

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

LG Chem, Ltd.

Index

September 30, 2006 and 2005, and December 31, 2005

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Report of Independent Accountants

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

We have reviewed the accompanying non-consolidated balance sheet of LG Chem, Ltd. (the "Company") as of September 30, 2006, and the related non-consolidated statements of income and cash flows for the three-month and nine-month periods ended September 30, 2006 and 2005, expressed in Korean won. These interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim financial statements based on our reviews.

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

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

We have audited the non-consolidated balance sheet of LG Chem, Ltd. as of December 31, 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those non-consolidated financial statements in our audit report dated February 3, 2006. These non-consolidated financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2005, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2005.

SAMIL PRICEWATERHOUSECOOPERS

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

Accounting principles and review standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or review standards and their application in practice.

Seoul, Korea
November 10, 2006

This report is effective as of November 10, 2006, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

(in millions of Korean won)

| | 2006 | 2005 |
|------------------------------------------------------------------|-------------|-------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | ₩ 170,765 | ₩ 189,445 |
| Trade accounts and notes receivable, net (Notes 4, 13 and 15) | 818,745 | 499,382 |
| Other accounts receivable, net (Note 4) | 144,141 | 100,059 |
| Accrued income, net | 3,804 | 55 |
| Advance payments | 1,966 | 3,062 |
| Prepaid expenses | 19,069 | 15,142 |
| Inventories, net (Note 5) | 846,599 | 608,850 |
| Deferred income tax assets | 12,023 | 11,545 |
| Other current assets | 11,626 | 8,756 |
| Total current assets | 2,028,738 | 1,436,296 |
| Long-term financial instruments (Note 3) | 60 | 51 |
| Investment securities | 1,718 | 1,939 |
| Equity-method investments (Notes 6 and 17) | 870,171 | 1,476,532 |
| Long-term trade accounts and notes receivable, net (Note 4) | 542 | 775 |
| Long-term other accounts receivable, net (Note 4) | 1,162 | 1,491 |
| Long-term guarantee deposits | 37,072 | 67,611 |
| Long-term prepaid expenses | 20,170 | 20,470 |
| Other investments | 32,806 | 30,557 |
| Property, plant and equipment, net (Notes 2, 7, 16 and 17) | 3,077,618 | 2,456,822 |
| Intangible assets, net (Notes 8, 16 and 17) | (222,201) | 100,855 |
| Total assets | ₩ 5,847,856 | ₩ 5,593,399 |

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

(in millions of Korean won)

| | 2006 | 2005 |
|-------------------------------------------------------|--------------------|--------------------|
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Short-term borrowings | ₩ 79,224 | ₩ 100,224 |
| Current maturities of long-term debts, net (Note 9) | 526,635 | 740,604 |
| Trade accounts and notes payable (Note 15) | 777,540 | 596,580 |
| Other accounts payable | 418,934 | 372,834 |
| Withholdings | 56,478 | 39,400 |
| Accrued expenses | 64,172 | 30,452 |
| Income tax payable | 51,251 | 63,609 |
| Dividends payable | 39 | 57 |
| Other current liabilities | 2,396 | 3,150 |
| Total current liabilities | <u>1,976,669</u> | <u>1,946,910</u> |
| Long-term debts, net (Note 10) | 902,835 | 872,470 |
| Long-term borrowings | 200,323 | 116,335 |
| Accrued severance benefits, net (Note 11) | 104,575 | 80,410 |
| Deferred income tax liabilities (Note 17) | 105,322 | 111,020 |
| Derivative instrument transaction credit (Note 13) | 822 | 23,814 |
| Other long-term liabilities | 6,899 | 3,915 |
| Total liabilities | <u>3,297,445</u> | <u>3,154,874</u> |
| Commitments and contingencies (Note 13) | | |
| Shareholders' equity (Note 1) | | |
| Common stock | 322,126 | 322,126 |
| Preferred stock | 43,306 | 43,306 |
| | <u>365,432</u> | <u>365,432</u> |
| Capital surplus | | |
| Paid-in capital in excess of par value | 532,002 | 532,002 |
| Gain on disposal of treasury stock | 841 | 841 |
| Asset revaluation surplus | 206,769 | 206,769 |
| | <u>739,612</u> | <u>739,612</u> |
| Retained earnings | | |
| Legal reserve | 49,438 | 40,335 |
| Other reserves | 1,221,519 | 921,393 |
| Unappropriated retained earnings | 234,274 | 400,261 |
| | <u>1,505,231</u> | <u>1,361,989</u> |
| Capital adjustments | | |
| Gain on valuation of equity-method investments | 18,799 | 36,109 |
| Loss on valuation of equity-method investments | (55,534) | (41,043) |
| Treasury stock | (23,129) | (23,129) |
| Loss on valuation of derivative instruments (Note 13) | - | (445) |
| | <u>(59,864)</u> | <u>(28,508)</u> |
| Total shareholders' equity | 2,550,411 | 2,438,525 |
| Total liabilities and shareholders' equity | <u>₩ 5,847,856</u> | <u>₩ 5,593,399</u> |

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

See Report of Independent Accountants

LG Chem, Ltd.

