ₩123,761 million), are included in the trade accounts receivable.

The senior tranche securities have priority claims on the principal, interest and operating expenses of the special purpose companies. However, the beneficiary certificates and subordinated notes held by the Company can enforce their claim only after the priority claims will have been satisfied.

The Company has the obligation to collect the trade accounts receivable transferred and pay for the special purpose companies' expenses, such as interest and operating expenses as described above.

As of December 31, 2007, trade accounts receivable transferred to the special purpose companies amounted to ₩286,959 million (2006: ₩283,761million).

**6. Receivables**

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

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Trade accounts and notes receivable	₩ 1,025,892	₩ 864,339
Less: Allowance for doubtful accounts	(48,587)	(45,955)
	<u>₩ 977,305</u>	<u>₩ 818,384</u>
Other accounts receivable	₩ 122,605	₩ 145,889
Less: Allowance for doubtful accounts	(24,169)	(24,719)
Less: Present value discount accounts	(36)	(28)
	<u>₩ 98,400</u>	<u>₩ 121,142</u>
Long-term trade accounts and notes receivable	₩ 239	₩ 550
Less: Allowance for doubtful accounts	(32)	(85)
	<u>₩ 207</u>	<u>₩ 465</u>
Long-term other accounts receivable	₩ 685	₩ 1,188
Less: Present value discount accounts	(46)	(134)
	<u>₩ 639</u>	<u>₩ 1,054</u>

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**Translation of assets and liabilities denominated in foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the balance sheet and the resulting translation gains and losses are recognized in current operations. The exchange rate used to translate U.S. dollar denominated monetary assets and liabilities as of December 31, 2007 is ₩938.2: US\$1 (2006: ₩929.6: US\$1).

**Accrued Severance Benefits**

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

Accrued severance benefits are funded at approximately 64.6 % as of December 31, 2007 (2006: 58.6%), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of this deposit.

**Provisions and Contingent Liabilities**

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

**Income Tax and Deferred Income Tax**

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Deferred income tax assets (liabilities) for temporary differences are classified into current assets (current liabilities) or other non-current assets (non-current liabilities) according to the classification of the assets (liabilities) on balance sheet, to which the temporary differences are related. For temporary differences that are not related to the assets (liabilities) on balance sheet, the deferred income tax assets (liabilities) are classified into current or non-current assets (liabilities) according to the expected reversal date of the temporary differences.

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**7. Inventories**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Merchandise, net of valuation allowance of ₩607 million (2006: ₩649 million)	₩	43,812	₩	47,064
Finished products, net of valuation allowance of ₩5,298million (2006: ₩11,973 million)		528,350		375,421
Work-in-process		141,239		104,860
Raw materials, net of valuation allowance of ₩335 million (2006: ₩414 million)		354,493		212,788
Supplies		37,089		30,559
Materials-in-transit		62,854		98,446
	₩	<u>1,167,837</u>	₩	<u>869,138</u>

As of December 31, 2007, inventories are insured against fire and other casualty losses for up to ₩819,936 million (2006: ₩656,075 million).

**8. Investment Securities**

Long-term investment securities of the Company as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Government and public bonds	₩	31	₩	-
Non-marketable stocks		1,881		1,718
Total	₩	<u>1,912</u>	₩	<u>1,718</u>

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Non-marketable stocks as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value <sup>4</sup>	
	2007	2006	2007	2006	2007	2006	2007	2006
N&L Marble	22.73	22.73	₩ 539	₩ 539	₩ -	₩ -	₩ -	₩ 114
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	670	564
TECWIN	19.90	19.90	419	419	419	419	2,420	2,042
Chemizen. Com Ltd. <sup>1</sup>	2.62	2.62	300	300	-	10	-	10
LG Mozel Ltd.	13.00	9.75	195	195	195	195	544	392
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	793	509
Neococos <sup>1,2</sup>	4.86	6.00	9	9	-	9	-	10
Saerom Seongwon <sup>3</sup>	0.00	-	182	-	182	-	1	-
			₩ 4,518	₩ 4,336	₩ 1,881	₩ 1,718	₩ 4,428	₩ 3,641

<sup>1</sup> The Company recognized an impairment loss of ₩10 million and ₩9 million, in 2007.

<sup>2</sup> LG Environment Strategy Institute changed its name to Neococos in 2007.

<sup>3</sup> Upon the decision of the amendment of the Court Receivership Plan of Saerom Seongwon, related trade receivables were converted into equity investment.

<sup>4</sup> Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the statement of income in cases where there is an indication that an investment may have been impaired.

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**9. Equity-Method Investments**

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

(in millions of Korean won)

Investee <sup>13</sup>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2007	2006	2007	2006	2007	2006	2007	2006
LG Petrochemical Co., Ltd. <sup>1</sup>	-	40.00	-	₩ 153,790	-	₩ 352,579	-	₩ 342,029
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,440	17,440	23,370	21,465	23,416	21,502
Tianjin LG New Building Materials Co., Ltd. <sup>2</sup>	85.35	82.80	33,649	20,341	31,472	16,849	37,544	21,609
Tianjin LG Window & Door Co., Ltd. <sup>2</sup>	-	90.00	-	13,308	-	7,689	-	8,955
Ningbo LG Yongxing Chemical Co., Ltd. <sup>3,4</sup>	75.00	75.00	110,746	95,237	143,143	112,539	142,382	111,924
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	50,173	40,906	50,173	40,906
LG Chemical Hong Kong Ltd. <sup>5</sup>	100.00	100.00	254	254	7,489	6,669	6,997	6,120
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	2,561	2,239	2,614	2,549
LG Chem America, Inc.	100.00	100.00	9,596	9,596	5,441	5,200	8,531	8,388
M. Dohmen S.A. <sup>6,13</sup>	49.00	49.00	43,203	43,203	993	993	5,889	14,835
SEETEC Co., Ltd. <sup>11</sup>	50.00	50.00	36,643	36,643	64,306	54,749	157,490	152,280
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	75,919	80,246	74,822	79,287
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. <sup>7</sup>	100.00	100.00	13,091	10,486	15,435	11,301	15,453	11,325
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. <sup>8</sup>	77.00	73.43	50,704	43,296	37,339	21,370	51,846	35,687
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	1,724	1,653	1,739	1,656
LG Chem (China) Investment Co., Ltd.	100.00	100.00	40,340	40,340	43,125	40,298	43,127	40,298
LG Chem (Taiwan), Ltd. <sup>9</sup>	100.00	100.00	6,888	2,291	2,566	1,158	6,434	4,341
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	8,545	9,850	8,891	10,229
LG Chem Europe Sarl <sup>10</sup>	-	100.00	-	5,635	-	1,441	-	1,441
LG Holdings (HK) Ltd. <sup>11,13</sup>	18.18	18.18	41,582	41,582	27,222	28,682	24,866	25,802
Ningbo LG Yongxing Latex Co., Ltd. <sup>4</sup>	-	75.00	-	6,843	-	4,748	-	4,759
Compact Power Inc.	81.00	81.00	4,635	4,635	611	545	611	545
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	7,125	4,639	7,765	5,419
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	7,200	4,977	7,961	5,526
Tianjin LG Bohai Chemical Co., Ltd. <sup>12</sup>	65.00	43.89	63,524	38,445	67,238	37,294	77,313	47,377
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	2,015	933	2,781	1,964
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O	100.00	100.00	5,790	5,790	9,228	5,352	9,214	5,352
			₩583,527	₩694,597	₩ 634,498	₩ 876,622	₩786,117	₩1,012,363

<sup>1</sup> On November 1, 2007, LG Petrochemical Co., Ltd. was merged with the Company (Note 32)

<sup>2</sup> On July 1, 2007, Tianjin LG New Building Materials Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. As a result, the Company's percentage of ownership in Tianjin LG New Building Materials Co., Ltd. increased from 82.80% to 85.35%.

<sup>3</sup> In 2007, the Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,666 million without any changes in its percentage of ownership.

<sup>4</sup> On November 1, 2007, Ningbo LG Yongxing Chemical Co., Ltd. merged with Ningbo LG Yongxing Latex Co., Ltd.

<sup>5</sup> The number of shares in LG Chemical Hong Kong Ltd. increased due to investee's issuance of new shares in 2007.



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- <sup>6</sup> The Company recognized an impairment loss of ₩10,993 million for the difference between the estimated realizable value and the book value in 2006.
- <sup>7</sup> In 2007, the Company acquired additional shares of LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. for ₩2,605 million without any changes in its percentage of ownership.
- <sup>8</sup> In 2007, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronic Materials Co., Ltd. for ₩ 7,408 million. As a result, the Company's percentage of ownership in LG Chem (Nanjing) Information & Electronic Materials Co., Ltd. increased from 73.43% to 77.00%.
- <sup>9</sup> In 2007, the Company acquired additional shares of LG Chem (Taiwan), Ltd. for ₩4,597 million without any changes in its percentage of ownership.
- <sup>10</sup> The investee was liquidated in 2007.
- <sup>11</sup> This investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.
- <sup>12</sup> The Company acquired additional shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩5,111 million. Further, the Company's percentage of ownership increased from 43.89% to 65.0%, as the Company merged with LG Petrochemical Co., Ltd, which held 20% of ownership in Tianjin LG Bohai Chemical Co., Ltd.
- <sup>13</sup> As of December 31, 2007, the Company has control over all the investees, except M. Dohmen S.A., SEETEC Co., Ltd. and LG Holdings (HK) Ltd.

