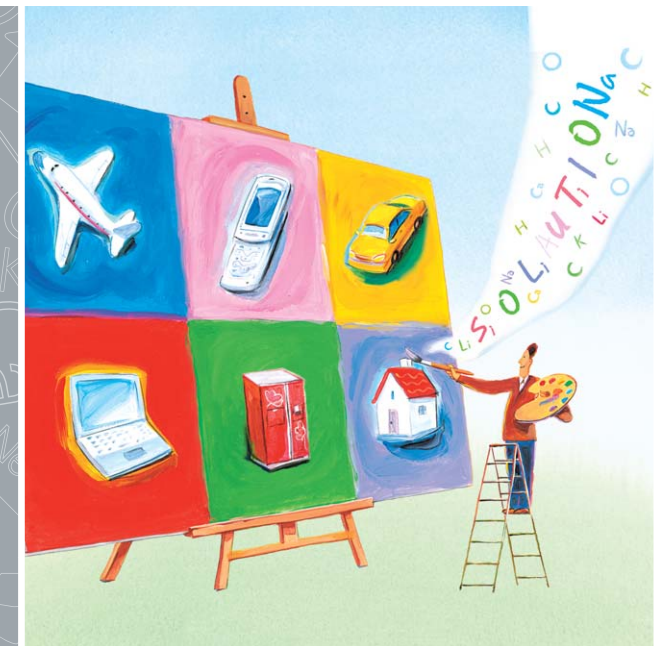


SolutionPartner

2007 Annual Report



Profitable Growth through Customer Value Innovation

2007 Annual Report

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ABOUT LG CHEM

LG Chem is Korea's first and largest vertically integrated chemical company.

Founded in 1947, we have emerged as one of the world's top-30 chemical makers over the past six decades by consistently innovating to deliver the petrochemicals, industrial materials, and information and electronic materials that improve the quality of life for people everywhere.

Backed by a growing global network of production, marketing, and R&D operations, we are now aiming for the global top-ten. As we continue to transition our existing business portfolio to value-added fields, we are sharpening our focus on information and electronic materials—businesses key to our future growth—as we actively pursue opportunities in new materials fields. We believe these strategies for growth will power our next leap forward as they enhance our reputation for bringing unique materials and solutions to life.

• At LG Chem, we are dedicated to creating and delivering greater long-term value to you, our shareholders and investors. We seek to maximize this value by focusing on the basics—a sound financial structure, solid revenue base, and steady growth. We also strive to earn your trust and respect by practicing responsibility, ethics, and integrity in all areas of governance. In this annual report and all our investor communications, we are committed to achieving a more complete and accurate standard of reporting.

Thank you once again for your confidence in and support of LG Chem. We look forward to creating greater satisfaction and value for you in the coming year.



BUSINESS DIVISIONS

DISTINCTIVE SOLUTIONS TO ADVANCE INDUSTRIAL DEVELOPMENT AND EVERYDAY CONVENIENCE

LG Chem is dedicated to the advancement of industrial development and of everyday convenience by producing and supplying top-shelf petrochemical, industrial, information & electronic materials and solutions worldwide.

With distinctive products and solutions culminated through years of experience and technology development, LG Chem has grown to become a global solution partner striving to support success of customers and the advancement of the chemical industry.

• Petrochemicals Division •

- NCC / PO** It ensures streamlined, stabilized production and supply of ethylene, propylene, polyethylene, polypropylene, and other basic chemicals with the full integration of petrochemical lines through the merger with LG Daesan Petrochemicals and LG Petrochemical.
- Synthetic Rubber & Specialty Resins** It offers the best quality synthetic rubber products, including methacrylate-butadiene-styrene (MBS) as an impact modifier for tires, styrene-butadiene-styrene (SBS) as an asphalt modifier, latex for paper coating or gloves, and bisphenol-A (BPA) for polycarbonate or epoxy resin.
- PVC** It ranks as Korea's 1st and the world's 9th manufacturer in production and sales of window frames, flooring and other construction materials, various plastic products used in everyday life, etc.
- ABS / EP** It stays ahead of domestic and global markets with a variety of high performance acrylonitrile-butadiene-styrene (ABS) materials used in the electric, electronic, and automotive worlds as well as with heat-resistant high performance engineering plastic materials.
- Acrylates / Plasticizers** Its acrylates and plasticizers ensure high quality of downstream materials including super absorbent polymers, paints, adhesives, etc.



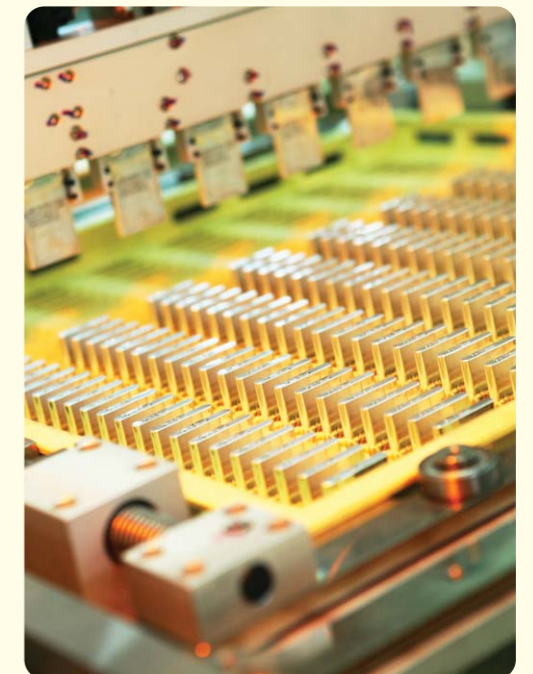
• Industrial Materials Division •

- Housing Solutions** It helps create a beautiful home environment by providing a full array of window products, including glasses, curtain walls, and interior decorating essentials for flooring, wall papering, tiling, etc.
- Living Solutions** It features surfacing materials including high glossy sheets, interior films, indoor-outdoor advertising materials, etc.
- Automotive Solutions** Top-quality car interior upholstery, car interior and exterior parts are provided to help ensure function and quality of cars at home and abroad.
- Interior Solutions** It presents interior design solutions for home and office system furniture and interior wood as well as one-stop space layouts under 'DSQUARE' brand.



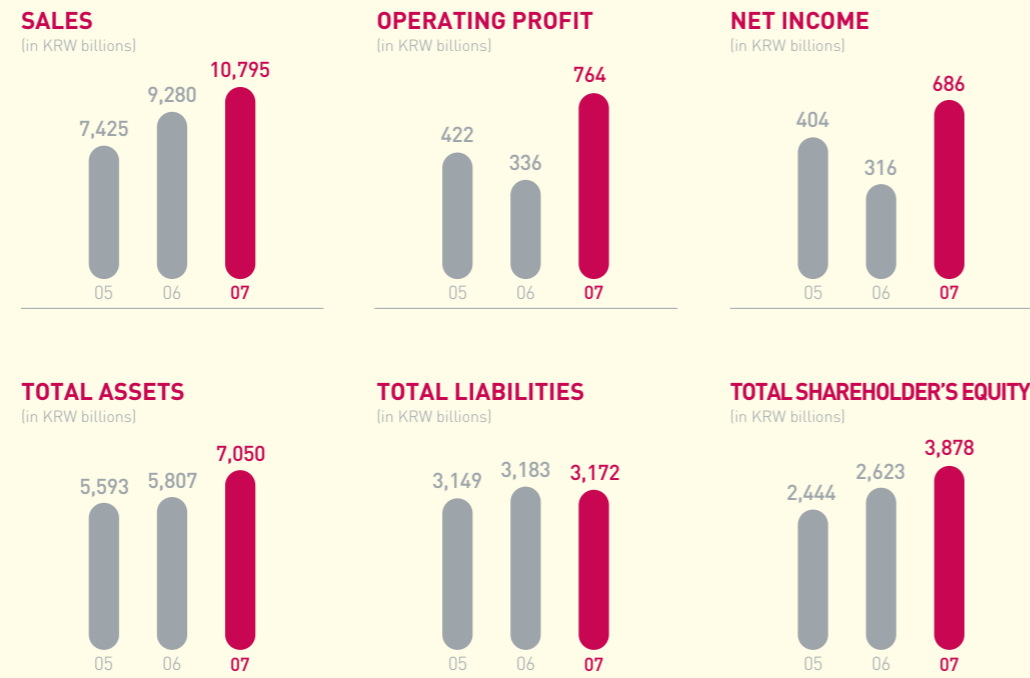
• Information & Electronic Materials Division •

- Batteries** It produces and supplies rechargeable lithium-ion batteries and lithium-ion polymer batteries in various sizes and shapes from small-sized batteries for mobile devices to large-sized batteries for vehicles.
- Optical Materials** Their high quality enhances functions of polarizers, plasma display panel (PDP) filters, and other display-based optical products.
- Electronic Materials** Its infotech and electronic-based materials and solutions are differentiated and diversified, offering photo sensitive materials, LCD strippers, toners, electrolytes, and cathode, organic light emitting diode (OLED), and circuit assembly materials.