Non-Consolidated Statements of Income

Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005

(Unaudited)

| | 2006 | | 2005 | |
|---------------------------------------------------------------------------|--------------|-------------|--------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| <i>(in millions of Korean won, except per share amounts)</i> | | | | |
| Sales (Notes 15 and 16) | ₩ 2,482,511 | ₩ 6,884,140 | ₩ 1,849,785 | ₩ 5,514,353 |
| Cost of sales (Note 15) | 2,119,475 | 5,918,445 | 1,537,144 | 4,533,238 |
| Gross profit | 363,036 | 965,695 | 312,641 | 981,115 |
| Selling and administrative expenses (Note 15) | 255,945 | 744,008 | 220,573 | 661,979 |
| Operating income | 107,091 | 221,687 | 92,068 | 319,136 |
| Non-operating income | | | | |
| Interest income | 2,263 | 6,487 | 2,641 | 8,439 |
| Foreign exchange gains | 9,395 | 45,401 | 7,716 | 33,347 |
| Gain on foreign currency translation | 11,776 | 29,436 | 2,378 | 4,441 |
| Gain on disposal of investment securities | - | - | - | 10,306 |
| Gain on valuation of equity-method investments | 40,635 | 95,913 | 74,090 | 214,347 |
| Gain on disposal of property, plant and equipment | 24 | 1,784 | 4,034 | 6,359 |
| Reversal of negative goodwill (Notes 2 and 17) | 9,802 | 29,377 | - | - |
| Reversal of bad debt allowance | 10 | 63 | 52 | - |
| Reversal of compensation expenses associated with stock options (Note 12) | - | 1,042 | - | - |
| Gain on valuation of derivative instruments (Note 13) | 105 | 105 | 1,390 | - |
| Others | 27,869 | 35,512 | 10,562 | 18,345 |
| | 101,879 | 245,120 | 102,863 | 295,584 |
| Non-operating expenses | | | | |
| Interest expenses | 21,099 | 67,293 | 23,150 | 71,326 |
| Foreign exchange losses | 7,944 | 26,104 | 7,651 | 16,862 |
| Loss on foreign currency translation | 2,385 | 2,784 | 7,346 | 9,614 |
| Loss on disposal of trade accounts receivable | 8,707 | 24,658 | 6,943 | 15,081 |
| Loss on disposal of investment securities | - | 4 | 66 | 68 |
| Loss on disposal of property, plant and equipment | 3,520 | 5,565 | 12,690 | 17,354 |
| Loss on valuation of equity-method investments | 6,778 | 18,237 | 3,079 | 23,929 |
| Impairment loss on investment securities | - | 361 | - | 1,882 |
| Impairment loss on property, plant and equipment | - | - | 5,819 | 9,161 |
| Impairment loss on intangible assets | 416 | 2,778 | 14,509 | 36,248 |
| Loss on valuation of derivative instruments (Note 13) | 786 | 822 | - | 813 |
| Donations | 1,238 | 4,149 | 1,395 | 3,010 |
| Others | 4,731 | 17,550 | 6,222 | 17,126 |
| | 57,604 | 170,305 | 88,870 | 222,474 |
| Income before income tax | 151,366 | 296,502 | 106,061 | 392,246 |
| Income tax expense | 30,333 | 62,233 | 22,776 | 103,138 |
| Net income | ₩ 121,033 | ₩ 234,269 | ₩ 83,285 | ₩ 289,108 |
| Per share data (in won) (Note 14) | | | | |
| Earnings per share | ₩ 1,669 | ₩ 3,228 | ₩ 1,148 | ₩ 3,969 |
| Ordinary income per share | ₩ 1,669 | ₩ 3,228 | ₩ 1,148 | ₩ 3,969 |

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

LG Chem, Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)

| | 2006 | | 2005 | |
|----------------------------------------------------------------------------------|------------------|------------------|----------------|------------------|
| | Three months | Nine months | Three months | Nine months |
| Cash flows from operating activities | | | | |
| Net income | ₩ 121,033 | ₩ 234,269 | ₩ 83,285 | ₩ 289,108 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation and amortization | 131,273 | 400,699 | 92,706 | 279,679 |
| Provision for severance benefits | 14,905 | 51,449 | 13,870 | 42,703 |
| (Gain) loss on foreign currency translation, net | (9,556) | (26,980) | 4,884 | 3,839 |
| Loss on disposal of trade accounts receivable | 8,707 | 24,658 | 6,943 | 15,081 |
| Loss on inventory valuation | 6,535 | 7,967 | - | 2,104 |
| Loss (gain) on disposal of investment securities, net | - | 4 | 66 | (10,238) |
| Impairment loss on investment securities | - | 361 | - | 1,882 |
| Gain on valuation of equity-method investments, net | (33,857) | (77,676) | (71,011) | (190,418) |
| Loss on disposal of property, plant and equipment, net | 3,496 | 3,781 | 8,656 | 10,995 |
| Impairment loss on property, plant and equipment | - | - | 5,819 | 9,161 |
| Impairment loss on intangible asset | 416 | 2,778 | 14,509 | 36,248 |
| Loss (gain) on valuation of derivative instrument, net | 681 | 717 | (1,390) | 813 |
| Reversal of negative goodwill | (9,802) | (29,377) | - | - |
| Reversal of bad debt allowance | (10) | (63) | (52) | - |
| Reversal of compensation expenses associated with stock options | - | (1,042) | - | - |
| Others, net | 4,728 | 14,771 | (8,495) | 15,188 |
| | <u>117,516</u> | <u>372,047</u> | <u>66,505</u> | <u>217,037</u> |
| Changes in operating assets and liabilities | | | | |
| (Increase) decrease in trade accounts and notes receivable | (193,365) | (197,664) | 7,383 | (73,769) |
| (Increase) decrease in inventories | (32,057) | (61,226) | 20,592 | 9,754 |
| (Increase) decrease in other accounts receivable | (41,733) | (32,460) | 4,933 | (17,873) |
| Increase in accrued income | (1,572) | (3,502) | (1,131) | (3,401) |
| (Increase) decrease in advance payments | (201) | 1,096 | (349) | 454 |
| Decrease (increase) in prepaid expenses | 8,293 | (3,690) | 6,167 | (414) |
| (Increase) decrease in deferred income tax assets | (7,405) | 343 | (4,889) | (27,863) |
| Decrease (increase) in other current assets | 6,342 | (3,524) | (414) | (960) |
| Decrease in long-term trade accounts and notes receivable | 102 | 305 | 114 | 341 |
| Increase (decrease) in trade accounts and notes payable | 52,769 | 104,100 | 37,006 | (152,323) |
| Increase (decrease) in other accounts payable | 29,724 | 26,963 | 13,188 | (43,298) |
| Increase in accrued expenses | 13,025 | 29,249 | 11,534 | 65,132 |
| Increase (decrease) in income tax payable | 22,757 | (19,404) | (36,345) | (17,397) |
| Increase (decrease) in other current liabilities | 8,263 | 12,813 | 6,412 | (3,315) |
| Accrued severance benefits transferred from affiliated companies | 22 | 351 | 55 | 313 |
| Increase (decrease) in deferred income tax liabilities | 4,276 | (2,175) | 16,645 | 22,300 |
| Payment of severance benefits | (12,287) | (41,116) | (11,186) | (33,906) |
| Dividends received | 728 | 44,259 | 5,393 | 68,415 |
| Others, net | 4,406 | 2,243 | (2,512) | (556) |
| | <u>(137,913)</u> | <u>(143,039)</u> | <u>72,596</u> | <u>(208,366)</u> |
| Net cash provided by operating activities | <u>100,636</u> | <u>463,277</u> | <u>222,386</u> | <u>297,779</u> |