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Changes in equity-method investments for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investee	2007							
	January 1, 2007	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Accumulated other comprehensive income and expenses	Increase (Decrease) due to Acquisition	December 31, 2007	
LG Petrochemical Co., Ltd.	₩ 352,579	₩ -	₩ (22,600)	₩ 103,983	₩ 39,020	(472,982)	₩ -	
Tianjin LG Dagu Chemical Co., Ltd.	21,465	-	-	227	1,678	-	23,370	
Tianjin LG New Building Materials Co., Ltd. <sup>1</sup>	16,849	-	-	3,650	3,284	7,689	31,472	
Tianjin LG Window & Door Co., Ltd. <sup>1</sup>	7,689	-	-	-	-	(7,689)	-	
Ningbo LG Yongxing Chemical Co., Ltd. <sup>1</sup>	112,539	8,666	(32,034)	39,623	9,601	4,748	143,143	
LG Chemical India Pvt. Ltd.	40,906	-	-	3,558	5,709	-	50,173	
LG Chemical Hong Kong Ltd.	6,669	-	-	756	64	-	7,489	
LG Vina Chemical J/V Company	2,239	-	(847)	1,146	23	-	2,561	
LG Chem America, Inc.	5,200	-	-	(20)	261	-	5,441	
M. Dohmen S.A.	993	-	-	-	-	-	993	
SEETEC Co., Ltd.	54,749	-	-	9,542	15	-	64,306	
LG Dow Polycarbonate Ltd.	80,246	-	-	(4,161)	(166)	-	75,919	
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	11,301	2,605	(3,067)	3,538	1,058	-	15,435	
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	21,370	7,408	-	6,286	2,275	-	37,339	
LG Chem Trading (Shanghai) Co., Ltd.	1,653	-	-	(71)	142	-	1,724	
LG Chem (China) Investment Co., Ltd.	40,298	-	-	1,045	1,782	-	43,125	
LG Chem (Taiwan), Ltd.	1,158	4,597	-	(3,379)	190	-	2,566	
LG Chem Industrial Materials Inc.	9,850	-	-	(1,393)	88	-	8,545	
LG Chem Europe Sarl	1,441	(1,441)	-	-	-	-	-	
LG Holdings (HK) Ltd.	28,682	-	-	(2,778)	1,318	-	27,222	
Ningbo LG Yongxing Latex Co., Ltd. <sup>1</sup>	4,748	-	-	-	-	(4,748)	-	
Compact Power Inc.	545	-	-	60	6	-	611	
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	4,639	-	-	1,961	525	-	7,125	
LG Chem Display Materials Co., Ltd.	4,977	-	-	1,328	895	-	7,200	
Tianjin LG Bohai Chemical Co., Ltd.	37,294	5,111	-	(89)	5,255	19,667	67,238	
LG Chem Europe GmbH	933	-	-	694	388	-	2,015	
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258	
LG Chem Poland Sp. Z.O.O	5,352	-	-	2,489	1,387	-	9,228	
	₩ 876,622	₩ 26,946	₩ (58,548)	₩ 167,995	₩ 74,798	₩ (453,315)	₩ 634,498	

<sup>1</sup> As Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively, in 2007, profits of the merged companies are included in the profit amounts of the surviving companies.

**LG Chem, Ltd.**  
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(in millions of Korean won)

Investee	2006						December 31, 2006
	January 1, 2006	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Accumulated other comprehensive income and expenses		
LG Petrochemical Co., Ltd.	₩ 338,017	₩ -	₩ (18,080)	₩ 74,385	(41,743)	352,579	
Tianjin LG Dagu Chemical Co., Ltd.	30,172	(58)	-	(7,338)	(1,311)	21,465	
Tianjin LG New Building Materials Co., Ltd.	16,037	447	-	1,465	(1,100)	16,849	
Tianjin LG Window & Door Co., Ltd.	7,479	-	-	(762)	972	7,689	
Ningbo LG Yongxing Chemical Co., Ltd.	103,608	8,820	(25,451)	30,129	(4,567)	112,539	
LG Chemical India Pvt. Ltd.	43,441	-	(2,640)	2,324	(2,219)	40,906	
LG Chemical Hong Kong Ltd.	6,141	-	-	993	(465)	6,669	
LG Vina Chemical J/V Company	2,270	-	(728)	925	(228)	2,239	
LG Chem America, Inc.	5,764	-	-	783	(1,347)	5,200	
M. Dohmen S.A. <sup>1</sup>	18,306	-	-	(14,362)	(2,951)	993	
LG Daesan Petrochemical Ltd.	650,565	(650,565)	-	-	-	-	
SEETEC Co., Ltd.	44,663	-	-	10,070	16	54,749	
LG Dow Polycarbonate Ltd.	71,534	-	-	8,705	7	80,246	
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	9,249	-	-	2,594	(542)	11,301	
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	28,130	1,617	-	(6,362)	(2,015)	21,370	
LG Chem Trading (Shanghai) Co., Ltd.	1,850	-	-	48	(245)	1,653	
LG Chem (China) Investment Co., Ltd.	31,757	9,001	-	17	(477)	40,298	
LG Chem (Taiwan), Ltd.	2,113	-	-	(526)	(429)	1,158	
LG Chem Industrial Materials Inc.	11,873	-	-	(1,067)	(956)	9,850	
LG Chem Europe Sarl <sup>2</sup>	-	-	-	754	687	1,441	
LG Holdings (HK) Ltd.	22,302	11,088	-	(4,172)	(536)	28,682	
Ningbo LG Yongxing Latex Co., Ltd.	6,158	-	-	(968)	(442)	4,748	
Compact Power Inc.	1,120	-	-	287	(862)	545	
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	4,415	-	-	(110)	334	4,639	
LG Chem Display Materials Co., Ltd.	6,898	-	-	(1,672)	(249)	4,977	
Tianjin LG Bohai Chemical Co., Ltd.	8,169	30,260	-	12	(1,147)	37,294	
LG Chem Europe GmbH	1,448	-	-	(560)	45	933	
LG Chem Brasil, Ltd.	258	-	-	-	-	258	
LG Chem Poland Sp. Z.O.O	2,795	2,995	-	(565)	127	5,352	
	₩1,476,532	₩(586,395)	₩ (46,899)	₩ 95,027	₩ (61,643)	876,622	

<sup>1</sup> The Company recognized an impairment loss of ₩10,993 million for the difference between the estimated realizable value and the book value in 2006.

<sup>2</sup> The Company resumed the equity method of accounting since the investee's net asset value became positive in 2006.

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The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investee	2007				2006			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
LG Petrochemical Co., Ltd. <sup>1</sup>	W 13,512	W (11,134)	W 2,378	W -	W 16,120	W -	W 2,608	W 13,512
Tianjin LG New Building Materials Co., Ltd.	-	-	-	-	180	-	180	-
LG Daesan Petrochemical Ltd. <sup>2</sup>	-	-	-	-	(353,752)	353,752	-	-
SEETEC Co., Ltd.	(67,256)	-	(3,363)	(63,893)	(70,619)	-	(3,363)	(67,256)
LG Dow Polycarbonate Ltd.	1,388	-	198	1,190	1,586	-	198	1,388
LG Holdings (HK) Ltd.	2,879	-	524	2,355	3,403	-	524	2,879
Compact Power Inc.	-	-	-	-	845	(845)	-	-
	<u>W(49,477)</u>	<u>W(11,134)</u>	<u>W (263)</u>	<u>W (60,348)</u>	<u>W(402,237)</u>	<u>W352,907</u>	<u>W 147</u>	<u>W (49,477)</u>

<sup>1</sup> As the Company merged with LG Petrochemical Co.,Ltd. in 2007, the unamortized differences under equity-method accounting were transferred to goodwill (Note 32).

<sup>2</sup> As the Company merged with LG Daesan Petrochemical Ltd. in 2006, the unamortized differences under equity-method accounting were transferred to negative goodwill (Note 32).

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The eliminated unrealized gains incurred from transactions entered into with equity method investees as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investee	2007		2006	
	Inventory		Inventory	
LG Petrochemical Co., Ltd.	₩	-	₩	3,814
Tianjin LG Dagu Chemical Co., Ltd.		50		68
Tianjin LG New Building Materials Co., Ltd.		188		92
Tianjin LG Window & Door Co., Ltd.		-		45
Ningbo LG Yongxing Chemical Co., Ltd.		202		91
LG Chemical Hong Kong Ltd.		759		755
LG Vina Chemical J/V Company		53		310
LG Chem America, Inc.		3,084		3,205
LG Dow Polycarbonate Ltd.		100		437
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.		23		30
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.		525		559
LG Chem Trading(Shanghai) Co., Ltd.		16		5
LG Chem (China) Investment Co., Ltd.		1		-
LG Chem (Taiwan), Ltd.		3,807		3,186
LG Chem Industrial Materials Inc.		391		424
Ningbo LG Yongxing Latex Co., Ltd.		-		11
Tianjin LG Bohai Chemical Co., Ltd.		301		-
LG Chem Europe GmbH		766		1,033
LG Chem (Tianjin) Engineering Plastics Co., Ltd.		21		166
	₩	10,287	₩	14,231

Changes in gain (loss) on valuation of investment securities accounted for as accumulated other comprehensive income and expenses for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

	2007			2006		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩ 1,523	₩ (55,858)	₩ (54,335)	₩ 48,396	₩ (41,079)	₩ 7,317
Increase	50,742	-	50,742	-	(14,779)	(14,779)
Decrease	-	(24,056)	(24,056)	46,873	-	46,873
Merger and disposal <sup>1</sup>	(39,880)	-	(39,880)	-	-	-
Ending balance	₩ 12,385	₩ (31,802)	₩ (19,417)	₩ 1,523	₩ (55,858)	₩ (54,335)
Tax effect	(2,641)	5,736	3,095	(168)	10,109	9,941
Net ending balance	₩ 9,744	₩ (26,066)	₩ (16,322)	₩ 1,355	₩ (45,749)	₩ (44,394)

<sup>1</sup> Includes changes arising from merger of LG Petrochemical Co., Ltd. and disposal of LG Chem Europe Sarl.