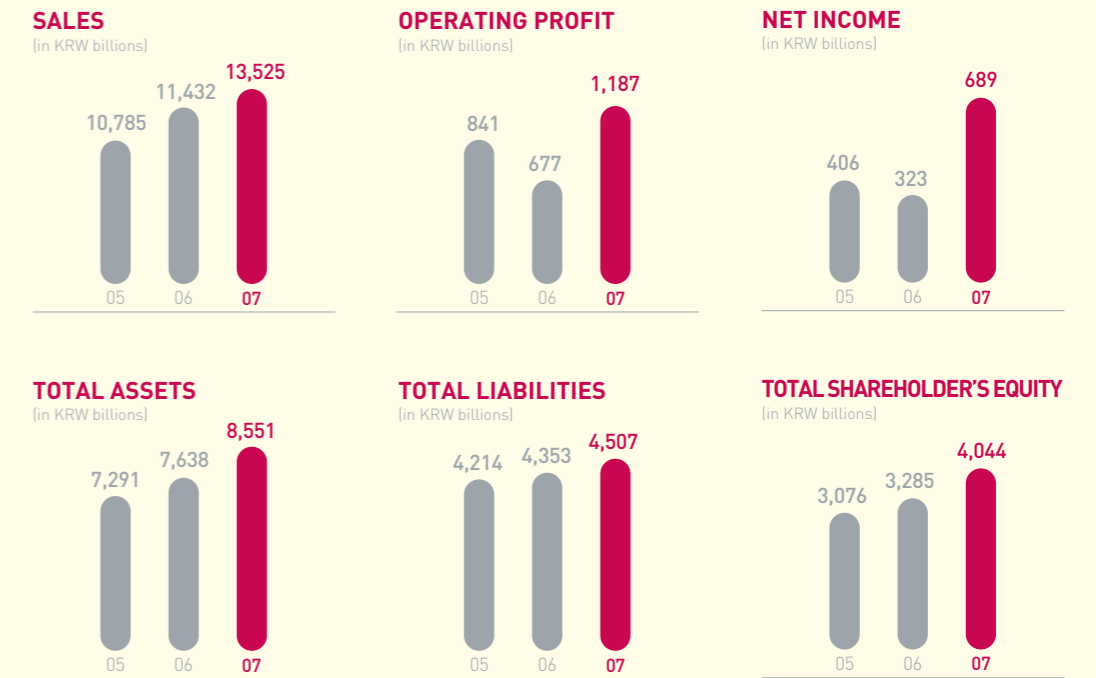


FINANCIAL HIGHLIGHTS

NON-CONSOLIDATED



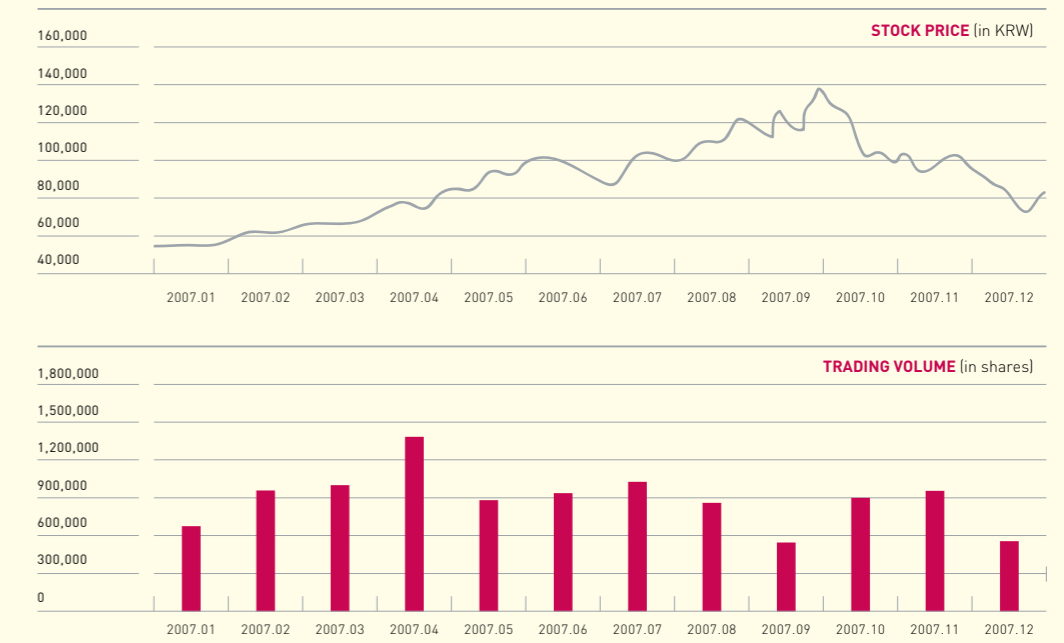
CONSOLIDATED



KEY FIGURES

	2007	2006	2005
Operating profit margin	7.1%	3.6%	5.7%
Return on equity	23.3%	12.6%	17.3%
Debt-to-equity	35.1%	60.6%	76.5%
Total issued common shares	75,238,770	64,425,064	64,425,064
Earnings per share in won	9,264	4,354	5,477
Stock price in won at year-end	89,600	43,100	57,000
Dividend per common share in won	2,000	1,000	1,250

2007 STOCK PRICE PERFORMANCE





DEAR CUSTOMERS AND SHAREHOLDERS:

We are pleased to report that 2007 was a year of solid financial results for LG Chem. In fiscal year 2007, we saw sales growth of approximately 16% to KRW10,795 billion and operating profits of a remarkable 127% to KRW764 billion. We believe that the support of our customers and shareholders made these substantial results possible. Our successful merger with LG Petrochemical in the last year has also helped us to maintain the top position in the petrochemical industry of Korea.

Looking at the performance of our business divisions, the Petrochemicals Division has dramatically enhanced the cost competitiveness of major products through collective turnaround efforts despite high oil prices that have squeezed profit margins. The Industrial Materials Division has made every effort to improve profitability by intensifying structural reforms while gearing up for global export of major products. The Information & Electronic Materials Division has expanded its leadership in the global market with upgrades of LCD polarizers and photo sensitive materials. Strict cost control and innovative quality manage-

ment combined with winning new orders from large-volume clients in the battery business especially contributed to turning red ink into black.

The business environment of 2008 looks bleak. Global financial uncertainties triggered by the U.S. sub-prime mortgage crisis will impact prolonged economic stagnation worldwide. Unprecedented levels of high oil prices and continuously rising prices of primary feedstocks will likely add more fiscal challenges.

Deteriorating business conditions will adversely affect market access. However, we at LG Chem have set 2008 sales and consolidated sales targets at KRW12.1 trillion and KRW14.2 trillion, respectively. To achieve the targets, we are accelerating 'Speed Management' which we have carried forward from past years. Furthermore, we are reinforcing our business competitiveness and growth engines with a far-sighted vision.

In ways to boost business competitiveness, the Petrochemicals Division is seeking cost-competitive raw material resources. The Information & Electronic Materials Division is revamping its products by developing breakthrough technologies and

solidifying its business structure through the replacement of outsourced core components with inhouse-developed ones.