LG Chem, Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)

| | 2006 | | 2005 | |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | Three months | Nine months | Three months | Nine months |
| Cash flows from investing activities | | | | |
| Disposal of property, plant and equipment | ₩ 1,419 | ₩ 5,224 | ₩ 19,478 | ₩ 25,599 |
| Disposal (acquisition) of long-term guarantee deposits, net | 697 | 33,938 | (476) | (1,798) |
| Disposal (acquisition) of other investment, net | 4 | (31) | (890) | (2,352) |
| Acquisition of property, plant and equipment | (130,541) | (368,429) | (136,391) | (333,484) |
| (Acquisition) disposal of investment securities, net | - | (139) | - | 22,874 |
| Acquisition of equity-method investments | (6,274) | (48,146) | (1,161) | (55,231) |
| Acquisition of intangible assets, net | (10,431) | (19,525) | (6,493) | (18,896) |
| Others, net | 351 | (27,626) | 9,992 | (7,255) |
| Net cash used in investing activities | <u>(144,775)</u> | <u>(424,734)</u> | <u>(115,941)</u> | <u>(370,543)</u> |
| Cash flows from financing activities | | | | |
| Repayment of short-term borrowings, net | (21,000) | (46,717) | (105,028) | (49,996) |
| Repayment of current maturities of long-term debts | (350) | (608,647) | (45) | (230,495) |
| Issuance of debentures | - | 366,691 | - | 227,344 |
| Payment of dividends | (3) | (91,045) | (15) | (109,963) |
| Proceeds from (repayment of) long-term debts, net | 94,415 | 144,415 | (2) | 39,910 |
| Acquisition of treasury stock, net | - | - | - | (20,779) |
| Others, net | (157) | (3,427) | 2 | (887) |
| Net cash provided by (used in) financing activities | <u>72,905</u> | <u>(238,730)</u> | <u>(105,088)</u> | <u>(144,866)</u> |
| Cash flows from merger | - | 181,507 | - | - |
| Net increase (decrease) in cash and cash equivalents | 28,766 | (18,680) | 1,357 | (217,630) |
| Cash and cash equivalents | | | | |
| Beginning of the period | 141,999 | 189,445 | 194,730 | 413,717 |
| End of the period | <u>₩ 170,765</u> | <u>₩ 170,765</u> | <u>₩ 196,087</u> | <u>₩ 196,087</u> |

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

Notes to Non-Consolidated Financial Statements

September 30, 2006 and 2005, and December 31, 2005

(Unaudited)

1. The Company

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

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006 (Note 17).

As of September 30, 2006 and December 31, 2005, the Company has an outstanding capital stock of ₩365,432 million, including preferred stock of ₩43,306 million. The Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Company is authorized to issue 292 million shares of common stock at ₩5,000 per share. As of September 30, 2006 and December 31, 2005, the Company has issued 64,425,064 common shares and 8,661,251 preferred shares. The holders of preferred stock are not granted the right to vote, but are entitled to receive cash dividends at a rate of one percentage point over that of common stockholders.