Net income and net assets as of December 31, 2007 and 2006, in this non-consolidated financial statements differ from the Company's consolidated financial statements mainly due to application of the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures.*

**LG Chem, Ltd.**  
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The summary financial information on the equity-method investees as of and for the years ended December 31, 2007 and 2006, is as follows:

(in millions of Korean won)

Investee	2007			
	Total Assets	Total Liabilities	Sales	Net Income (Loss)
LG Petrochemical Co., Ltd. <sup>1</sup>	₩ -	₩ -	₩ -	₩ -
Tianjin LG Dagu Chemical Co., Ltd.	126,210	94,988	293,692	314
Tianjin LG New Building Materials Co., Ltd. <sup>2</sup>	74,487	36,943	71,399	3,696
Tianjin LG Window & Door Co., Ltd. <sup>2</sup>	-	-	-	-
Ningbo LG Yongxing Chemical Co., Ltd. <sup>2</sup>	448,387	258,545	920,670	52,373
LG Chemical India Pvt. Ltd.	69,334	19,160	119,752	3,447
LG Chemical Hong Kong Ltd.	38,944	31,947	502,488	814
LG Vina Chemical J/V Company	13,158	6,623	49,267	2,233
LG Chem America, Inc.	103,682	95,151	286,426	894
M. Dohmen S.A.	82,860	70,842	83,805	(6,714)
SEETEC Co., Ltd.	520,489	205,510	359,348	15,173
LG Dow Polycarbonate Ltd.	334,059	184,415	260,293	(8,240)
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	55,444	39,991	91,245	3,531
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	140,834	88,987	105,486	6,476
LG Chem Trading (Shanghai) Co., Ltd.	1,895	156	1,296	(47)
LG Chem (China) Investment Co., Ltd.	62,189	19,062	75,856	1,128
LG Chem (Taiwan), Ltd.	213,790	207,356	403,344	(2,688)
LG Chem Industrial Materials Inc.	38,937	30,046	32,338	(1,426)
LG Chem Europe Sarl	-	-	-	-
LG Holdings (HK) Ltd.	136,783	4	-	(12,398)
Ningbo LG Yongxing Latex Co., Ltd. <sup>2</sup>	-	-	-	-
Compact Power Inc.	2,252	1,498	6,345	75
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	25,359	17,595	34,738	1,821
LG Chem Display Materials (Beijing) Co., Ltd.	18,822	10,861	9,075	1,541
Tianjin LG Bohai Chemical Co., Ltd.	364,694	261,610	190,004	151
LG Chem Europe GmbH	21,939	19,158	74,489	376
LG Chem Brasil Ltd.	258	-	-	-
LG Chem Poland Sp. Z.O.O	33,365	24,151	11,507	2,981
	<u>₩2,928,171</u>	<u>₩1,724,599</u>	<u>₩3,982,863</u>	<u>₩ 65,511</u>

<sup>1</sup> The Company merged with LG Petrochemical Co., Ltd. in 2007.

**LG Chem, Ltd.**  
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<sup>2</sup> As Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively, in 2007, financial information of the merged companies are included in those of the surviving companies.

(in millions of Korean won)

Investee	2006			
	Total Assets	Total Liabilities	Sales	Net Income (Loss)
LG Petrochemical Co., Ltd.	₩ 1,138,511	₩ 283,440	₩2,195,239	₩ 190,883
Tianjin LG Dagu Chemical Co., Ltd.	107,825	79,155	229,277	(9,117)
Tianjin LG New Building Materials Co., Ltd.	44,911	23,302	32,748	1,867
Tianjin LG Window & Door Co., Ltd.	25,588	16,633	23,772	(731)
Ningbo LG Yongxing Chemical Co., Ltd.	371,748	222,516	679,761	40,396
LG Chemical India Pvt. Ltd.	59,268	18,362	108,588	2,613
LG Chemical Hong Kong Ltd.	101,317	95,197	897,188	1,327
LG Vina Chemical J/V Company	11,962	5,589	37,115	2,240
LG Chem America, Inc.	104,516	96,128	357,169	3,921
M. Dohmen S.A.	85,149	54,874	62,050	(3,555)
SEETEC Co., Ltd.	513,380	208,820	362,477	13,694
LG Dow Polycarbonate Ltd.	262,148	103,574	222,168	17,121
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	43,137	31,812	68,866	2,392
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	158,948	123,261	217,659	(7,076)
LG Chem Trading (Shanghai) Co., Ltd.	1,728	72	7,052	57
LG Chem (China) Investment Co., Ltd.	54,980	14,682	70,037	156
LG Chem (Taiwan), Ltd.	101,928	97,588	209,671	1,863
LG Chem Industrial Materials Inc.	41,159	30,930	31,475	(346)
LG Chem Europe Sarl	1,441	-	10,002	384
LG Holdings (HK) Ltd.	142,007	81	-	(19,852)
Ningbo LG Yongxing Latex Co., Ltd.	47,074	40,729	39,905	(1,306)
Compact Power Inc.	1,044	372	4,064	382
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	21,603	16,183	18,511	(55)
LG Chem Display Materials Co., Ltd.	37,072	31,546	45,265	(1,885)
Tianjin LG Bohai Chemical Co., Ltd.	253,595	167,455	-	-
LG Chem Europe GmbH	22,153	20,189	44,624	79
LG Chem Brasil Ltd.	258	-	505	-
LG Chem Poland Sp. Z.O.O	26,246	20,893	5	(565)
	<u>₩ 3,780,696</u>	<u>₩ 1,803,383</u>	<u>₩5,975,193</u>	<u>₩ 234,887</u>

**LG Chem, Ltd.**  
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**10. Property, Plant and Equipment**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Buildings	₩	1,015,083	₩	925,972
Structures		492,002		366,588
Machinery and equipment		4,575,811		3,737,563
Vehicles		26,413		26,356
Tools and furniture		606,317		596,301
Others		12,935		12,935
		<u>6,728,561</u>		<u>5,665,715</u>
Less: Accumulated depreciation		(3,898,819)		(3,346,920)
Accumulated impairment loss		(12,408)		(19,510)
		<u>2,817,334</u>		<u>2,299,285</u>
Land		497,823		430,480
Construction-in-progress		286,560		324,841
Machinery-in-transit		20,083		44,416
	₩	<u>3,621,800</u>	₩	<u>3,099,022</u>

For the year ended December 31, 2007, capitalized interest expense amounted to ₩3,140 million (2006: ₩2,386 million). As a result of the capitalization of interest expense, as of December 31, 2007, property, plant and equipment increased by ₩22,146 million (2006: ₩20,038 million), and net income increased by ₩1,804 million (2006: ₩1,302 million), respectively.

As of December 31, 2007, property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩9,659,817 million (2006: ₩7,467,353). In addition, as of December 31, 2007 and 2006, the Company has business interruption insurance policies.

As of December 31, 2007, certain property, plant and equipment have been pledged as collaterals for certain bank loans, for up to a maximum of ₩365,822 million (2006: ₩356,988 million) (Notes 12 and 13).

As of December 31, 2007, the appraised value of the Company's land, as determined by the local governments in Korea for property tax assessment purposes, amounted to approximately ₩777,178 million (2006: ₩662,742 million).

As of December 31, 2007, the Company has a financing lease agreement on certain property, plant and equipment at the methyl tertiary butyl ether factory. The book values of the said property, plant and equipment total ₩8,754 million as of December 31, 2007 (2006: ₩10,924 million), and their total depreciation expense amounts to ₩2,180 million for the year then ended (₩2,178 million) (Note 13).