To accelerate growth engines, we are venturing into display, energy, environment, and biotech areas in step with vigorous M&A and R&D activities. Furthermore, we are promoting creative, globally competent employees to facilitate a sound, unique corporate culture. Building on the strengths of our previous achievements, we pledge ourselves anew toward becoming one of the world's most admired companies by generating the greatest possible value for our customers and shareholders. In closing, we extend our heartfelt thanks to all of you and look forward to your unwavering support.

March 21, 2008

Bahn-Suk Kim | Vice Chairman & CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

2007 OVERVIEW

LG Chem first established its presence in 1947. Over the past six decades, the Company has grown to become a leading chemical company in Korea. Today, it is dedicated to three mainstay businesses led by the Petrochemicals, Information & Electronic Materials, and Industrial Materials Divisions. In laying the groundwork for future growth, it steps up strategic efforts and investments steadily in areas that pose high growth potential, especially in the Information & Electronic Materials Division.

Fiscal 2007 was a year in which LG Chem saw its sales rise by 16% to KRW10,795 billion and operating profits by 127% to KRW764 billion over the previous year's figures. The rise in both sales and operating profits was due mainly to performance improvement in the Petrochemicals Division and strong business growth in the Information & Electronic Materials Division. Net income also jumped nearly 117% to KRW686 billion. On a consolidated basis, sales were up 18% to KRW13,525 billion, operating profits 75% to KRW1,187 billion, and net income 113% to KRW689 billion.

Looking at the performance of business divisions in 2007, the Petrochemicals Division posted strong profitability despite the Daesan Naphtha Cracking Center's maintenance shutdowns and the pressure of increasing feedstock prices coupled with soaring oil prices. Although constraints on business activities were

apparent in the last year, growing demand for petrochemical products pushed product prices and resulted in a dramatic swing in profitability. Sales grew 21% to KRW7,100 billion and operating profits more than 201% to KRW511 billion. In particular, the growing oxo-alcohol demand, which continued to exceed supply primarily due to the industry's lack of facility expansion in recent years, has contributed to robust profitability. The merger with LG Petrochemical on November 1, 2007 has allowed a vertical integration that enhanced cost competitiveness, reaffirming its leadership position in the domestic petrochemical industry. On the strength of its integrated business structure, the division will bolster its production competitiveness by developing new technologies and catalyst materials in line with ensuring sustained high levels of profitability through diversified exports with strategic marketing.

The Information & Electronic Materials Division continued to record impressive returns. In particular, the information and electronic materials business turned red ink into black thanks in a large part to the increased utilization ratios in the battery business and the increased prices of batteries for notebook PC. In the optical materials business, a robust growth of LCD demand especially since the second quarter, cost reduction activities across operations, and productivity ramp up were a major contributor to the improvement in sales and operating profits. As a result, the Divisions' sales grew 33% to KRW2,136 billion and operating profits jumped 218% to KRW153 billion. In

the battery business, the growth of notebook PC and mobile phone markets is expected to be solid for years to come. Increasing supply to notebook PC and mobile phone makers as well as productivity ramp up will steadily improve business results. Despite the persistent pressure to drop prices of polarizer, its broad range of marketing activities worldwide and ongoing innovation drives companywide, riding on a LCD market boom, are expected to generate sustained profit growth.

In the Industrial Materials Division, business performance has slackened due mainly to the government's repressive policies against the overheating real-estate market in Korea. Sales growth remained flat at KRW2,140 billion and operating profits dropped by 16% to KRW101 billion. The prolonged weakness in the real-estate market has slowed down the growth of the Housing Solution business. The costly integration and restructuring of low-profit manufacturing plants was another downside factor. It has dampened profit growth that fell below the anticipated level. Addressing the underlying risks with seamless teamwork to offset the downturn in the market, the division invigorates cost reduction and profitability improvement through constant restructuring and diversified global marketing strategies.

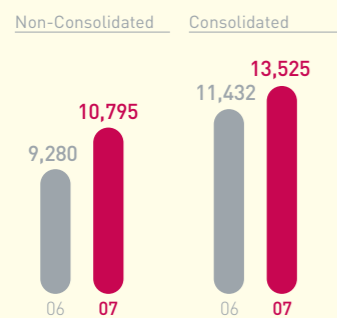
At LG Chem, research and development efforts have been made across organizations to strengthen competitiveness in all lines of businesses and identify growth promising opportuni-

ties. The Information & Electronic Materials Division has exploited its expertise in displays, rechargeable batteries, and semiconductor materials. The Industrial Materials Division has identified growth potential of construction and advertising materials, while the Petrochemicals Division has ventured into high polymer compounds as well as process and catalyst technologies. Currently, LG Chem has set sights on selected areas involved with next-generation displays and clean energy as its growth engines for the future. Accordingly, noteworthy steps are being taken on a companywide scale to support related R&D activities. In order to cope with the rapidly changing nature of technologies in the growth promising areas, the Company makes further moves on global partnerships and joint research activities from early phases of R&D projects.

In addition, LG Chem allocated KRW672 billion for FY 2007 investment budget early in the year. However, a total of KRW484 billion was invested as some projects were suspended in response to a sudden downturn in market conditions. Looking at a breakdown of the investment by each division, KRW227 billion went to the Petrochemicals Division, KRW90 billion to the Information & Electronic Materials Division, and KRW67 billion to the Industrial Materials Division, while KRW100 billion spent as corporate common division. For 2008, LG Chem plans to invest KRW805 billion, largely in an expansion of its bisphenol-A (BPA), battery, and polarizer plant.

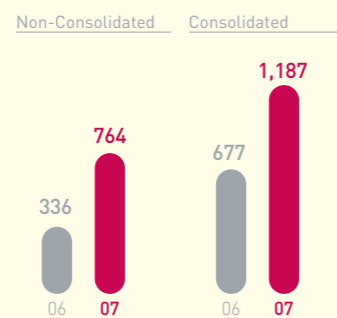
SALES

in KRW billions



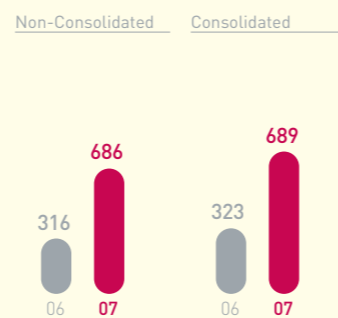
OPERATING PROFIT

in KRW billions

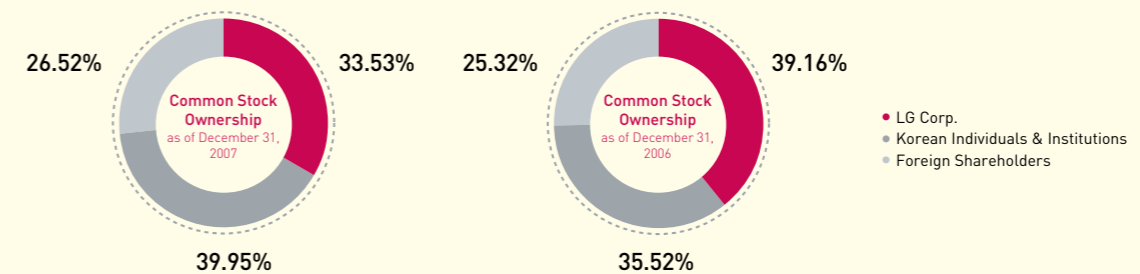


NET INCOME

in KRW billions



SHAREHOLDER COMPOSITION



MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL INFORMATION

Financial Structure

As a result of substantial improvement in businesses and an increase in cash flow from the merger with LG Petrochemical, LG Chem's total liability to equity ratio fell over 40.1%p to 81.8% and a debt-to-equity ratio dropped 25.5%p to 35.1% at the end of fiscal 2007. On a consolidated basis, the ratios were 112.9% and 58.7%, respectively.