2. Summary of Significant Accounting Policies

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

Basis of Financial Statements Presentation

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

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LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

September 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Application of the Statements of Korean Financial Accounting Standards

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

Merger

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

Property, Plant and Equipment

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

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

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

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LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

September 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Lease Transactions

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

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

Negative Goodwill

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

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(Unaudited)

3. Restricted Bank Deposits

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

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

4. Receivables

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

| <i>(in millions of Korean won)</i> | 2006 | 2005 |
|-----------------------------------------------|------------------|------------------|
| Trade accounts and notes receivable | ₩ 869,517 | ₩ 546,511 |
| Less : Allowance for doubtful accounts | (50,772) | (47,129) |
| | <u>₩ 818,745</u> | <u>₩ 499,382</u> |
| Other accounts receivable | ₩ 167,858 | ₩ 123,520 |
| Less : Allowance for doubtful accounts | (23,664) | (23,419) |
| Less : Present value discount | (53) | (42) |
| | <u>₩ 144,141</u> | <u>₩ 100,059</u> |
| Long-term trade accounts and notes receivable | ₩ 644 | ₩ 926 |
| Less : Allowance for doubtful accounts | (102) | (151) |
| | <u>₩ 542</u> | <u>₩ 775</u> |
| Long-term other accounts receivable | ₩ 1,289 | ₩ 1,690 |
| Less : Present value discount | (127) | (199) |
| | <u>₩ 1,162</u> | <u>₩ 1,491</u> |

As of September 30, 2006, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩98,781 million (December 31, 2005: ₩49,760 million), are included in the trade accounts receivable (Note 13).

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LG Chem, Ltd.**Notes to Non-Consolidated Financial Statements****September 30, 2006 and 2005, and December 31, 2005****(Unaudited)****5. Inventories**

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

| <i>(in millions of Korean won)</i> | 2006 | | 2005 | |
|-------------------------------------------------------------------------------------------------------------|-------------|----------------|-------------|----------------|
| Merchandise, net of valuation allowance of ₩5,486 million (December 31, 2005: ₩561 million) | ₩ | 33,685 | ₩ | 29,750 |
| Finished products, net of valuation allowance of ₩14,482 million (December 31, 2005: ₩12,881 million) | | 353,505 | | 279,431 |
| Work-in-process | | 104,702 | | 82,377 |
| Raw materials, net of valuation allowance of ₩1,220 million (December 31, 2005: ₩315 million) | | 229,047 | | 149,709 |
| Supplies | | 39,138 | | 17,914 |
| Materials-in-transit | | 86,522 | | 49,669 |
| | ₩ | <u>846,599</u> | ₩ | <u>608,850</u> |

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Notes to Non-Consolidated Financial Statements

September 30, 2006 and 2005, and December 31, 2005

(Unaudited)

6. Equity-Method Investments

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

(in millions of Korean won)

| Investee companies ⁹ | Percentage of Ownership (%) | | Acquisition Cost | | Book Value | | Fair Value or Net Asset Value | |
|------------------------------------------------------------------------------|-----------------------------|--------|------------------|-------------------|-----------------|-------------------|-------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| LG Petrochemical Co., Ltd. ¹ | 40.00 | 40.00 | ₩153,790 | ₩ 153,790 | ₩ 343,097 | ₩ 338,017 | ₩ 330,935 | ₩ 325,493 |
| Tianjin LG Dagu Chemical Co., Ltd. | 75.00 | 75.00 | 17,498 | 17,498 | 23,616 | 30,172 | 23,708 | 41,256 |
| Tianjin LG New Building Materials Co., Ltd. | 81.47 | 81.47 | 19,894 | 19,894 | 18,203 | 16,037 | 20,524 | 17,343 |
| Tianjin LG Window & Door Co., Ltd. | 90.00 | 90.00 | 13,308 | 13,308 | 7,193 | 7,479 | 8,464 | 8,290 |
| Ningbo LG Yongxing Chemical Co., Ltd. ² | 75.00 | 75.00 | 95,237 | 86,417 | 107,016 | 103,608 | 106,821 | 107,004 |
| LG Chemical India Pvt. Ltd. | 100.00 | 100.00 | 31,466 | 31,466 | 43,200 | 43,441 | 43,200 | 44,066 |
| LG Chemical Hong Kong Ltd. | 100.00 | 100.00 | 254 | 254 | 6,600 | 6,141 | 6,014 | 5,257 |
| LG Vina Chemical J/V Company | 40.00 | 40.00 | 1,194 | 1,194 | 2,357 | 2,270 | 2,508 | 2,621 |
| LG Chem America, Inc. | 100.00 | 100.00 | 9,596 | 9,596 | 5,878 | 5,764 | 8,288 | 8,993 |
| M. Dohmen S.A. | 49.00 | 49.00 | 43,203 | 43,203 | 15,248 | 18,306 | 15,248 | 18,306 |
| LG Daesan Petrochemical Ltd. ³ | - | 100.00 | - | 554,634 | - | 650,565 | - | 1,113,010 |
| SEETEC Co., Ltd. | 50.00 | 50.00 | 36,643 | 36,643 | 53,823 | 44,663 | 152,387 | 145,429 |
| LG Dow Polycarbonate Ltd. | 50.00 | 50.00 | 36,794 | 36,794 | 79,507 | 71,534 | 78,759 | 70,925 |
| LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. | 100.00 | 100.00 | 10,486 | 10,486 | 10,642 | 9,249 | 10,771 | 10,125 |
| LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁴ | 73.43 | 79.01 | 43,296 | 41,679 | 21,362 | 28,130 | 36,470 | 31,323 |
| LG Chem Trading (Shanghai) Co., Ltd. | 100.00 | 100.00 | 3,503 | 3,503 | 1,619 | 1,850 | 1,633 | 1,687 |
| LG Chem (China) Investment Co., Ltd. ⁵ | 100.00 | 100.00 | 37,888 | 31,339 | 38,147 | 31,757 | 38,149 | 31,666 |
| LG Chem (Taiwan), Ltd. | 100.00 | 100.00 | 2,291 | 2,291 | 2,202 | 2,113 | 3,863 | 3,155 |
| LG Chem Industrial Materials Inc. | 100.00 | 100.00 | 17,846 | 17,846 | 11,114 | 11,873 | 11,498 | 11,845 |
| LG Chem Europe Sarl | 100.00 | 100.00 | 5,635 | 5,635 | 1,441 | - | 1,441 | 196 |
| LG Holdings (HK) Ltd. ⁶ | 18.18 | 18.18 | 41,581 | 30,494 | 31,208 | 22,302 | 28,197 | 18,904 |
| Ningbo LG Yongxing Latex Co., Ltd. | 75.00 | 75.00 | 6,843 | 6,843 | 5,512 | 6,158 | 5,535 | 6,209 |
| Compact Power Inc. | 81.00 | 81.00 | 4,635 | 4,635 | 722 | 1,120 | 722 | 277 |
| LG Chem (Tianjin) Engineering Plastics Co., Ltd. | 90.00 | 90.00 | 5,589 | 5,589 | 4,441 | 4,415 | 5,249 | 4,675 |
| LG Chem Display Materials (Beijing) Co., Ltd. | 90.00 | 90.00 | 6,865 | 6,865 | 3,974 | 6,898 | 5,218 | 6,894 |
| Tianjin LG Bohai Chemical Co., Ltd. ⁷ | 42.04 | 22.07 | 25,263 | 8,185 | 24,605 | 8,169 | 34,699 | 8,206 |
| LG Chem Europe GmbH | 100.00 | 100.00 | 1,927 | 1,927 | 1,396 | 1,448 | 2,216 | 1,840 |
| LG Chem Brasil, Ltd. | 100.00 | 100.00 | 258 | 258 | 258 | 258 | 258 | 258 |
| LG Chem Poland Sp. Z.O.O. ⁸ | 100.00 | 100.00 | 5,790 | 2,795 | 5,790 | 2,795 | 5,790 | 2,795 |
| | | | <u>₩ 678,573</u> | <u>₩1,185,061</u> | <u>₩870,171</u> | <u>₩1,476,532</u> | <u>₩ 988,565</u> | <u>₩2,048,048</u> |