**LG Chem, Ltd.**  
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**11. Intangible Assets**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Intellectual property rights	₩	24,595	₩	17,761
Exclusive facility use rights		1,242		1,443
Development costs, net		45,471		66,345
Others		9,389		14,818
Goodwill		10,714		-
Negative goodwill		(274,187)		(313,357)
	₩	<u>(182,776)</u>	₩	<u>(212,990)</u>

The changes in development costs for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Beginning balance	₩	66,345	₩	83,392
Increase		15,963		10,341
		<u>82,308</u>		<u>93,733</u>
Less: Amortization		(20,867)		(24,610)
Disposal		(68)		-
Impairment loss		(15,902)		(2,778)
Ending balance	₩	<u>45,471</u>	₩	<u>66,345</u>

For the years ended December 31, 2007 and 2006, expenses (including those of discontinued operations) which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Employee education expenses	₩	12,362	₩	12,519
Advertising expenses		41,381		44,161
	₩	<u>53,743</u>	₩	<u>56,680</u>

**LG Chem, Ltd.**  
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**12. Short-Term Borrowings and Current Maturities of Long-Term Debts**

Short-term borrowings and current maturities of long-term debts as of December 31, 2007 and 2006, consist of the following:

*(in millions of Korean won)*

	Annual Interest Rate (%)		2007	2006
	2007	2006		
<b>Short-term borrowings</b>				
General term loans	-	CD+1.45	₩ -	₩ 76
Commercial paper	-	4.71	-	25,000
			<u>-</u>	<u>25,076</u>
<b>Current maturities of long-term debts</b>				
Debentures, including US\$ 115 million (2006: US\$ 80 million)	LIBOR 0.4~5.0	3.5~LIBOR+0.95	327,893	374,368
Won currency loans	3.0~9.0	3.0~9.0	1,466	1,387
Foreign currency loans of US\$ 40 million (2006: US\$ 70 million)	LIBOR+0.6	LIBOR+0.6	37,528	65,072
			<u>366,887</u>	<u>440,827</u>
Less: Discount on debentures issued			<u>(604)</u>	<u>(895)</u>
			<u>₩ 366,283</u>	<u>₩ 439,932</u>
			<u>₩ 366,283</u>	<u>₩ 465,008</u>

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2007 (Note 10).

**13. Long-term Debts**

Long-term debts as of December 31, 2007 and 2006, consist of the following:

*(in millions of Korean won)*

	Reference	2007	2006
Debentures	(1)	₩ 684,007	₩ 913,798
Loans	(2)	307,304	196,885
		<u>₩ 991,311</u>	<u>₩ 1,110,683</u>

**LG Chem, Ltd.**  
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(1) Debentures as of December 31, 2007 and 2006, are as follows:

*(In Millions of Korean won)*

	Annual Interest Rate (%)			2007		2006
	2007	2006				
Publicly offered debentures, payable through 2013	3.5~5.02	3.5~5.02	₩	680,000	₩	980,000
Privately offered debentures, payable through 2009	5.02~5.32	5.02~5.32		100,000		100,000
Foreign debentures of US\$250 million (2006: US\$230 million, payable through 2010 <sup>1</sup> )	LIBOR+ 0.2-0.60	LIBOR+ 0.4-0.95		234,550		213,808
				1,014,550		1,293,808
Less: Current maturities				(327,893)		(374,368)
Discount on debentures issued				(2,650)		(5,642)
			₩	684,007	₩	913,798

<sup>1</sup> Floating rate notes were issued on March 11, 2005 to mature on March 13, 2008; and on May 25, 2005 to mature on November 25, 2008. Term notes were also issued on March 23, 2006, to mature on September 23, 2008 and September 23, 2009. Further, the Company issued floating rate notes on March 20, 2007, and will redeem these on September 23, 2009 and September 17, 2010.

(2) Loans payable as of December 31, 2007 and 2006, consist of the following:

*(in Millions of Korean won)*

	Annual Interest Rate (%)			2007		2006
	2007	2006				
<b>Won currency loans</b>						
Energy fund loans	4.25	-	₩	5,859	₩	-
Housing loans	3.0	3.0		4,200		3,141
Company housing Movement expense	-	-		1,754		1,754
Capital lease <sup>1</sup>	9.0	9.0		13,593		14,867
				25,406		19,762
Less: Current maturities				(1,466)		(1,387)
				23,940		18,375
<b>Foreign currency loans</b>						
General term loans of US\$ 342.029 million (2006: US\$262.029 million)	LIBOR+ 0.3-0.6	LIBOR+ 0.35-0.6		320,892		243,582
Less: Current maturities				(37,528)		(65,072)
				283,364		178,510
			₩	307,304	₩	196,885

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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- <sup>1</sup> Capital lease liabilities are liabilities associated with a financing lease of property, plant and equipment at the methyl tertiary butyl ether factory (Note 10).

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2007 (Note 10).

The annual maturities of long-term debts, excluding discounts and premiums on debentures, as of December 31, 2007, are as follows:

*(in millions of Korean won)*

Year	Debentures	Won Currency Loans		Foreign Currency Loans	Total
		Loans	Lease		
2009	₩ 479,747	₩ 1,754	₩ 2,481	₩ 48,814	₩ 532,796
2010	146,910	2,257	2,481	187,640	339,288
2011	-	4,784	2,481	46,910	54,175
Thereafter	60,000	2,943	8,156	-	71,099
Unaccrued interest	-	-	(3,397)	-	(3,397)
	<u>₩ 686,657</u>	<u>₩ 11,738</u>	<u>₩ 12,202</u>	<u>₩ 283,364</u>	<u>₩ 993,961</u>

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**14. Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date. Resulting translation gains and losses are recognized in current operations.

As of December 31, 2007 and 2006, monetary assets and liabilities denominated in foreign currencies, excluding items referred to in Notes 12 and 13, consist of the following:

	Foreign Currency (in thousands)				Korean Won (in millions)	
	2007		2006		2007	2006
Cash and cash equivalents	US\$	17,460	US\$	4,442	₩23,799	₩5,520
	EUR	487	EUR	870		
	GBP	130	GBP	146		
	JPY	770,523	JPY	5,814		
Trade accounts and notes receivable	US\$	304,924	US\$	125,393	429,537	139,214
	EUR	10,493	EUR	4,045		
	GBP	110	GBP	11		
	JPY	15,450,855	JPY	2,262,079		
Other accounts receivable	US\$	21,745	US\$	15,414	24,105	33,278
	EUR	168	EUR	199		
	JPY	413,613	JPY	2,392,503		
Trade accounts and notes payable	US\$	162,082	US\$	172,814	247,522	268,976
	EUR	1,998	EUR	351		
	JPY	11,105,747	JPY	13,797,996		
Other accounts payable	US\$	43,490	US\$	51,644	49,554	59,026
	EUR	2,087	EUR	1,091		
	JPY	472,984	JPY	1,193,161		

Gains and losses on foreign currency translation(including discontinued operations) for the year ended December 31, 2007, are ₩6,878 million (2006: ₩32,213 million) and ₩8,944 million (2006: ₩2,572 million), respectively.

**15. Contingent Liabilities**

On February 21, 2007, the Fair Trade Commission of Korea (FTC) announced that it would be imposing fines on ten local petrochemical companies, including the Company, for collusion. Relative to this, the provisional fine imposed by the FTC on the Company amounted to ₩13,100 million, which the Company already accrued as of December 31, 2006. The amount was determined in 2007, and paid in installments in 2007.

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**16. Accrued Severance Benefits**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Provision for severance benefits	₩	278,413	₩	246,543
Less: Group severance insurance deposits		(179,983)		(144,394)
Contribution to National Pension Plan		(3,522)		(3,734)
Ending balance	₩	<u>94,908</u>	₩	<u>98,415</u>

**17. 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 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:

<b>Grant date</b>	<b>Number of Common Shares Granted<sup>1</sup></b>	<b>Grant Method</b>	<b>Exercise Price per share (in Korean won)</b>	<b>Exercise Period</b>
March 25, 2005	221,000	To compensate price difference	₩ 42,530	March 26, 2008 to March 25, 2012

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

The Company recognized stock compensation expense of ₩11,856 million for the year ended December 31, 2007.

**18. Commitments and Contingencies**

As of December 31, 2007, the Company has provided a joint guarantee for obligations existing prior to the spin-off, which were assumed by LG Corp. (formerly LG Chem Investment Ltd.) and LG Household & Health Care Ltd. Also, the Company has provided a joint guarantee for obligations outstanding as of January 1, 2005, for Lotte Daesan Petrochemical Ltd. and SEETEC Co., Ltd. In addition, the Company has provided financial guarantee to customers.

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As of December 31, 2007 and 2006, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of December 31, 2007, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges. Further, with respect to the borrowings of the Company, one blank promissory note is provided as collateral to a financial institution.

The Company has guaranteed repayments of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2007, amounted to ₩143,981 million (2006: ₩118,424 million) (Note 27).

As of December 31, 2007, the Company is contingently liable for notes receivable from export sales amounting to ₩664,786 million which were discounted through financial institutions in the ordinary course of business. Also, as of December 31, 2007, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩286,959 million (Note 5).

As of December 31, 2007, the Company has bank overdraft agreements with several banks for up to ₩98,100 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩101,600 million and US \$ 518 million. The Company has entered into contracts with several financial institutions for discounting notes from export for up to ₩15,000 million and US \$ 904 million, for other foreign currency payment guarantee of up to US\$ 15 million, and for other notes of up to ₩80,000 million.

As of December 31, 2007, the Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. Further, the Company has entered into manufacture and production technical contracts with Toyo Engineering Corp., while having BPA manufacturing technical contracts with three companies including Exxon Mobile. 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 December 31, 2007, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 4,317 thousand guarantee for this contract (2006: US\$ 162 thousand). Furthermore, as of December 31, 2007 and 2006, the Company provided EUR 1,000 thousand additional guarantees for customs clearance and US\$45,620 thousand additional guarantees for purchase contract for certain raw materials, respectively.

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

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As of December 31, 2007 and 2006, 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.