LG Chem expects its cash flow to be substantially improved in 2008 as the Petrochemicals Division benefits from the merger, the Information & Electronic Materials Division begins to reap the fruits of strong polarizer sales, and the Industrial Materials Division's overall restructuring eventually shows tangible results. The Company continues to revamp its financial structure in line with rational approaches to investment, restructuring of low-profit businesses, and smart selection and management of capital expenditures.

Major Financial Indicators

	Non-Consolidated		Consolidated	
	2006	2007	2006	2007
Total liability-to-equity ratio (%)	121.9	81.8	133.0	112.9
Debt-to-equity ratio (%)	60.6	35.1	73.6	58.7
Interest coverage multiple (X)	3.8	10.0	5.9	11.4
Return on assets (%)	5.6	11.3	6.2	10.3
Return on equity (%)	12.6	23.3	14.5	22.9

Equity

Under the Fair Trade Law of Korea revised in 2007, holding companies must maintain at least a 20% ownership stake in their listed subsidiary's total outstanding shares. Nevertheless, LG Corp. (LG Chem's holding company) purchased LG Chem's common stocks to raise its ownership stake in 2006. Looking at common stocks only, its stake in LG Chem stood at 39.16%. On November 1, 2007, LG Chem merged with LG Petrochemical to issue 10,813,706 new shares. The merger resulted in the dilution of LG Corp.'s stake in LG Chem to 33.53% as of 2007.

As of December 31, 2007, LG Corp.'s holdings totaled 33.53%, foreign shareholders 26.52%, and Korean individual and institutional investors 39.95%.

Stock Information

(based on common stock as of Dec. 31, 2007)

	Total Issued Common Shares	Paid-in Capital (in KRW billions)	Foreign Investor Holdings (%)
Common stock	75,238,770	376.2	26.52
Preferred stock	8,661,251	43.3	60.19
Total	83,900,021	419.5	30.00

Funding Strategy

Liquidity Risk Management

According to its liquidity management policies, LG Chem uses long-term loans for fixed asset investment such as plant and equipment and short-term loans for working capital. To guard against liquidity risk, the Company limits short-term borrowings to less than 90% of its net working capital.

Interest Rate Risk Management

An appropriate mix of fixed and floating-rate loans is used to respond elastically to fluctuating interest rates. Floating-rate loans are maintained in ranges between 20% and 40% of total borrowings.

Foreign Currency Risk Management

LG Chem maintains an optimal level of foreign currency borrowings, which serves as a natural hedge against foreign exchange exposure. For 2008, the Company estimates exposure of approximately US\$2.1 billion and will maintain foreign currency borrowings of around US\$300 million as a hedge.

Cost of Capital

(in KRW billions)

	2006	2007	Changes
Interest paid	88.1	76.6	- 11.5
Interest rate (%)	5.19	5.14	- 0.05

Debt by Currency

(in KRW billions)

	Dec. 2006	Dec. 2007	Changes
Korean won	1,269.2	1,033.2	- 236.0
Foreign currency	316.1	328.4	+ 12.3
Total	1,585.3	1,361.6	- 223.7

Dividend Policy and Dividends

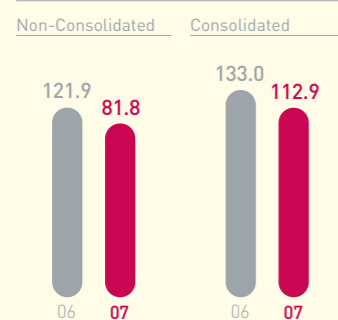
LG Chem considers dividends to be the foremost means of returning profits to its shareholders. As determinants of dividend policy, the Company takes various factors into account, including the sufficiency of its capital resources for securing future growth, investment plans, and financial soundness.

The Company decided to pay an annual cash dividend on its common stock of KRW2,000 (40%) per share and on its preferred stock of KRW2,050 (21%) per share for fiscal 2007. Based on its 2007 earnings, more than double the previous year's figures, the determinants of dividend payouts include investments in fostering its business competitiveness and future growth.

LG Chem is committed to leverage shareholder value by enhancing the competitiveness of its core businesses and generating solid profits at a steady pace, hoping to maintain dividends at a substantial level that can satisfy both the financial soundness and shareholders' expectations.

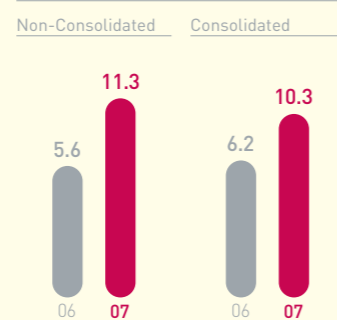
TOTAL LIABILITY TO EQUITY

in %



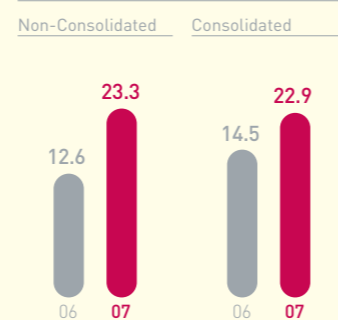
RETURN ON ASSETS

in %



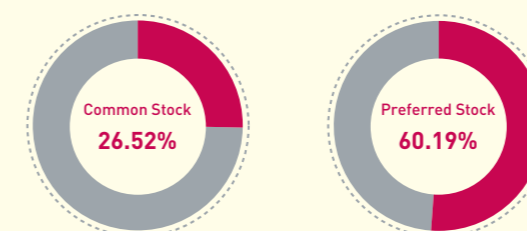
RETURN ON EQUITY

in %



FOREIGN INVESTOR HOLDINGS

(based on common stock as of Dec. 31, 2007)



MANAGEMENT'S DISCUSSION & ANALYSIS

Dividend Summary

	2006	2007
Net income (in KRW millions)	316,000	686,205
EPS (in KRW)	4,354	9,264
Total dividends (in KRW millions)	72,908	167,006
Dividends-to-net income (%)	23.07	24.34
Dividend payout (%) per common stock	20	40
Dividend payout (%) per preferred stock	21	41
Dividend payout ratio (%)	2.3	2.2

* Dividend payout is based on percentage of face value.

Merger with LG Petrochemical

LG Chem's merger with LG Petrochemical on November 1, 2007, enabled it to become a global-level integrated chemical company. LG Chem's consolidated sales totaled KRW13,524.8 billion in 2007 and is estimated to be about KRW14,200.0 billion in 2008. The merger allowed the Company a vertical integration of mainstay petrochemical businesses that significantly enhanced cost competitiveness. With an expansion of bisphenol-A (BPA) plant, slated for 2008, and specialty product ramp up, it strives to set itself apart from competitors. The merger also brought it a notable improvement in cash flow to solidify its financial structure as it has been able to tap LG Petrochemical's surplus cash flow. Thus it could more easily secure capital resources

required for growth promising investments. With sound business portfolios, LG Chem is now building a formidable presence sufficient for dealing with whatever the business world may hold.

Capital Expenditures

In 2007, LG Chem's total investments amounted to KRW483.7 billion. Noteworthy investment was KRW102.8 billion worth of expansion of the Daesan Naphtha Cracking Center. But as for polarizers, the expansion of wide-width polarizer lines planned early in 2007 was suspended as most LCD companies held off their investments in facility expansion.

In 2008, however, to proactively cope with adverse business factors in the global petrochemical industry, including rapidly increasing chemical production facilities in the Middle East, LG Chem will carry out an expansion of bisphenol-A (BPA) plant and a debottlenecking of synthetic rubber lines as part of its product portfolio reshuffle with specialty products. In order to meet the explosive demand for batteries and new orders in a timely manner, it will also expand production lines in domestic subsidiaries and its Nanjing subsidiary in China. As for polarizers, an expansion of wide-width polarizer lines will begin in parallel with related clients resume expansions of 8th-generation production lines. Racing to meet changes in the global market, the Company is now exploring new business models and mergers and acquisitions in display, energy, and biotech areas in which synergistic opportunities will be ample to foster its sustainable growth.