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- ¹ As of September 30, 2006, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩373,352 million.
- ² During the current period, the Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,820 million without any change in its percentage of ownership.
- ³ As the Company merged with LG Daesan Petrochemical Ltd., this investment was eliminated in 2006 (Note 17).
- ⁴ The Company acquired new shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩1,617 million during the current period. As a result, the Company's percentage of ownership in LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. decreased from 79.01% to 73.43%.
- ⁵ During the current period, the Company acquired additional shares of LG Chem (China) Investment Co., Ltd. for ₩6,549 million without any change in its percentage of ownership.
- ⁶ During the current period, the Company acquired additional shares of LG Holdings (HK) Ltd. for ₩11,087 million without any change in its percentage of ownership.
- ⁷ The Company acquired additional shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩17,078 million during the current period. As a result, the Company's percentage of ownership in Tianjin LG Bohai Chemical Co., Ltd. increased from 22.07% to 42.04%. Of the acquisition amount, ₩6,274 million was paid to Tianjin LG Dagu Chemical Co., Ltd. for the acquisition.
- ⁸ During the current period, the Company acquired additional shares of LG Chem Poland Sp. Z.O.O. for ₩2,995 million without any change in its percentage of ownership.
- ⁹ As of September 30, 2006, the Company has control over all the investee companies except for M. Dohmen S.A., SEETEC Co., Ltd. and LG Holdings (HK) Ltd.

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7. Property, Plant and Equipment

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

| <i>(in millions of Korean won)</i> | 2006 | 2005 |
|------------------------------------|--------------------|--------------------|
| Buildings | ₩ 906,117 | ₩ 774,932 |
| Structures | 360,167 | 260,851 |
| Machinery and equipment | 3,693,873 | 3,068,204 |
| Vehicles | 25,519 | 24,087 |
| Tools and furniture | 587,526 | 553,310 |
| Others | 12,935 | - |
| | <u>5,586,137</u> | <u>4,681,384</u> |
| Accumulated depreciation | (3,254,324) | (2,763,240) |
| Accumulated impairment loss | (19,509) | (23,912) |
| | <u>2,312,304</u> | <u>1,894,232</u> |
| Land | 430,480 | 340,755 |
| Construction-in-progress | 287,752 | 179,757 |
| Machinery-in-transit | 47,082 | 42,078 |
| | <u>₩ 3,077,618</u> | <u>₩ 2,456,822</u> |

As of September 30, 2006, the Company has a financing lease agreement on certain property, plant and equipment of the methyl tertiary butyl ether factory, which it previously sold. The book values of the said property, plant and equipment total ₩11,465 million as of September 30, 2006, and their total depreciation expense amounts to ₩1,633 million for the nine-month period then ended (Note 10).

As of September 30, 2006, certain property, plant and equipment have been pledged as collaterals for bank loans up to a maximum of ₩359,663 million (December 31, 2005: ₩369,442 million).