**19. Capital Surplus**

Changes in capital in 2007 are as follows:

*(in millions of Korean won)*

	Increase	Common Stock shares	Paid-in-capital of Common Stock	Paid-in Capital in Excess of Par Value
2007.1.1		64,425,064	₩ 322,126	₩ 532,002
2007.11.1	Issuance of new shares due to merger	10,813,706	54,068	520,638
2007.12.31		75,238,770	₩ 376,194	₩ 1,052,640

**Paid-in Capital in Excess of Par Value**

At the time of spin-off, the Company recorded ₩532,002 million as paid-in capital in excess of par value. However, the Company accounted for the difference between the acquisition cost and the carrying value of the Company's share in the net identifiable asset as a decrease in capital surplus and netted against paid-in capital in excess of par value of the new shares issued at the acquisition. The Company recognized the amount of ₩520,638 million as paid-in capital in excess of par value as of December 31, 2007.



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**20. Retained Earnings**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Appropriations				
Legal reserve	₩	56,729	₩	49,438
Reserve for business rationalization		4,000		4,000
Reserve for technology development		997,664		840,877
Reserve for investment losses		246,313		164,522
Voluntary reserve		212,120		212,120
		<u>1,516,826</u>		<u>1,270,957</u>
Unappropriated retained earnings		682,310		314,882
	₩	<u>2,199,136</u>	₩	<u>1,585,839</u>

**Legal Reserve**

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. With the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

**Other Reserve**

Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

**21. Treasury Stock**

Treasury stock as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>Number of Shares</b>		<b>Amounts</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Common Stock	609,909	606,882	₩ 23,455	₩ 23,109
Preferred Stock	3,659	3,657	20	20
Total	<u>613,568</u>	<u>610,539</u>	<u>₩ 23,475</u>	<u>₩ 23,129</u>

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**22. Cost of Sales**

Cost of sales for the years ended December 31, 2007 and 2006, are as follows:

*(in millions of Korean won)*

	<b>2007</b>	<b>2006</b>
<b>Products</b>		
Beginning balance of inventories	₩ 480,039	₩ 361,290
Increase due to merger <sup>1</sup>	29,938	102,172
Cost of goods manufactured	7,827,611	6,817,135
Ending balance of inventories	(669,154)	(480,039)
Others	(43,627)	(67,995)
Discontinued operations	(10,693)	(18,459)
	<u>7,614,114</u>	<u>6,714,104</u>
<b>Merchandise</b>		
Beginning balance of inventories	47,064	29,750
Increase due to merger <sup>1</sup>	1,923	-
Purchases	1,323,319	1,228,100
Ending balance of inventories	(43,812)	(47,064)
Discontinued operations	(21)	(35)
	<u>1,328,473</u>	<u>1,210,751</u>
Other cost of sales	39,407	21,996
<b>Total</b>	<u>₩ 8,981,994</u>	<u>₩ 7,946,851</u>

<sup>1</sup> Increased as the Company merged with LG Petrochemical Co.,Ltd. and LG Daesan Petrochemical Ltd. in 2007 and 2006, respectively.

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**23. Income Taxes**

Income taxes for the years ended December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Current income taxes under the tax law	₩ 211,743	₩ 67,822
Changes in deferred income tax assets(liabilities) <sup>1</sup>	(89,334)	(3,206)
Deferred income taxes directly added to shareholders' equity <sup>2</sup>	(6,846)	14,685
Income taxes from discontinued operations	(5,687)	(424)
Income taxes	<u>₩ 121,250</u>	<u>₩ 79,725</u>

<sup>1</sup> The changes in deferred income tax assets (liabilities) are as follows:

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Beginning balance	₩(323,883)	₩ (339,124)	₩ (89,069)	₩ (93,260)
Ending balance	8,969	(323,883)	2,466	(89,069)
			91,535	4,191
Deferred income taxes due to merger and others			2,201	985
			<u>₩ 89,334</u>	<u>₩ 3,206</u>

<sup>2</sup> Deferred income taxes directly added to (deducted from) shareholders' equity as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Beginning balance	₩ 36,147	₩ (17,253)	₩ 9,940	₩ (4745)
Ending balance	11,252	36,147	3,094	9,940
			<u>₩ (6,846)</u>	<u>₩ 14,685</u>

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Reconciling items between net income before tax and income tax expense for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Accrued severance benefits	₩	16,303	₩	2,684
Severance insurance plans		(16,303)		(2,684)
Allowances for Bad Debts		3,366		2,631
Research and Development Costs		2,374		5,338
Depreciation		5,578		72,843
Gain on valuation of equity-method investments		169,288		156,208
Provision for research development fund		76,667		(26,667)
Entertainment limit surplus		6,781		5,760
Others		(211,457)		(275,230)

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Changes in temporary differences for the years ended December 31, 2007 and 2006, are as follows:

	2007					Ending Balance	Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007
	Beginning Balance Before Adjustment	Adjustment <sup>1</sup>	Increase	Decrease				
Accrued severance benefits	₩ 144,191	₩ -	₩46,606	₩ 30,303	₩ 160,494	₩ 39,653	₩ 44,136	
Severance insurance plans	(144,191)	-	(46,606)	(30,303)	(160,494)	(39,653)	(44,136)	
Allowance for doubtful accounts	69,728	-	65,267	61,901	73,094	19,175	20,101	
Accrued interest income	(1)	(1,648)	(1,838)	(1,650)	(1,837)	-	(505)	
Research and development costs	(2,594)	-	-	(2,374)	(220)	(713)	(61)	
Present value discount	32	-	-	21	11	9	3	
Depreciation	113,169	-	24,867	19,289	118,747	31,121	32,655	
Gain on valuation of equity-method investments	(254,853)	-	(110,932)	(280,220)	(85,565)	(70,085)	(23,530)	
Reserves for technology development	(333,333)	-	-	(76,667)	(256,666)	(91,667)	(70,583)	
Others	86,910	9,653	116,502	26,326	186,739	23,900	51,353	
Equity <sup>2</sup>	54,334	-	(73,891)	(38,972)	19,415	14,942	5,339	
	<u>(266,608)</u>	<u>8,005</u>	<u>₩ 19,975</u>	<u>₩(292,346)</u>	<u>53,718</u>	<u>(73,318)</u>	<u>14,772</u>	
Gain on valuation of equity-method investments <sup>3</sup>	39,088	-	-	-	36,586	10,749	10,061	
Equity <sup>3</sup>	18,187	-	-	-	8,163	5,002	2,245	
Total	<u>₩ (323,883)</u>	<u>₩ 8,005</u>			<u>₩ 8,969</u>	<u>₩ (89,069)</u>	<u>₩ 2,466</u>	
Deferred income tax assets (liabilities)	<u>₩ (89,069)</u>	<u>₩ 2,201</u>			<u>₩ 2,466</u>	<u>₩ (89,069)</u>	<u>₩ 2,466</u>	

<sup>1</sup> Includes temporary differences transferred from LG Petrochemical Co., Ltd., at the time of merger.

<sup>2</sup> As of December 31, 2007, negative goodwill of ₩274,187 million was not recognized as deferred income tax assets, when the Company adopted SKFAS No. 16, *Deferred Income Tax*.

<sup>3</sup> As of December 31, 2007, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes.

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	2006						Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007
	Beginning Balance Before Adjustment	Adjustment <sup>1</sup>	Beginning Balance After Adjustment	Increase	Decrease	Ending Balance		
Accrued severance benefits	W122,243	W19,264	W141,507	W35,084	W32,400	W 144,191	W 33,617	W 39,653
Severance insurance plans	(122,243)	(19,264)	(141,507)	(35,084)	(32,400)	(144,191)	(33,617)	(39,653)
Allowance for doubtful accounts	67,037	60	67,097	67,200	64,569	69,728	18,435	19,175
Accrued interest income	(2)	(248)	(250)	(1)	(250)	(1)	(1)	-
Research and development costs	(7,932)	-	(7,932)	-	(5,338)	(2,594)	(2,181)	(713)
Present value discount	69	-	69	-	37	32	19	9
Depreciation	40,326	-	40,326	91,872	19,029	113,169	11,090	31,121
Gain on valuation of equity-method investments	(411,061)	-	(411,061)	(59,120)	(215,328)	(254,853)	(113,042)	(70,085)
Reserves for technology development	(306,666)	-	(306,666)	(90,000)	(63,333)	(333,333)	(84,333)	(91,667)
Others	121,109	3,772	124,881	24,596	62,567	86,910	33,305	23,900
Equity <sup>2</sup>	(6,704)	-	(6,704)	61,642	604	54,334	(1,844)	14,942
	<u>(503,824)</u>	<u>3,584</u>	<u>(500,240)</u>	<u>W96,189</u>	<u>W(137,443)</u>	<u>(266,608)</u>	<u>(138,552)</u>	<u>(73,318)</u>
Gain on valuation of equity-method investments <sup>3</sup>	(175,249)	-	(175,249)			39,088	(48,193)	10,749
Equity <sup>3</sup>	10,549	-	10,549			18,187	2,901	5,002
Total	<u>W(339,124)</u>	<u>W 3,584</u>	<u>W(335,540)</u>			<u>W(323,883)</u>	<u>W (93,260)</u>	<u>W (89,069)</u>
Deferred income tax assets (liabilities)	<u>W (93,260)</u>	<u>W 985</u>	<u>W (92,275)</u>			<u>W (89,069)</u>	<u>W (93,260)</u>	<u>W (89,069)</u>

<sup>1</sup> This includes adjustments such as temporary differences incurred when assets and liabilities were initially assumed from LG Daesan Petrochemical Ltd., at the time of merger at the beginning of 2006.