Capital Expenditures

(in KRW billions)

	2007	2008 (E)
LG Chem	483.7	805.1
Petrochemicals	226.7	253.4
Information & Electronic Materials	89.8	309.6
Industrial Materials	66.8	103.6
Other	100.3	138.5

2008 Outlook

Market watchers say 2008 business outlook will remain gloomy due to the widespread uneasiness in the global financial market, soaring oil prices, and uncertain economy rebounding and prolonged sluggish demand in Korea. However, LG Chem has set 2008 sales and non-consolidated sales targets at a 12% increase to KRW12.1 trillion and consolidated sales targets at a 5% increase to KRW14.2 trillion. With its unrivaled competitiveness in the petrochemical business through the merger with LG Petrochemical, the Company's fast growing sales of batteries and polarizers in the information and electronic materials business and improved profitability of the recently restructured industrial material business are viewed as positive attributes for steady growth.

In early 2008, the Petrochemicals Division formed the Petrochemicals Unit to maximize synergy of current mergers through mapping out far-sighted strategies with following actions. The division anticipates adding fresh fuel to an integrated marketing network with customer value-based approaches. It will also ensure the cost competitiveness of its major products and give weight to increasing specialty products to

offer differentiated customer solutions.

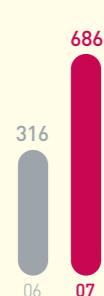
The Information & Electronic Materials Division continues to focus intently on its cost competitiveness by replacing outsourced core components with inhouse-developed ones and diversifying global market access with distinctive product features and customer solutions. To the extent that quality is a critical selling point for resulting profitability, the division gears up R&D activities for improving the quality and safety of batteries. In the case of medium- to large-sized batteries, a special taskforce team is operated to ramp up new orders through direct customer interactions. In the LCD polarizer business, the division goes one step further to respond to today's dynamic LCD market at home and abroad through ongoing investment in production facilities while seeking to expand customer base.

The Industrial Materials Division keeps reshuffling its business portfolio to deploy customer-directed products and market approaches on the firm basis of customer-first management. To that extent, the division accelerates time-to-market product development and invigorates customer communications centered on branding of 'Z:IN,' its master brand for Housing Solutions. It takes aggressive steps to widen global access to housing markets around the U.S. and Chinese production subsidiaries.

Furthermore, LG Chem ventures into display, energy, environment, and biotech areas in which opportunities are amply widespread to foster its future growth, while accommodating M&A, if needed for an early launch of business ventures.

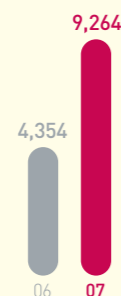
NET INCOME

in KRW billions



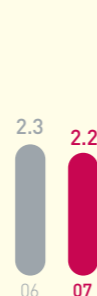
EPS

in KRW



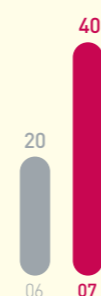
DIVIDEND YIELD RATIO

in %



COMMON STOCK DIVIDEND PAYOUT

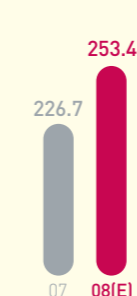
in %



CAPITAL INVESTMENT BY BUSINESS DIVISION

PETROCHEMICALS

in KRW billions



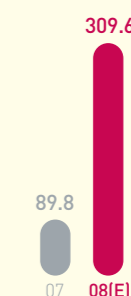
INDUSTRIAL MATERIALS

in KRW billions



INFORMATION & ELECTRONIC MATERIALS

in KRW billions





In 2007, oil prices that soared beyond the record-high \$100 price per barrel have had a tremendous impact on the petrochemical industry. This upward trend is likely to continue pushing up the prices of primary feedstocks as well as our products. At the same time, Korea's economic slowdown, which has shown no signs of rebounding, now appears to be headed for a long-term recession due to the adverse economic impacts, which include the US sub-prime mortgage crisis.

Amidst unfavorable business conditions in 2007, we at LG Chem have enhanced the competitiveness of our mainstream businesses, laying the groundwork in boosting profit potentials with aggressive result-driven research and development activities spurred by 'Speed Management' initiatives. For the relatively less profitable businesses, including the battery business, turnaround efforts have been directed toward cost reduction and customer value innovation that have improved matrix organizational structures. In order to stabilize a supply of feedstocks and synergize corporate resources through economies of scale, we completed the merger with LG Petrochemical in November of last year. It is with this rebirth

that we have become more vertically integrated to broadly cover production and supply of feedstocks and downstream derivatives. The merger has also improved our financial status, with a total liability to equity ratio lowered to 82% in 2007 from the previous year's 122%. With this improved financial status, we are better poised to secure capital resources required for our mid- and long-term investments.

To keep our momentum going in 2008, we have set our priorities on three fronts:

First, every effort will be made to secure capital resources for facilitating profitable growth despite adversities. Although we will cover most of the necessary capital expenditures for profitable growth, preparations for inducing low-cost capital investments should be made in the case of commencing new projects that require large-scale investments. To that extent, an acquisition of credit ratings will be promoted from international corporate credit rating agencies as it is helpful to induce international investments. At the same time, working capital and overhead costs will be rigid-

ly controlled for a sustainable cash flow improvement across operations.

Second, financial risk management will be enhanced through efficient management of the variability of foreign exchange and interest rates in today's fluctuating capital markets, particularly with the weakening US dollar. Accordingly, foreign asset management will be enhanced against volatile currency fluctuations, thus minimizing financial risks and optimizing capital resources.

Finally, we will do our best to maximize profits and our shareholder value. For 2008, we plan to expand in-depth investor relations conferences, non-deal road shows, and one-on-one meetings at home and abroad to welcome and facilitate helpful input. Feedback collected from IR activities will be strategically reflected in our management.

A handwritten signature in black ink, appearing to read 'Suk-Jeh Cho'. The signature is fluid and cursive, written in a professional style.

Suk-Jeh Cho | Executive Vice President and CFO

REPORT OF INDEPENDENT AUDITORS

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



www.samil.com
Kukje Center Building
191 Hangangno 2-ga, Yongsan-gu
Seoul 140-702, KOREA
(Yongsan P.O. Box 266, 140-600)

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.

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.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Notes 2 and 14)	₩ 466,438	₩ 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	₩ 7,049,952	₩ 5,806,516

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

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Liabilities and Shareholders' Equity		
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.

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
Non-operating income		
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
Non-operating expenses		
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
Income from continuing operations tax expense (Notes 2 and 23)	121,250	79,725
Income from continuing operations	701,197	318,068
Loss from discontinued operations (Note 30)	14,992	2,068
Net income	₩ 686,205	₩ 316,000
Per share data (in won) (Notes 2 and 25)		
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.

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
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ (3,895)	₩ 5
Cumulative effect of accounting changes	-	(1,123)
Net income	686,205	316,000
	682,310	314,882
Transfers from other reserves		
Reserve for technology development	76,667	63,333
Appropriation of retained earnings		
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
	758,970	382,110
Unappropriated retained earnings carried forward to subsequent year	₩ 7	₩ (3,895)

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

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year Ended December 31, 2007

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total
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.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from operating activities		
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
	442,568	501,764
Changes in operating assets and liabilities		
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
	(129,545)	(99,692)
Net cash provided by operating activities	999,228	718,072

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from operating activities		
(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	(536,377)	(603,740)
Cash flows from financing activities		
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	(306,610)	(369,454)
Cash flows from merger	194,367	181,507
Net increase (decrease) in cash and cash equivalents	350,608	(73,615)
Cash and cash equivalents		
Beginning of the year	115,830	189,445
End of the year	₩ 466,438	₩ 115,830

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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 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 ¹	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) ²	4,421	4,383	³	³
Earnings per share (won) ²	4,392	4,354	5,501	5,547

1_ Includes income tax effect from discontinued operations.

2_ 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.

3_ Not applicable for 2005.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts there-of 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.

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 rep-

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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:

	Estimated Useful Lives
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.

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 mea-

sured, 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.

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).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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.

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]	
	2007	2006
Time deposits	₩ 100,000	₩ -
Available-for-sale ¹	4	-
Short-term loans receivable	6,408	6,311
	₩ 106,412	₩ 6,311

¹ Available-for-sale consists of government and public bonds.