8. Intangible Assets

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

| <i>(in millions of Korean won)</i> | 2006 | 2005 |
|------------------------------------|--------------------|------------------|
| Intellectual property rights | ₩ 15,601 | ₩ 10,966 |
| Exclusive facility use rights | 1,678 | 169 |
| Development costs, net | 69,564 | 83,392 |
| Others | 14,105 | 6,328 |
| Negative goodwill | (323,149) | - |
| | <u>₩ (222,201)</u> | <u>₩ 100,855</u> |

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9. Current Maturities of Long-Term Debts

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

| <i>(in millions of Korean won)</i> | Annual Interest Rate (%) | | | 2006 | 2005 |
|--------------------------------------|-----------------------------|----------------|---|---------|-----------|
| | 2006 | 2005 | | | |
| Debentures | 3.5~LIBOR+0.95 | LIBOR+0.45~5.0 | ₩ | 431,986 | ₩ 696,495 |
| Won currency loans | 3.0~9.0 | 3.0~7.0 | | 1,296 | 195 |
| Foreign currency loans | LIBOR+0.6-1.1 | LIBOR+0.6-0.92 | | 94,520 | 46,847 |
| | | | | 527,802 | 743,537 |
| Less : Discount on debentures issued | | | | (1,167) | (2,933) |
| | | | ₩ | 526,635 | ₩ 740,604 |

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10. Debentures and Capital Lease Liabilities

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

| <i>(in millions of Korean won)</i> | Annual Interest Rate (%) | | | 2006 | 2005 |
|----------------------------------------------------------|-----------------------------|-----------------|---|-----------|-------------|
| | 2006 | 2005 | | | |
| Publicly offered debentures, payable through 2010 | 3.5~5.0 | 3.5~5.0 | ₩ | 1,000,000 | ₩ 1,200,000 |
| Privately offered debentures, payable through 2009 | 5.02~5.32 | CD+0.7 | | 100,000 | 100,000 |
| Foreign debentures, payable through 2009 ¹ | LIBOR+0.4-0.95 | LIBOR+0.45-0.92 | | 241,026 | 278,575 |
| | | | | 1,341,026 | 1,578,575 |
| Less : Current maturities | | | | (431,986) | (696,495) |
| Discount on debentures issued | | | | (6,205) | (9,610) |
| | | | ₩ | 902,835 | ₩ 872,470 |

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

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

| <i>(in millions of Korean won)</i> | <u>Annual Interest Rate (%)</u> | | |
|------------------------------------|---------------------------------|---|---------------|
| Capital lease | 9.0 | ₩ | 15,165 |
| Less: Current maturities | | | (1,246) |
| | | ₩ | <u>13,919</u> |

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

The annual maturities of capital lease liabilities as of September 30, 2006, are as follows:

| <i>(in millions of Korean won)</i> | | | |
|------------------------------------|---|---------------|--|
| Year | | | |
| 2007.10.1~2008.9.30 | ₩ | 2,481 | |
| 2008.10.1~2009.9.30 | | 2,481 | |
| 2009.10.1~2010.9.30 | | 2,481 | |
| 2010.10.1~2011.9.30 | | 2,481 | |
| Thereafter | | 7,630 | |
| | | <u>17,554</u> | |
| Less: Unearned interest | | (3,635) | |
| | ₩ | <u>13,919</u> | |

11. Accrued Severance Benefits

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

| <i>(in millions of Korean won)</i> | 2006 | | 2005 | |
|------------------------------------------|-------------|----------------|-------------|---------------|
| Provision for severance benefits | ₩ | 254,298 | ₩ | 209,759 |
| Less: Group severance insurance deposits | | (145,667) | | (125,737) |
| Contribution to National Pension Plan | | (4,056) | | (3,612) |
| Ending balance | ₩ | <u>104,575</u> | ₩ | <u>80,410</u> |

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12. Stock Options

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

Details of the stock options granted are as follows:

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

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

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

13. Commitments and Contingencies

As of September 30, 2006, the Company has provided a joint guarantee for obligations existing prior to the spin-off, which are assumed by LG Corp. (formerly LG Chem Investment Ltd.) and LG Household & Health Care Ltd. Also, the Company has provided a joint guarantee for obligations outstanding on January 1, 2005 for Lotte Daesan Petrochemical Ltd. and SEETEC Co., Ltd. In addition, the Company has provided financial guarantee to customers.

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

As of September 30, 2006, the Company has provided one blank promissory note to the Korea National Oil Corporation as a collateral in relation to petroleum import surcharges.

The Company has guaranteed repayments of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of September 30, 2006, amounted to ₩127,426 million (December 31, 2005: ₩204,241 million) (Note 15).

As of September 30, 2006, the Company is contingently liable for notes receivable from export sales amounting to ₩523,495 million which were discounted through financial institutions in the ordinary course of business. Also, as of September 30, 2006, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩258,781 million (Note 4).

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As of September 30, 2006, the Company has bank overdraft agreements with several banks for up to ₩68,400 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩88,600 million and US \$ 601 million.

As of September 30, 2006, the Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

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

As of September 30, 2006, the Company has a long-term purchase contract for certain raw materials and provided US \$ 5,925 thousand (December 31, 2005: US\$30,833 thousand) as a guarantee for the contract performance.

The Company has interest rate swap, currency swap, forward exchange contracts and options for hedging against fluctuations in foreign exchange rates and interest rates. As of September 30, 2006, the Company's outstanding contracts and options include currency swap of US \$ 152 million. As of December 31, 2005, the Company had currency swap of US\$100 million and interest rate swap of ₩100,000 million.

As of September 30, 2006 and December 31, 2005, the Company has been named as a defendant and plaintiff in various legal actions. Management believes that these legal actions will not have a material adverse impact on the Company's operations or financial position although the outcome of these legal actions is uncertain.