<sup>2</sup> As of December 31, 2006, negative goodwill of W313,357 million was not recognized as deferred income tax assets, when the Company adopted SKFAS No. 16, *Deferred Income Tax*.

<sup>3</sup> As of December 31, 2006, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes.

The gross balances of deferred tax assets and liabilities are as follows:

(in millions of Korean won)	2007		2006	
	Deferred tax Assets	Deferred tax Liabilities	Deferred tax Assets	Deferred tax Liabilities
Current	W 44,825	W (21,588)	W 21,210	W (21,083)
Non-current	106,517	(127,288)	102,588	(191,784)

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future (deductible) tax benefits are determined to be realizable as of December 31, 2007.

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The statutory income tax rate, including resident tax surcharges, applicable to the Company for the years ended December 31, 2007 and 2006, was 27.5%. However, as a result of tax reconciliation, tax credits and other items, the effective tax rate of the Company for the year ended December 31, 2007, was 14.7% (2006: 20.0%).

**24. Comprehensive Income and Expenses**

Comprehensive income and expenses for the years ended December 31, 2007 and 2006, consists of:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Net income	₩ 686,205	₩ 316,000
Changes in equity arising from equity-method investments <sup>1</sup>	28,072	(46,798)
	<u>₩ 714,277</u>	<u>₩ 269,202</u>

<sup>1</sup> Includes income tax effects of ₩6,846 million (2006: deduction of ₩14,854 million).

**25. Earnings Per Share**

Basic income from continuing operations per share and earnings per share for the years ended December 31, 2007 and 2006, are computed as follows:

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

	<b>2007</b>	<b>2006</b>
Income from continuing operations	₩ 701,197	₩ 318,068
Preferred stock dividends	(17,748)	(9,090)
Preferred stock share in the remaining profit available for dividend	(62,260)	(29,286)
Income from continuing operations available for common stock (A)	621,189	279,692
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>	65,624,898	63,818,183
Basic income from continuing operations per share (A/B)	<u>₩ 9,466</u>	<u>₩ 4,383</u>

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

	2007	2006
Net income	₩ 686,205	₩ 316,000
Preferred stock dividends	(17,748)	(9,090)
Preferred stock share in the remaining profit available for dividends	(60,512)	(29,039)
Net income available for common stock (A)	607,945	277,871
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>	65,624,898	63,818,183
Basic earnings per share (A/B)	₩ 9,264	₩ 4,354

<sup>1</sup> Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2007 and 2006. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

Basic and diluted loss from discontinued operations per share for the years ended December 31, 2007 and 2006, are as follows:

	2007	2006
Loss from discontinued operations per share	₩ 202	₩ 29

**26. Dividends**

Details of dividends for the years ended December 31, 2007 and 2006, are as follows:

	2007	2006
Shares issued and outstanding (par value per share: ₩5,000)		
Common stock	74,628,861	63,818,182
Preferred stock	8,657,592	8,657,594
Dividend per share (in won)		
Common stock: cash	₩ 2,000 (40%)	₩ 1,000 (20%)
Preferred stock: cash	₩ 2,050 (41%)	₩ 1,050 (21%)
Cash dividend amount (in millions)		
Common stock	₩ 149,258	₩ 63,818
Preferred stock	17,748	9,090
	₩ 167,006	₩ 72,908



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**27. 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 parties for the years ended December 31, 2007 and 2006, and the related account balances as of December 31, 2007 and 2006, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>			
	<b>Sales</b>	<b>Purchases</b>	<b>Receivables<sup>5</sup></b>	<b>Payables</b>
Controlling company	₩ 1	₩ 32,161	₩ 7,326	₩ 3,546
Subsidiaries <sup>1, 2, 3</sup>	1,131,229	1,477,263	33,494	16,961
Equity method investees <sup>1</sup>	57,083	154,446	8,988	17,862
Key management	-	55,250	-	50,355
Other related companies <sup>4</sup>	₩1,662,870	₩ 510,867	₩ 317,909	₩ 94,804
<b>Total</b>	<b>₩2,851,183</b>	<b>₩2,229,987</b>	<b>₩ 367,717</b>	<b>₩ 183,528</b>

  

<i>(in millions of Korean won)</i>	<b>2006</b>			
	<b>Sales</b>	<b>Purchases</b>	<b>Receivables<sup>5</sup></b>	<b>Payables</b>
Controlling company	₩ -	₩ 27,031	₩ 6,386	₩ 653
Subsidiaries <sup>1, 2, 3</sup>	1,187,514	1,797,520	34,750	217,799
Equity method investees <sup>1</sup>	46,303	152,937	6,150	18,564
Key management	-	23,788	-	14,439
Other related companies <sup>4</sup>	₩1,229,156	₩ 438,071	₩ 230,770	₩ 95,547
<b>Total</b>	<b>₩2,462,973</b>	<b>₩2,439,347</b>	<b>₩ 278,056</b>	<b>₩ 347,002</b>

<sup>1</sup> Please refer to Note 8 for percentage of ownership, acquisition cost, net asset value and book value of the Company's investments to its related parties.

<sup>2</sup> Includes LG Solid Source, LLC, a subsidiary of LG Chem America Inc., and Ningbo Bond International Trade, a subsidiary of Ningbo LG Yongxing Chemical Co., Ltd.

<sup>3</sup> Includes sales and purchases of LG Petrochemical Co., Ltd. before merger with the Company in 2007.

<sup>4</sup> Includes LG Philips LCD Co., Ltd. and LG Electronics Inc.

<sup>5</sup> Allowance for doubtful accounts for the outstanding balance as of December 31, 2007, amounts to ₩2,186 million (2006: ₩2,344 million). Reversal of bad debt allowance recognized for 2007 amounts to ₩145 million, and bad debt expense recognized for 2006 amounts to ₩1,178 million.

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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Compensation for key management officers for the years ended December 31, 2007 and 2006, consists of :

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Short-term employee benefits	₩ 27,666	₩ 19,150
Post-employment benefits	3,526	3,221
Other long-term employee benefits	12,202	2,459
Reversal of share-based compensation	11,856	(1,042)
Total	<u>₩ 55,250</u>	<u>₩ 23,788</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.

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

<i>(in millions of Korean won)</i>	<b>2007</b>		
<b>Guarantee Beneficiary</b>	<b>Amount of Guarantee</b>	<b>Financial Institution</b>	<b>Outstanding Loan Amount</b>
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 15,480	Bank of China	₩ 15,480
	18,764	Woori Bank	18,764
	15,856	Korea Exchange Bank	9,382
LG Chem Industrial Materials Inc.	23,736	Kookmin Bank	23,736
LG Chem Europe GmbH	4,144	Societe Generale	-
Tianjin LG Bohai Chemical Co., Ltd.	37,528	Export-Import Bank of Korea	15,637
		Export-Import Bank of Korea	13,813
LG Chem Poland Sp.Z.O.O.	6,216	Nordea Bank	4,144
LG Chem America, Inc	3,753	Woori Bank	3,753
	4,691	Kookmin Bank	3,753
	<u>₩ 143,981</u>		<u>₩ 108,462</u>

**LG Chem, Ltd.**  
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*(in millions of Korean won)*

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

**28. Operating Results for the Final Interim Period**

Operating results for the three-month periods ended December 31, 2007 and 2006, are as follows:<sup>7</sup>

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

	Three-Month Periods Ended December 31	
	2007 (unaudited)	2006 (unaudited)
Sales	₩ 3,009,467	₩ 2,414,473
Operating income	219,931	113,797
Net income	125,879	83,285
Earnings per share	1,582	1,148

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**29. Segment Information**

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

(1) Industry Segment Information

<b>Industry</b>	<b>Products or Services</b>	<b>Major Customers</b>
Petrochemicals	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP, ethylene, propylene, BPA and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Industrial Materials	Hi Sash, UBR, wall coverings, living materials, building materials and others	Hyundai Motors Co., Ltd. GM Daewoo Auto & Technology Company Distributors and wholesalers
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc. LG Philips LCD Co., Ltd. and others

Financial information on industry segments for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>				<b>Total</b>
	<b>Petrochemicals</b>	<b>Industrial Materials</b>	<b>Information &amp; Electronic Materials</b>	<b>Others</b>	
Sales					
External sales <sup>1</sup>	₩ 6,509,739	₩ 2,135,961	₩ 2,133,302	₩ 16,318	₩ 10,795,320
Inter-segment sales	590,039	3,818	2,430	146,458	742,745
	<u>₩ 7,099,778</u>	<u>₩ 2,139,779</u>	<u>₩ 2,135,732</u>	<u>₩ 162,776</u>	<u>₩ 11,538,065</u>
Operating income	<u>₩ 511,240</u>	<u>₩ 101,284</u>	<u>₩ 153,441</u>	<u>₩ (2,343)</u>	<u>₩ 763,622</u>
Property, plant and equipment, and intangible assets <sup>2</sup>	<u>₩ 2,002,830</u>	<u>₩ 438,887</u>	<u>₩ 856,819</u>	<u>₩ 414,675</u>	<u>₩ 3,713,211</u>
Depreciation and amortization	<u>₩ 251,335</u>	<u>₩ 59,752</u>	<u>₩ 148,244</u>	<u>₩ 4,342</u>	<u>₩ 463,673</u>