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 3rd 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, 2nd 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: ₩283,761 million).

6. Receivables

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

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

7. Inventories

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

	[in millions of Korean won]	
	2007	2006
Merchandise, net of valuation allowance of ₩607 million (2006: ₩649 million)	₩ 43,812	₩ 47,064
Finished products, net of valuation allowance of ₩5,298 million (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
	₩ 1,167,837	₩ 869,138

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:

	[in millions of Korean won]	
	2007	2006
Government and public bonds	₩ 31	₩ -
Non-marketable stocks	1,881	1,718
Total	₩ 1,912	₩ 1,718

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions of Korean won)

	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value ⁴	
	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. ¹	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
Neocos ^{1,2}	4.86	6.00	9	9	-	9	-	10
Saerom Seongwon ³	0.00	-	182	-	182	-	1	-
			₩ 4,518	₩ 4,336	₩ 1,881	₩ 1,718	₩ 4,428	₩ 3,641

1_ The Company recognized an impairment loss of ₩10 million and ₩9 million, in 2007.

2_ LG Environment Strategy Institute changed its name to Neocos in 2007.

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

4_ 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.

9. Equity-Method Investments

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

(in millions of Korean won)

Investee ¹³	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. ¹	-	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. ²	85.35	82.80	33,649	20,341	31,472	16,849	37,544	21,609
Tianjin LG Window & Door Co., Ltd. ²	-	90.00	-	13,308	-	7,689	-	8,955
Ningbo LG Yongxing Chemical Co., Ltd. ^{3,4}	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. ⁵	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. ^{6,13}	49.00	49.00	43,203	43,203	993	993	5,889	14,835
SEETEC Co., Ltd. ¹³	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. ⁷	100.00	100.00	13,091	10,486	15,435	11,301	15,453	11,325
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁸	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. ⁹	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 Sartl ¹⁰	-	100.00	-	5,635	-	1,441	-	1,441
LG Holdings (HK) Ltd. ^{11,13}	18.18	18.18	41,582	41,582	27,222	28,682	24,866	25,802
Ningbo LG Yongxing Latex Co., Ltd. ⁴	-	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. ¹²	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

1_ On November 1, 2007, LG Petrochemical Co., Ltd. was merged with the Company (Note 32)

2_ 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%.

3_ 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.

4_ On November 1, 2007, Ningbo LG Yongxing Chemical Co., Ltd. merged with Ningbo LG Yongxing Latex Co., Ltd.

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

6_ The Company recognized an impairment loss of ₩10,993 million for the difference

between the estimated realizable value and the book value in 2006.

7_ 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.

8_ 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%.

9_ In 2007, the Company acquired additional shares of LG Chem (Taiwan), Ltd. for ₩4,597 million without any changes in its percentage of ownership.

10_ The investee was liquidated in 2007.

11_ This investment is classified as an equity-method investment as the combined percent-

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

age of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.

12_ 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.

13_ 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.

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) in Capital Adjustment	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. ¹	16,849	-	-	3,650	3,284	7,689	31,472
Tianjin LG Window & Door Co., Ltd. ¹	7,689	-	-	-	-	[7,689]	-
Ningbo LG Yongxing Chemical Co., Ltd. ¹	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. ¹	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 (Beijing) 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

1_ 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.

[in millions of Korean won]

Investee	2006					
	January 1, 2007	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Accumulated other comprehensive income and expenses	December 31, 2006
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. ¹	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 ²	-	-	-	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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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. ¹	₩ 13,512	₩ (11,134)	₩ 2,378	₩ -	₩ 16,120	₩ -	₩ 2,608	₩ 13,512
Tianjin LG New Building Materials Co., Ltd.	-	-	-	-	180	-	180	-
LG Daesan Petrochemical Ltd. ²	-	-	-	-	(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)	-	-
	₩ (49,477)	₩ (11,134)	₩ (263)	₩ (60,348)	₩ (402,237)	₩ 352,907	₩ 147	₩ (49,477)

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

² 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).

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 ¹	(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)

¹ 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.*

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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. ¹	₩ -	₩ -	₩ -	-
Tianjin LG Dagu Chemical Co., Ltd.	126,210	94,98	293,692	314
Tianjin LG New Building Materials Co., Ltd. ²	74,487	36,943	71,399	3,696
Tianjin LG Window & Door Co., Ltd. ²	-	-	-	-
Ningbo LG Yongxing Chemical Co., Ltd. ²	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. ²	-	-	-	-
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
	₩ 2,928,171	₩ 1,724,599	₩ 3,982,863	₩ 65,511

1_ The Company merged with LG Petrochemical Co., Ltd. in 2007.

2_ 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)
	₩ 3,780,696	₩ 1,803,383	₩ 5,975,193	₩ 234,887

1_ The Company merged with LG Petrochemical Co., Ltd. in 2007.

2_ 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.,

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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
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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
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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)
	₩ 3,780,696	₩ 1,803,383	₩ 5,975,193	₩ 234,887

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LG Chem Industrial Materials Inc.	41,159	30,930	31,475	(346)
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LG Holdings (HK) Ltd.	142,007	81	-	(19,852)
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LG Chem Europe GmbH	22,153	20,189	44,624	79
LG Chem Brasil Ltd.	258	-	505	-
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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)
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Compact Power Inc.	1,044	372	4,064	382
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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)
	₩ 3,780,696	₩ 1,803,383	₩ 5,975,193	₩ 234,887

1_ The Company merged with LG Petrochemical Co., Ltd. in 2007.

2_ 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.,

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Tianjin LG Window & Door Co., Ltd.	25,588	16,633	23,772	(731)
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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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

10. Property, Plant and Equipment

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

	(in millions of Korean won)	
	2007	2006
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
	6,728,561	5,665,715
Less: Accumulated depreciation	(3,898,819)	(3,346,920)
Accumulated impairment loss	(12,408)	(19,510)
	2,817,334	2,299,285
Land	497,823	430,480
Construction-in-progress	286,560	324,841
Machinery-in-transit	20,083	44,416
	₩ 3,621,800	₩ 3,099,022

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).

11. Intangible Assets

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

	(in millions of Korean won)	
	2007	2006
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)
	₩ (182,776)	₩ (212,990)

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

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

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:

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

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:

	Annual Interest Rate (%)		(in millions of Korean won)	
	2007	2006	2007	2006
Short-term borrowings				
General term loans	-	CD+1.45	₩ -	₩ 76
Commercial paper	-	4.71	-	25,000
			-	25,076
Current maturities of long-term debts				
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
			366,887	440,827
Less: Discount on debentures issued			(604)	(895)
			₩ 366,283	₩ 439,932
			₩ 366,283	₩ 465,008

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:

	Reference	(in millions of Korean won)	
		2007	2006
Debentures	(1)	₩ 684,007	₩ 913,798
Loans	(2)	307,304	196,885
		₩ 991,311	₩ 1,110,683

(1) Debentures as of December 31, 2007 and 2006, are as follows:

	Annual Interest Rate (%)		(in millions of Korean won)	
	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) ¹	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

¹ 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(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
Won currency loans				
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 ¹	9.0	9.0	13,593	14,867
			25,406	19,762
Less: Current maturities			(1,466)	(1,387)
			23,940	18,375
Foreign currency loans				
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

1. 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)
	₩ 686,657	₩ 11,738	₩ 12,202	₩ 283,364	₩ 993,961

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)		Foreign Currency (in thousands)	
	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.

16. Accrued Severance Benefits

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

(in millions of Korean won)

	2007	2006
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	₩ 94,908	₩ 98,415

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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 ren

ovation with the approval of the Board of Directors or shareholders. In 2005, the Company granted stock options pursuant to the resolution of the Board of Directors.

Details of the stock options granted are as follows:

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

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

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.

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	10,813,706	54,068	520,638	
	due to merger				
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.