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14. Earnings Per Share

Basic ordinary income per share and earnings per share for the year ended December 31, 2005, were ₩5,501. Basic ordinary income per share and earnings per share for the three-month periods ended March 31, 2006 and 2005, are ₩939 and ₩1,618, respectively, and basic ordinary income per share and earnings per share for the three-month periods ended June 30, 2006 and 2005, are ₩620 and ₩1,203, respectively.

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

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

| | 2006 | | 2005 | |
|--------------------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Three months | Nine months | Three months | Nine months |
| Net income | ₩ 121,033 | ₩ 234,269 | ₩ 83,285 | ₩ 289,108 |
| Preferred stock dividends ¹ | (2,814) | (8,441) | (3,355) | (10,064) |
| Preferred stock share of remaining profit available for dividends | (11,740) | (19,830) | (6,689) | (24,668) |
| Net income and ordinary income available for common stock (A) | 106,479 | 205,998 | 73,241 | 254,376 |
| Weighted average number of shares of outstanding common stock (B) ² | <u>63,818,183shares</u> | <u>63,818,183shares</u> | <u>63,818,170shares</u> | <u>64,080,710shares</u> |
| Basic earnings per share and ordinary income per share (A/B) | <u>₩ 1,669</u> | <u>₩ 3,228</u> | <u>₩ 1,148</u> | <u>₩ 3,969</u> |

¹ Preferred stock dividends for the nine-month periods ended September 30, 2006 and 2005, were assumed to be three quarters of dividends paid for the previous years.

² Excludes treasury stock.

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

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15. Related Party Transactions

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

Significant transactions, which occurred in the ordinary course of business with related companies for the nine-month periods ended September 30, 2006 and 2005, and the related account balances as of September 30, 2006 and December 31, 2005, are summarized as follows:

| <i>(in millions of Korean won)</i> | | Sales | Purchases | Receivables ² | Payables |
|------------------------------------|-----------------------------------------------------------------|------------------|-------------|--------------------------|-----------|
| Controlling company | LG Corp. | ₩ - | ₩ 19,488 | ₩ 26,956 | ₩ - |
| Subsidiaries (Note 6) | LG Petrochemical Co., Ltd. | 5,274 | 1,093,281 | 1,226 | 206,613 |
| | LG Dow Polycarbonate Ltd. | 113 | 36,500 | 37 | 3,479 |
| | LG Chem America, Inc. | 251,927 | 792 | 3,293 | 239 |
| | LG Chemical Hong Kong Ltd. | 298,212 | 152,109 | 5,156 | 9,019 |
| | LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. | 133,499 | 23,083 | 2,172 | 8,618 |
| | LG Chem (Taiwan), Ltd. | 113,472 | 748 | 1,047 | 319 |
| | Others ¹ | 87,903 | 43,814 | 13,455 | 5,362 |
| | Equity method investees | SEETEC Co., Ltd. | 31,161 | 114,344 | 3,996 |
| | Others | 3,316 | - | 2,392 | 10 |
| Other related companies | LG Household & Health Care, Ltd. | 11,519 | 10,555 | 1,665 | 1,867 |
| | LG Electronics Inc. | 213,960 | 4,265 | 51,913 | 1,688 |
| | LG MMA Corp. | 7,104 | 50,417 | 1,158 | 6,475 |
| | LG International Corp. | 187,433 | 29,843 | 12,541 | 9,042 |
| | LG CNS | - | 26,325 | - | 4,399 |
| | LG Philips LCD Co., Ltd. | 422,597 | - | 112,062 | - |
| | Others | 66,156 | 198,054 | 21,159 | 41,218 |
| | 2006 Total | ₩ 1,833,646 | ₩ 1,803,618 | ₩ 260,228 | ₩ 315,232 |
| | 2005 Total | ₩ 1,579,349 | ₩ 1,633,874 | ₩ 171,552 | ₩ 292,121 |

¹ 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.

² Allowance for doubtful accounts for the outstanding balance as of September 30, 2006, amounts to ₩1,989 million. Bad debt expense recognized in the current period is ₩822 million.

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

(in millions of Korean won)

| | |
|--------------------------------------|-----------------|
| Short-term employee benefits | ₩ 14,918 |
| Post-employment benefits | 2,367 |
| Reversal of share-based compensation | <u>(1,042)</u> |
| Total | <u>₩ 16,243</u> |

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

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

(in millions of Korean won)

2006

| Guarantee Beneficiary | Amount of Guarantee | Financial Institution | Outstanding Loan Amount |
|-----------------------------------------------------------------|---------------------|-----------------------------|-------------------------|
| Tianjin LG Dagu Chemical Co., Ltd. | ₩ 7,562 | Agricultural Bank of China | ₩ 7,562 |
| LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. | 23,630 | Bank of China | 23,630 |
| | 18,904 | Woori Bank | 18,904 |
| LG Chem Industrial Materials Inc. | 23,914 | Wachovia Bank | 23,914 |
| LG Chem Europe Sarl | 3,602 | Societe Generale | - |
| Tianjin LG Bohai Chemical Co., Ltd. | 37,808 | Export-Import Bank of Korea | 18,904 |
| LG Chem Poland Sp.Z.O.O. | 12,006 | Export-Import Bank of Korea | 12,006 |
| | <u>₩ 127,426</u> | | <u>₩ 104,920</u> |

(in millions of Korean won)