**LG Chem, Ltd.**  
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<i>(in millions of Korean won)</i>	2006				Total
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	
Sales					
External sales <sup>1</sup>	₩ 5,611,535	₩ 2,055,137	₩ 1,597,046	₩ 16,436	₩ 9,280,154
Inter-segment sales	273,275	19,433	4,955	120,171	417,834
	<u>₩ 5,884,810</u>	<u>₩ 2,074,570</u>	<u>₩ 1,602,001</u>	<u>₩ 136,607</u>	<u>₩ 9,697,988</u>
Operating income	<u>₩ 169,889</u>	<u>₩ 120,738</u>	<u>₩ 48,322</u>	<u>₩ (2,609)</u>	<u>₩ 336,340</u>
Property, plant and equipment, and intangible assets <sup>2</sup>	<u>₩ 1,445,328</u>	<u>₩ 455,594</u>	<u>₩ 877,419</u>	<u>₩ 421,048</u>	<u>₩ 3,199,389</u>
Depreciation and amortization	<u>₩ 328,441</u>	<u>₩ 64,258</u>	<u>₩ 132,858</u>	<u>₩ 3,962</u>	<u>₩ 529,519</u>

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

<sup>2</sup> Excludes negative goodwill incurred from merger, which is deducted from intangible assets. The negative goodwill as of December 31, 2007, amounts to ₩274,187 million (2006: ₩313,357 million).

(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2007 and 2006, are as follows:

*(in millions of Korean won)*

	Domestic <sup>1</sup>	China	North America	South America	South-East Asia	Western Europe	Others	Total
2007	₩5,955,230	₩2,707,885	₩ 329,971	₩ 76,138	₩276,552	₩397,964	₩1,051,580	₩10,795,320
2006	₩5,292,569	₩2,198,221	₩ 374,629	₩ 102,611	₩266,491	₩291,770	₩ 753,863	₩ 9,280,154

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

**LG Chem, Ltd.**  
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**30. Discontinued Operations**

**(1) Safety materials Business**

The Company decided to sell its safety materials business as approved by the CEO of the Company on March 23, 2007.

The loss before tax from discontinued operations of the safety materials business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Impairment loss on discontinued operations	₩ (2,495)	₩ (63)
Loss from the safety materials business <sup>1</sup>	(6,362)	(1,738)
Loss before tax from discontinued operations	<u>₩ (8,857)</u>	<u>₩ (1,801)</u>

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

The book values as of December 31, 2007 and 2006, of assets to be disposed of are as follows:

<i>(in millions of Korean won)</i>	<b>2007<sup>1</sup></b>	<b>2006</b>
Inventories	₩ -	₩ 2,313
Property, plant and equipment	-	9,165
	<u>₩ -</u>	<u>₩ 11,478</u>

<sup>1</sup> The related assets were disposed of by December 31, 2007.

The statements of operations of the safety materials business, excluding impairment loss on discontinued operations, for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Sales	₩ 3,533	₩ 13,442
Cost of sales	(5,075)	(12,330)
Gross profit (loss)	(1,542)	1,112
Selling and administrative expenses	(2,426)	(2,931)
Operating loss	(3,968)	(1,819)
Non-operating income	2,195	600
Non-operating expenses	(4,589)	(519)
Loss from the safety materials business	<u>₩ (6,362)</u>	<u>₩ (1,738)</u>

**LG Chem, Ltd.**  
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The loss after tax from discontinued operations on the safety materials business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Loss before tax from discontinued operations	₩	(8,857)	₩	(1,801)
Income tax effects		2,436		495
Loss after tax from discontinued operations	₩	<u>(6,421)</u>	₩	<u>(1,306)</u>

Cash flows from the safety materials business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Cash flows from operating activities	₩	2,166	₩	(315)
Cash flows from investing activities		3,673		(515)
Cash flows from financing activities		(5,839)		830
Total	₩	<u>-</u>	₩	<u>-</u>

**(2) AMS Filter Business**

The Company decided to dispose of its AMS Filter business as approved by the CEO of the Company on December 11, 2007.

The loss before tax from discontinued operations of the AMS Filter business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Impairment loss on discontinued operations	₩	(4,765)	₩	-
Loss from the AMS Filter business <sup>1</sup>		(6,380)		(913)
Loss before tax from discontinued operations	₩	<u>(11,145)</u>	₩	<u>(913)</u>

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

The book values as of December 31, 2007 and 2006, of assets to be disposed of are as follows:

<i>(in millions of Korean won)</i>	<b>2007<sup>2</sup></b>		<b>2006</b>	
Inventories	₩	-	₩	6
Property, plant and equipment		-		1,829
	₩	<u>-</u>	₩	<u>1,835</u>

<sup>2</sup> The related assets were disposed of by December 31, 2007.

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The statements of operations of the AMS Filter business, excluding impairment loss on discontinued operations, for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Sales	₩	1,087	₩	1
Cost of sales		(1,128)		(63)
Gross profit (loss)		(41)		(62)
Selling and administrative expenses		(3,165)		(851)
Operating loss		(3,206)		(913)
Non-operating income		4		-
Non-operating expenses		(3,178)		-
Loss from the AMS Filter business	₩	(6,380)	₩	(913)

The loss after tax from discontinued operations on the AMS Filter business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Loss before tax from discontinued operations	₩	(11,145)	₩	(913)
Income tax effects		3,065		23
Loss after tax from discontinued operations	₩	(8,080)	₩	(890)

Cash flows from the AMS Filter business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Cash flows from operating activities	₩	967	₩	(431)
Cash flows from investing activities		(2,056)		(7,446)
Cash flows from financing activities		1,089		7,877
Total	₩	-	₩	-



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**(3) PDP Fluorescent Substance Business**

The Company decided to sell its PDP fluorescent substance business as approved by the CEO of the Company on October 16, 2007.

The income (loss) before tax from discontinued operations of the PDP fluorescent substance business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Impairment loss on discontinued operations	₩ (261)	₩ -
Income (loss) from the PDP fluorescent substance business <sup>1</sup>	(416)	222
Income (loss) before tax from discontinued operations	<u>₩ (677)</u>	<u>₩ 222</u>

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

The book values as of December 31, 2007 and 2006, of assets to be disposed of are as follows:

<i>(in millions of Korean won)</i>	<b>2007<sup>1</sup></b>	<b>2006</b>
Inventories	₩ -	₩ 966
Property, plant and equipment	-	2,856
	<u>₩ -</u>	<u>₩ 3,822</u>

<sup>1</sup> The related assets were disposed of by December 31, 2007.

The statements of operations of the PDP fluorescent substance business, excluding impairment loss on discontinued operations, for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Sales	₩ 9,061	₩ 8,743
Cost of sales	(4,793)	(6,157)
Gross profit	4,268	2,586
Selling and administrative expenses	(2,824)	(2,249)
Operating income	1,444	337
Non-operating income	741	254
Non-operating expenses	(2,601)	(369)
Income (loss) from the PDP fluorescent substance business	<u>₩ (416)</u>	<u>₩ 222</u>

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The income (loss) after tax from discontinued operations on the PDP fluorescent substance business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Income (loss) before tax from discontinued operations	₩ (677)	₩ 222
Income tax effects	186	(94)
Income (loss) after tax from discontinued operations	<u>₩ (491)</u>	<u>₩ 128</u>

Cash flows from the PDP fluorescent substance business for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Cash flows from operating activities	₩ 2,044	₩ 1,489
Cash flows from investing activities	21	(1,230)
Cash flows from financing activities	(2,065)	(259)
Total	<u>₩ -</u>	<u>₩ -</u>

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**31. Supplemental Cash Flow Information**

Major transactions not involving an inflow or outflow of cash and cash equivalents for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Reclassification of construction-in-progress to property, plant and equipment	₩ 458,655	₩ 282,911
Reclassification of machinery-in-transit to machinery and equipment	87,412	77,698
Reclassification of depreciation expenses to development costs	1,419	1,492
Reclassification of severance benefits to development costs	265	365
Gain on valuation of investment using the equity method of accounting (accumulated other comprehensive income and expenses)	74,798	61,642
Reclassification of long-term debt to current maturities of long-term debts	37,338	66,459
Reclassification of long-term debt to current maturities of debentures	326,904	373,368
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	-	613

**32. Mergers**

The Company merged with LG Petrochemical Co., Ltd. and LG Daesan Petrochemical Ltd. during the years ended December 31, 2007 and 2006, respectively.

**(1) Merger with LG Petrochemical Co., Ltd.**

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

Upon the merger, LG Chem Ltd. issued shares to the shareholders of LG Petrochemical Co., Ltd. in accordance with the merger contract, which provided that for one common share of LG Petrochemical Co., Ltd. with a par value of ₩5,000 per share, 0.4805033 common share of LG Chem, Ltd. is issued in exchange. The Company did not issue new shares for its 18,080,000 shares in LG Petrochemical Co., Ltd., representing its previous ownership of 40%, and for LG Petrochemical Co., Ltd.'s 4,615,042 treasury shares, which represented 10.21% of the total LG Petrochemical Co., Ltd. shares issued.