20. Retained Earnings

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

(in millions of Korean won)				
	2007		2006	
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
		1,516,826		1,270,957
Unappropriated retained earnings		682,310		314,882
	₩	2,199,136	₩	1,585,839

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:

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

22. Cost of Sales

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

(in millions of Korean won)

	2007	2006
Products		
Beginning balance of inventories	₩ 480,039	₩ 361,290
Increase due to merger ¹	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)
	7,614,114	6,714,104
Merchandise		
Beginning balance of inventories	47,064	29,750
Increase due to merger ¹	1,923	-
Purchases	1,323,319	1,228,100
Ending balance of inventories	(43,812)	(47,064)
Discontinued operations	(21)	(35)
	1,328,473	1,210,751
Other cost of sales	39,407	21,996
Total	₩ 8,981,994	₩ 7,946,851

1_ Increased as the Company merged with LG Petrochemical Co.,Ltd. and LG Daesan Petrochemical Ltd. in 2007 and 2006, respectively.

23. Income Taxes

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

(in millions of Korean won)

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

1_ The changes in deferred income tax assets (liabilities) are as follows:

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2007	2006	2007	2006
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
			₩ 89,334	₩ 3,206

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

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2007	2006	2007	2006
Beginning balance	₩ 36,147	₩ (17,253)	₩ 9,940	₩ (4,745)
Ending balance	11,252	36,147	3,094	9,940
			₩ (6,846)	₩ 14,685

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

(in millions of Korean won)

	2007	2006
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)

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

(in millions of Korean won)

	2007						
	Beginning Balance Before Adjustment	Adjustment ¹	Increase	Decrease	Ending Balance	Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007
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 ²	54,334	-	(73,891)	(38,972)	19,415	14,942	5,339
	(266,608)	8,005	₩ 19,975	₩ (292,346)	53,718	(73,318)	14,772
Gain on valuation of equity-method investments ³	39,088	-	-	-	36,586	10,749	10,061
Equity ³	18,187	-	-	-	8,163	5,002	2,245
Total	₩ (323,883)	₩ 8,005			₩ 8,969	₩ (89,069)	₩ 2,466
Deferred income tax assets (liabilities)	₩ (89,069)	₩ 2,201			₩ 2,466	₩ (89,069)	₩ 2,466

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1_ Includes temporary differences transferred from LG Petrochemical Co., Ltd., at the time of merger.

2_ 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*.

3_ 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.

[in millions of Korean won]

	2006								
	Beginning Balance Before Adjustment	Adjustment ¹	Beginning Balance After Adjustment	Increase	Decrease	Ending Balance	Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007	
Accrued severance benefits	₩ 122,243	₩ 19,264	₩ 141,507	₩ 35,084	₩ 32,400	₩ 144,191	₩ 33,617	₩ 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 ²	(6,704)	-	(6,704)	61,642	604	54,334	(1,844)	14,942	
	(503,824)	3,584	(500,240)	₩ 96,189	₩ (137,443)	(266,608)	(138,552)	(73,318)	
Gain on valuation of equity-method investments ³	(175,249)	-	(179,331)			39,088	(48,193)	10,749	
Equity ³	10,549	-	10,549			18,187	2,901	5,002	
Total	₩ (339,124)	₩ 3,584	₩ (335,540)			₩ (323,883)	₩ (93,260)	₩ (89,069)	
Deferred income tax assets (liabilities)	₩ (93,260)	₩ 985	₩ (92,275)			₩ (89,069)	₩ (93,260)	₩ (89,069)	

1_ 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.

2_ As of December 31, 2006, negative goodwill of ₩313,357 million was not recognized as deferred

income tax assets, when the Company adopted SKFAS No. 16, *Deferred Income Tax*.

3_ 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.

[in millions of Korean won]

	2007		2006	
	Deferred tax Assets	Deferred tax Liabilities	Deferred tax Assets	Deferred tax Liabilities
Current	₩ 44,825	₩ (21,588)	₩ 21,210	₩ (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 ben-

efits are determined to be realizable as of December 31, 2007.

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:

[in millions of Korean won]

	2007	2006
Net income	₩ 686,205	₩ 316,000
Changes in equity arising from equity-method investments ¹	28,072	(46,798)
	₩ 714,277	₩ 269,202

1_ 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]

	2007	2006
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) ¹	65,624,898	63,818,183
Basic income from continuing operations per share (A/B)	₩ 9,466	₩ 4,383

[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) ¹	65,624,898	63,818,183
Basic earnings per share (A/B)	₩ 9,264	₩ 4,354

1_ 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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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:

(in millions of Korean won)

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

(in millions of Korean won)

	2006			
	Sales	Purchases	Receivables ⁵	Payables
Controlling company	₩ - ₩	₩ 27,031 ₩	₩ 6,386 ₩	₩ 653 ₩
Subsidiaries ^{1,2,3}	1,187,514	1,797,520	34,750	217,799
Equity method investees ¹	46,303	152,937	6,150	18,564
Key management	-	23,788	-	14,439
Other related companies ⁴	₩ 1,229,156 ₩	₩ 438,071 ₩	₩ 230,770 ₩	₩ 95,547 ₩
Total	₩ 2,462,973 ₩	₩ 2,439,347 ₩	₩ 278,056 ₩	₩ 347,002 ₩

1_ 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.

2_ 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.

3_ Includes sales and purchases of LG Petrochemical Co., Ltd. before merger with the Company in 2007.

4_ Includes LG Philips LCD Co., Ltd. and LG Electronics Inc.

5_ 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.

Compensation for key management officers for the years ended December 31, 2007 and 2006, consists of:

(in millions of Korean won)

	2007	2006
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	₩ 55,250 ₩	₩ 23,788 ₩

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:

(in millions of Korean won)

Guarantee Beneficiary	2007		
	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
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
LG Chem Poland Sp.Z.O.O.	13,813	Export-Import Bank of Korea	13,813
	6,216	Nordea Bank	4,144
LG Chem America, Inc	3,753	Woori Bank	3,753
	4,691	Kookmin Bank	3,753
	₩ 143,981 ₩		₩ 108,462 ₩

(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	-
Tianjin LG Bohai Chemical Co., Ltd.	37,184	Export-Import Bank of Korea	18,592
LG Chem Poland Sp.Z.O.O.	12,222	Export-Import Bank of Korea	12,222
	₩ 118,424 ₩		₩ 96,165 ₩

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

28. Operating Results for the Final Interim Period

Operating results for the three-month periods ended December 31, 2007 and 2006, are as follows:

(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

29. Segment Information

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

(1) Industry Segment Information

Industry	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP, ethylene, propylene, 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:

(in millions of Korean won)

	2007				
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales ¹	₩ 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
	₩ 7,099,778	₩ 2,139,779	₩ 2,135,732	₩ 162,776	₩ 11,538,065
Operating income	511,240	101,284	153,441	(2,343)	763,622
Property, plant and equipment, and intangible assets ²	₩ 2,002,830	₩ 438,887	₩ 856,819	₩ 414,675	₩ 3,713,211
Depreciation and amortization	₩ 251,335	₩ 59,752	₩ 148,244	₩ 4,342	₩ 463,673

(in millions of Korean won)

	2006				
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales ¹	₩ 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
	₩ 5,884,810	₩ 2,074,570	₩ 1,602,001	₩ 136,607	₩ 9,697,988
Operating income	169,889	120,738	48,322	(2,609)	336,340
Property, plant and equipment, and intangible assets ²	₩ 1,445,328	₩ 455,594	₩ 877,419	₩ 421,048	₩ 3,199,389
Depreciation and amortization	₩ 328,441	₩ 64,258	₩ 132,858	₩ 3,962	₩ 529,519

¹ External sales of continuing operations.

assets. The negative goodwill as of December 31, 2007, amounts to ₩274,187 million [2006:

² Excludes negative goodwill incurred from merger, which is deducted from intangible

₩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 ¹	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

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

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:

(in millions of Korean won)

	2007	2006
Impairment loss on discontinued operations	₩ (2,495)	₩ (63)
Loss from the safety materials business ¹	(6,362)	(1,738)
Loss before tax from discontinued operations	₩ (8,857)	₩ (1,801)

¹ Excludes impairment loss on discontinued operations.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

	2007 ¹		2006	
Inventories	₩	-	₩	2,313
Property, plant and equipment		-		9,165
	₩	-	₩	11,478

1_ 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:

	2007		2006	
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	₩	(6,362)	₩	(1,738)

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

	2007		2006	
Loss before tax from discontinued operations	₩	(8,857)	₩	(1,801)
Income tax effects		2,436		495
Loss after tax from discontinued operations	₩	(6,421)	₩	(1,306)

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

	2007		2006	
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	₩	-	₩	-

(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:

	2007		2006	
Impairment loss on discontinued operations	₩	(4,765)	₩	-
Loss from the AMS Filter business ¹		(6,380)		(913)
Loss before tax from discontinued operations	₩	(11,145)	₩	(913)

1_ 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:

	2007 ²		2006	
Inventories	₩	-	₩	6
Property, plant and equipment		-		1,829
	₩	-	₩	1,835

2_ The related assets were disposed of by December 31, 2007.