2005

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

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16. Segment Information

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

(1) Industry Segment Information

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

Financial information on industry segments for the nine-month periods ended September 30, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | 2006 | | | | Total |
|------------------------------------------------------------------|--------------------|----------------------|------------------------------------|------------------|--------------------|
| | Petrochemicals | Industrial Materials | Information & Electronic Materials | Others | |
| Sales | | | | | |
| External sales | ₩ 4,169,661 | ₩ 1,526,149 | ₩ 1,175,758 | ₩ 12,572 | ₩ 6,884,140 |
| Inter-segment sales | 206,973 | 14,729 | 4,319 | 72,356 | 298,377 |
| | <u>₩ 4,376,634</u> | <u>₩ 1,540,878</u> | <u>₩ 1,180,077</u> | <u>₩ 84,928</u> | <u>₩ 7,182,517</u> |
| Operating income | <u>₩ 84,933</u> | <u>₩ 93,753</u> | <u>₩ 42,480</u> | <u>₩ 521</u> | <u>₩ 221,687</u> |
| Property, plant and equipment and intangible assets ¹ | <u>₩ 1,426,610</u> | <u>₩ 455,859</u> | <u>₩ 880,938</u> | <u>₩ 415,159</u> | <u>₩ 3,178,566</u> |
| Depreciation and amortization | <u>₩ 250,455</u> | <u>₩ 48,993</u> | <u>₩ 98,308</u> | <u>₩ 2,943</u> | <u>₩ 400,699</u> |

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

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| <i>(in millions of Korean won)</i> | 2005 | | | | Total |
|-----------------------------------------------------|--------------------|----------------------|------------------------------------|------------------|--------------------|
| | Petrochemicals | Industrial Materials | Information & Electronic Materials | Others | |
| Sales | | | | | |
| External sales | ₩ 3,083,465 | ₩ 1,544,996 | ₩ 877,435 | ₩ 8,457 | ₩ 5,514,353 |
| Inter-segment sales | 197,303 | 3,850 | 1,477 | 36,812 | 239,442 |
| | <u>₩ 3,280,768</u> | <u>₩ 1,548,846</u> | <u>₩ 878,912</u> | <u>₩ 45,269</u> | <u>₩ 5,753,795</u> |
| Operating income | <u>₩ 254,512</u> | <u>₩ 103,184</u> | <u>₩ (40,961)</u> | <u>₩ 2,401</u> | <u>₩ 319,136</u> |
| Property, plant and equipment and intangible assets | <u>₩ 874,000</u> | <u>₩ 444,430</u> | <u>₩ 846,658</u> | <u>₩ 422,553</u> | <u>₩ 2,587,641</u> |
| Depreciation and amortization | <u>₩ 121,982</u> | <u>₩ 46,792</u> | <u>₩ 107,692</u> | <u>₩ 3,213</u> | <u>₩ 279,679</u> |

(2) Geographical Segment Information

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

| | <i>(in millions of Korean won)</i> | | | | | | | |
|------|------------------------------------|-------------------|-----------------|----------------|-----------------|-----------------|-----------------|-------------------|
| | Domestic ¹ | China | North America | South America | South-East Asia | Western Europe | Others | Total |
| 2006 | <u>₩3,942,506</u> | <u>₩1,593,528</u> | <u>₩305,019</u> | <u>₩80,687</u> | <u>₩192,965</u> | <u>₩213,023</u> | <u>₩556,412</u> | <u>₩6,884,140</u> |
| 2005 | <u>₩3,277,467</u> | <u>₩1,221,028</u> | <u>₩269,084</u> | <u>₩45,900</u> | <u>₩ 99,347</u> | <u>₩162,533</u> | <u>₩438,994</u> | <u>₩5,514,353</u> |

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

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(3) Discontinued Operations

The Company discontinued or disposed of some businesses including POM business and realized a gain on the disposal of the segment amounting to ₩8,315 million in 2005.

The financial results of the discontinued operations are as follows:

| <i>(in millions of Korean won)</i> | 2005 | | 2004 | |
|-------------------------------------|------|---------|------|---------|
| Sales | ₩ | 22,599 | ₩ | 37,559 |
| Cost of sales | | 23,275 | | 34,322 |
| Gross profit(loss) | | (676) | | 3,237 |
| Selling and administration expenses | | 1,526 | | 5,757 |
| Operating loss | ₩ | (2,202) | ₩ | (2,520) |

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17. Merger

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

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

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

| Entity | CEO | Major Business | Relationship |
|------------------------------|-------------|-------------------------------------------------------------------|---------------------|
| LG Chem, Ltd. | No Ki-ho | Manufacturing, processing and marketing of petrochemical products | Controlling Company |
| LG Daesan Petrochemical Ltd. | Kim Ban-suk | Manufacturing and marketing of petrochemical products | Subsidiary |

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

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

(in millions of Korean won)

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

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Acquisition cost is calculated as follows:

(in millions of Korean won)

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

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

(in millions of Korean won)

| | | |
|-------------------------------------------------------------|---|----------------|
| January 1, 2005 (purchase date) ¹ | ₩ | 393,058 |
| Reversal ¹ | | (39,306) |
| December 31, 2005 ¹ | ₩ | <u>353,752</u> |
| January 1, 2006 ² | ₩ | 353,752 |
| Reversal | | (29,377) |
| Identifiable assets and liabilities after the purchase date | | (1,226) |
| June 30, 2006 | ₩ | <u>323,149</u> |

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

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

(in millions of Korean won)

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

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

(in millions of Korean won)

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

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

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

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

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

Condensed Balance Sheets as of December 31, 2005

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

Condensed Income Statements for the year ended December 31, 2005

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

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

Condensed Balance Sheets as of January 1, 2005

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

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