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

Entity	CEO	Major Business	Relationship
LG Chem, Ltd.	Kim Bahn-suk	Manufacturing, processing and marketing of petrochemical products	Parent company
LG Petrochemical Co., Ltd.	Park Jin-su	Manufacturing and marketing of petrochemical products	Subsidiary

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

The Company accounted for the difference between the acquisition cost and the carrying value of the acquired company's net asset as a decrease in capital surplus and netted against paid-in capital in excess of par value of the new shares issued at the acquisition. The Company recognized the respective amount of ₩520,638 million as paid-in capital in excess of par value as of December 31, 2007.

Changes in goodwill from January 1, 2007 to December 31, 2007, are as follows:

*(in millions of Korean won)*

January 1, 2007 (purchase date) <sup>1</sup>	₩	13,512
Amortization <sup>1</sup>		(2,378)
October 31, 2007 <sup>1</sup>		11,134
November 1, 2007(merger date)		11,134
Amortization		(420)
December 31, 2007	₩	10,714

<sup>1</sup> Difference between the investment and the Company's proportionate ownership in the net asset fair value of LG Petrochemical Co., Ltd. according to the equity-method application. The amortization amounts are reflected under accounted by the equity-method investments.

The goodwill is amortized using a straight-line method over ten years. The remaining useful life of goodwill as of December 31, 2007, is 51 months.

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The condensed balance sheets as of October 31, 2007 and December 31, 2006, and the condensed income statements for the ten-month period ended October 31, 2007 and for the year ended December 31, 2006, of the Company and LG Petrochemical Co., Ltd., are as follows:

Condensed Balance Sheets as of October 31, 2007

<i>(in millions of Korean won)</i>	<b>LG Chem, Ltd.</b>	<b>LG Petrochemical Co., Ltd.</b>
Current assets	₩ 2,225,500	₩ 685,835
Investments	1,062,187	19,715
Property, plant and equipment	3,025,388	595,075
Intangible assets	(192,669)	69
Other non-current assets	106,345	8,487
Total assets	<u>₩ 6,226,751</u>	<u>₩ 1,309,181</u>
Current liabilities	₩ 1,839,293	₩ 245,209
Non-current liabilities	1,179,151	12,234
Total liabilities	3,018,444	257,443
Total shareholders' equity	<u>3,208,307</u>	<u>1,051,738</u>
Total liabilities and shareholders' equity	<u>₩ 6,226,751</u>	<u>₩ 1,309,181</u>

Condensed Income Statements for ten-month period ended October 31, 2007

<i>(in millions of Korean won)</i>	<b>LG Chem, Ltd.</b>	<b>LG Petrochemical Co., Ltd.</b>
Sales	₩ 8,795,799	₩ 2,132,586
Cost of sales	<u>(7,308,084)</u>	<u>(1,769,368)</u>
Gross profit	1,487,715	363,218
Selling and administrative expenses	<u>(881,120)</u>	<u>(35,666)</u>
Operating income	606,595	327,552
Non-operating income, net	105,025	8,601
Income from continuing operations tax expense	<u>(92,340)</u>	<u>(89,012)</u>
Income from continuing operations	619,280	247,141
Loss from discontinued operations	<u>(8,459)</u>	<u>-</u>
Net income	<u>₩ 610,821</u>	<u>₩ 247,141</u>

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Condensed Balance Sheets as of December 31, 2006

<i>(in millions of Korean won)</i>	<b>LG Chem, Ltd.</b>	<b>LG Petrochemical Co., Ltd.</b>
Current assets	₩ 1,949,221	₩ 538,023
Investments	878,676	17,399
Property, plant and equipment	3,099,022	579,011
Intangible assets	(212,990)	370
Other non-current assets	92,587	3,707
Total assets	<u>₩ 5,806,516</u>	<u>₩ 1,138,510</u>
Current liabilities	₩ 1,872,655	₩ 268,032
Non-current liabilities	1,310,501	15,407
Total liabilities	3,183,156	283,439
Total shareholders' equity	2,623,360	855,071
Total liabilities and shareholders' equity	<u>₩ 5,806,516</u>	<u>₩ 1,138,510</u>

Condensed Income Statements for the year ended December 31, 2006

<i>(in millions of Korean won)</i>	<b>LG Chem, Ltd.</b>	<b>LG Petrochemical Co., Ltd.</b>
Sales	₩ 9,280,154	₩ 2,195,239
Cost of sales	<u>(7,946,851)</u>	<u>(1,899,380)</u>
Gross profit	1,333,303	295,859
Selling and administrative expenses	<u>(996,963)</u>	<u>(37,398)</u>
Operating income	336,340	258,461
Non-operating income (expenses), net	<u>61,453</u>	<u>(3,189)</u>
Income from continuing operations tax expense	<u>(79,725)</u>	<u>(64,389)</u>
Income from continuing operations	318,068	190,883
Loss from discontinued operations	<u>(2,068)</u>	<u>-</u>
Net income	<u>₩ 316,000</u>	<u>₩ 190,883</u>

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**(2) Merger with LG Daesan Petrochemical Co., Ltd.**

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 opinion 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:

<b>Entity</b>	<b>CEO</b>	<b>Major Business</b>	<b>Relationship</b>
LG Chem, Ltd.	No Ki-ho	Manufacturing, processing and marketing of petrochemical products	Parent Company
LG Daesan Petrochemical Ltd.	Kim Bahn-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 parent company and its subsidiary. Accordingly, assets and liabilities taken over by the Company were assessed at their book values on the consolidated financial statements.

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

*(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 December 31, 2007, are as follows:

*(in millions of Korean won)*

January 1, 2005 (purchase date) <sup>1</sup>	₩	393,058
Reversal <sup>1</sup>		<u>(39,306)</u>
December 31, 2005 <sup>1</sup>	₩	353,752
January 1, 2006 <sup>2</sup>	₩	353,752
Reversal		(39,170)
Identifiable assets and liabilities after the purchase date		<u>(1,225)</u>
December 31, 2006		313,357
Reversal		<u>(39,170)</u>
December 31, 2007	₩	<u>274,187</u>

<sup>1</sup> 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.

<sup>2</sup> The negative goodwill on January 1, 2006, is computed as follows:

*(in millions of Korean won)*

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



**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

<sup>3</sup> As of January 1, 2006, the book values of assets and liabilities of LG Daesan Petrochemical Ltd. on the Company's consolidated financial statements are as follows:

*(in millions of Korean won)*

Current assets <sup>5</sup>	₩	534,345
Investments <sup>6</sup>		5,369
Property, plant and equipment		648,357
Intangible assets		1,929
Total assets		<u>1,190,000</u>
Current liabilities <sup>5</sup>		152,530
Non-current liabilities		33,153
Total liabilities		<u>(185,683)</u>
Fair value of net assets	₩	<u>1,004,317</u>

<sup>4</sup> Acquisition cost is the book value of the investments as of December 31, 2005 (Note 8).

<sup>5</sup> Balances of assets and liabilities before offsetting of receivables and payables.

<sup>6</sup> Includes other non-current assets.

Since January 1, 2005, negative goodwill has been reversed using a straight-line method over ten years, a weighted average useful life of amortizable assets out of non-monetary assets acquired. As of December 31, 2007, the remaining useful lives are seven years.

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

The condensed income statements for the year ended December 31, 2005 and condensed 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>	<b>LG Chem, Ltd.</b>		<b>LG Daesan Petrochemical Ltd.</b>	
Current assets	₩	1,436,296	₩	533,824
Investments <sup>1</sup>		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
Non-current liabilities		1,201,748		33,154
Total liabilities		<u>3,148,658</u>		<u>185,684</u>
Total shareholders' equity		<u>2,444,741</u>		<u>1,113,010</u>
Total liabilities and shareholders' equity	₩	<u>5,593,399</u>	₩	<u>1,298,694</u>

<sup>1</sup> Includes other non-current assets.

Condensed Income Statements for the year ended December 31, 2005

<i>(in millions of Korean won)</i>	<b>LG Chem, Ltd.</b>		<b>LG Daesan Petrochemical Ltd.</b>	
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 (expenses), net		<u>45,964</u>		<u>(1,887)</u>
Income before income taxes		467,678		41,504
Income tax expense		<u>(64,066)</u>		<u>(25,893)</u>
Net income	₩	<u>403,612</u>	₩	<u>15,611</u>

**LG Chem, Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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 <sup>1</sup>	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	
Non-current liabilities	1,717,457		27,762	
Total liabilities	3,496,502		183,289	
Total shareholders' equity	2,183,027		1,097,399	
Total liabilities and shareholders' equity	<u>5,679,529</u>		<u>1,280,688</u>	

<sup>1</sup> Include other non-current assets.

**33. Subsequent Event**

Due to fire in Ochang plant on March 3, 2008, certain battery lines were temporarily shutdown. However, in relation to this accident, the Company has full insurance coverage against fire and other casualty losses, as well as business interruption insurance policies.

**Report of Independent Accountants'**  
**Review of Internal Accounting Control System**

To the President of  
LG Chem, Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Chem, Ltd. (the "Company") as of December 31, 2007. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2007, the Company's IACS has been designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review management's assessment of its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 13, 2008

## **Report on the Operations of the Internal Accounting Control System**

To the Board of Directors and Audit Committee of  
LG Chem, Ltd.

I, as the Internal Accounting Control Officer (“IACO”) of LG Chem, Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2007.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS standards.

January 29, 2008

Cho Seok-Je, Internal Accounting Control System Officer

Kim Bahn-Suk, Chief Executive Officer