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:

	2007		2006	
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:

	2007		2006	
Loss before tax from discontinued operations	₩	(11,145)	₩	(913)
Income tax effects		3,065		23
Loss after tax from discontinued operations	₩	(8,080)	₩	(890)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

	(in millions of Korean won)	
	2007 ¹	2006
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	₩ -	₩ -

(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:

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

1_ 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:

	(in millions of Korean won)	
	2007 ¹	2006
Inventories	₩ -	₩ 966
Property, plant and equipment	-	2,856
	₩ -	₩ 3,822

1_ 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:

	(in millions of Korean won)	
	2007	2006
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	₩ (416)	₩ 222

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:

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

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

	(in millions of Korean won)	
	2007	2006
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	₩ -	₩ -

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:

	(in millions of Korean won)	
	2007	2006
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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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 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.

The Company accounted for the difference between the acquisition cost and

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

(in millions of Korean won)		
January 1, 2007 (purchase date) ¹	₩	13,512
Amortization ¹		(2,378)
October 31, 2007 ¹		11,134
November 1, 2007 (merger date)		11,134
Amortization		(420)
December 31, 2007	₩	10,714

¹ 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.

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

(in millions of Korean won)			
	LG Chem, Ltd.		LG Petrochemical Co., Ltd.
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	₩	6,226,751	₩ 1,309,181
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		3,208,307	1,051,738
Total liabilities and shareholders' equity	₩	6,226,751	₩ 1,309,181

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

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

Condensed Balance Sheets as of December 31, 2006

(in millions of Korean won)			
	LG Chem, Ltd.		LG Petrochemical Co., Ltd.
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	₩	5,806,516	₩ 1,138,510
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	₩	5,806,516	₩ 1,138,510

Condensed Income Statements for the year ended December 31, 2006

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(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:

Entity	CEO	Major Business	Relationship
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	₩	393,058

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	₩	554,634

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

¹ Difference between the investment and the Company's proportionate ownership in the net asset fair value of LG Daesan Petrochemical Ltd. according to the equity-method application.

The reversal amount is recorded as a gain on valuation of equity method investments.

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

		(in millions of Korean won)
Net asset value of LG Daesan Petrochemical Ltd. ³	₩	1,004,317
Acquisition cost ⁴		(650,565)
Negative goodwill	₩	353,752

³ 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 ⁵	₩	534,345
Investments ⁶		5,369
Property, plant and equipment		648,357
Intangible assets		1,929
Total assets		1,190,000
Current liabilities ⁵		152,530
Non-current liabilities		33,153
Total liabilities		(185,683)
Fair value of net assets	₩	1,004,317

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

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

⁶ 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions of Korean won)

	LG Chem, Ltd.		LG Daesan Petrochemical Ltd.	
Current assets	₩	1,436,296	₩	533,824
Investments ¹		1,599,426		5,369
Property, plant and equipment		2,456,822		759,501
Intangible assets		100,855		-
Total assets	₩	5,593,399	₩	1,298,694
Current liabilities	₩	1,946,910	₩	152,530
Non-current liabilities		1,201,748		33,154
Total liabilities		3,148,658		185,684
Total shareholders' equity		2,444,741		1,113,010
Total liabilities and shareholders' equity	₩	5,593,399	₩	1,298,694

¹ Includes other non-current assets.

Condensed Income Statements for the year ended December 31, 2005

(in millions of Korean won)

	LG Chem, Ltd.		LG Daesan Petrochemical Ltd.	
Sales	₩	7,425,104	₩	1,631,874
Cost of sales		(6,107,725)		(1,485,898)
Gross profit		1,317,379		145,976
Selling and administrative expenses		(895,665)		(102,585)
Operating income		421,714		43,391
Non-operating income (expenses), net		45,964		(1,887)
Income before income taxes		467,678		41,504
Income tax expense		(64,066)		(25,893)
Net income	₩	403,612	₩	15,611

Condensed Balance Sheets as of January 1, 2005

(in millions of Korean won)

	LG Chem, Ltd.		LG Daesan Petrochemical Ltd.	
Current assets	₩	1,656,707	₩	329,671
Investments ¹		1,419,104		209
Property, plant and equipment		2,453,255		950,808
Intangible assets		150,463		-
Total assets	₩	5,679,529	₩	1,280,688
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	₩	5,679,529	₩	1,280,688

¹ 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.

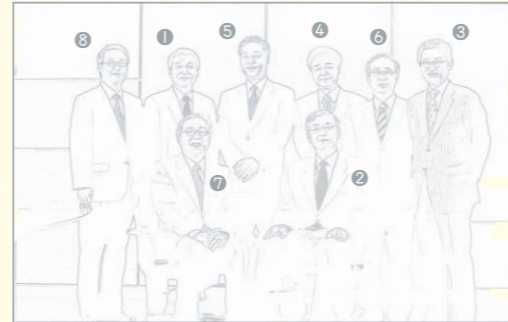
Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS standards.

January 29, 2008

Cho Suk-Jeh, Internal Accounting Control System Officer
Kim Bahn-Suk, Chief Executive Officer

BOARD OF DIRECTORS

- 1 **Bahn-Suk Kim**
Vice Chairman & CEO | LG Chem
- 2 **Yu-Sig Kang**
Vice Chairman & CEO | LG Corp
- 3 **Suk-Jeh Cho**
Executive Vice President & CFO | LG Chem
- 4 **Ho-Soo Oh**
Special advisor, Shin & Kim
- 5 **Il-Jin Park**
President, IJ International
- 6 **Sang-Hyung Ahn**
Professor, College of Business Administration,
Seoul National University
- 7 **Kon-Sik Kim**
Professor of Law, Seoul National University
- 8 **Young-Moo Lee**
Professor, School of Chemical Engineering,
College of Engineering, Hanyang University



2008 IR PLAN

	PLANS	SCHEDULE
Capability Development	<ul style="list-style-type: none"> • Provide IR feedback to each business unit (Performance and marketing data) • Facilitate seamless collaboration between related business units (Business and promotion) 	Year round
Content Development	<ul style="list-style-type: none"> • Provide in-depth reviews and in-house input on major issues • Provide real-time industry information updates • Provide consistent and systematic responses to frequently asked questions • Provide financial statements for subsidiaries on a consolidated basis (Sales, ordinary income, debt-to-equity ratio information) 	Year round
Special Events	<ul style="list-style-type: none"> • Provide greater investor access to top management • Hold regular meetings to review business performance • Host events at Korean and overseas production sites 	Year round Quarterly 12 times a year
Activities Targeting Foreign Investors	<ul style="list-style-type: none"> • Hold overseas roadshows 2-3 times a year • Attend Korea and overseas conferences 4-5 times a year • Increase frequency of conference calls with prospective overseas investors • Provide timely updates and new content on English website 	April, September Year round Year round Ongoing basis
Shareholders' General Meeting and Public Disclosure	<ul style="list-style-type: none"> • Deepen team expertise on matters related to the shareholders' general meeting and public disclosure • Improve processes for effective public disclosure • Update internal measures to prevent incorrect disclosures 	Year round

Thank you for your interest in LG Chem. For the latest business and investor information, please visit us on the Internet at www.lgchem.com.