

SolutionPartner

2006 Annual Report



Profitable Growth through Customer Value Innovation

2006 Annual Report

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.

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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.

FINANCIAL HIGHLIGHTS

While our smooth merger with LG Daesan Petrochemicals helped drive sales to record heights, tough economic and business conditions continued to hurt profitability. Our stock rebounded from a tough first-half to finish the year above KRW 43,000.

BUSINESS DIVISIONS

PETROCHEMICALS

- NCC / PO
- Rubber / Specialty Resins
- PVC
- ABS / EP
- Acrylates / Plasticizers

INDUSTRIAL MATERIALS

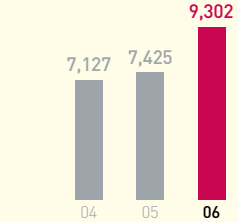
- Housing Solutions
- Living Solutions
- Automotive Solutions

INFORMATION & ELECTRONIC MATERIALS

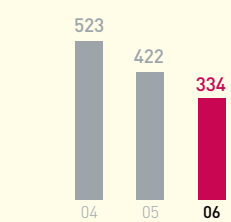
- Mobile Energy
- Optical Materials
- Electronic Materials

NON-CONSOLIDATED

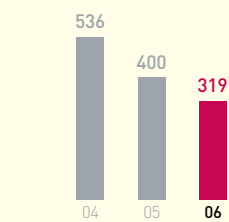
SALES



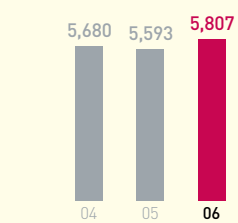
OPERATING PROFIT



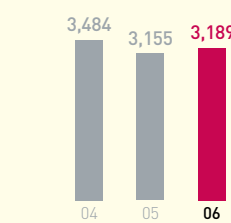
NET INCOME



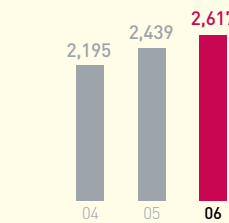
TOTAL ASSETS



TOTAL LIABILITIES

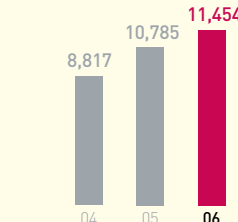


TOTAL SHAREHOLDER'S EQUITY

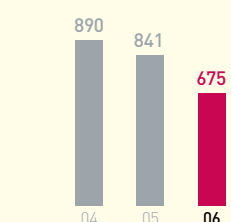


CONSOLIDATED

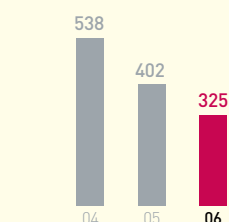
SALES



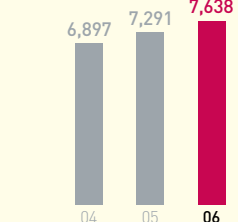
OPERATING PROFIT



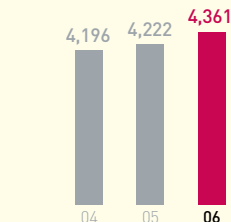
NET INCOME



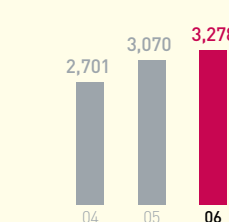
TOTAL ASSETS



TOTAL LIABILITIES



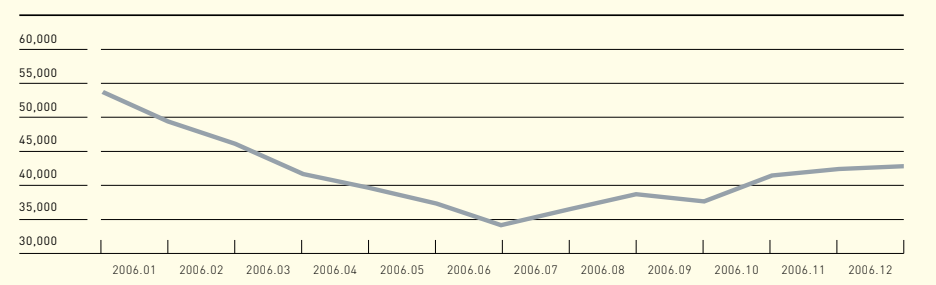
TOTAL SHAREHOLDER'S EQUITY



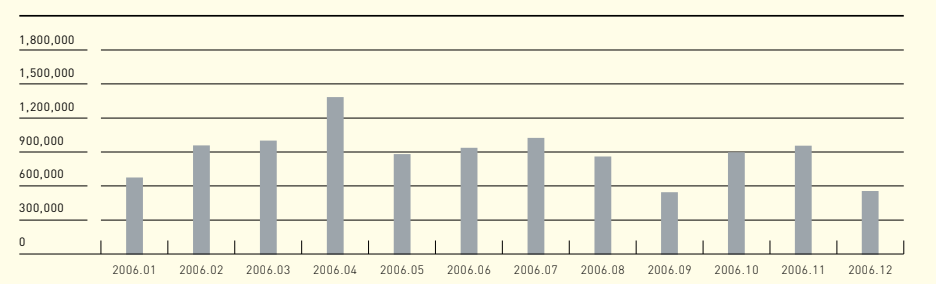
KEY FIGURES

	2006	2005	2004
Operating profit margin	3.6%	5.7%	7.3%
Return on equity	12.6%	17.3%	26.8%
Net debt-to-equity	60.6%	76.5%	90.2%
Outstanding common shares	64,425,064	64,425,064	64,425,064
Earnings per share in won	4,392	5,501	7,341
Stock price in won at year-end	43,100	57,000	41,250
Dividend per common share in won	1,000	1,250	1,500

STOCK PRICE



TRADING VOLUME



MESSAGE FROM THE CEO

“ Looking back on my first year with LG Chem, I believe 2006 will be remembered as a turning point in our long-term efforts to create shareholder value as we successfully wrapped up our integration with LG Daesan Petrochemicals and accelerated the pace of change. ”



To our Shareholders, Customers, Partners, and Friends,

- LG Chem is a very different company than it was just a year ago. While 2006 was a challenging year on many levels, I am confident that we made substantial progress toward realizing our potential in the global marketplace.

The Year in Review

- As reflected by our lower-than-projected sales of KRW 9,302.3 billion, operating profit of KRW 333.9 billion, and net income of KRW 318.8 billion, we continued to face significant challenges from a stagnant domestic market, unfavorable exchange rates, and high oil prices in 2006.

- While our performance fell short of targets, we continued to systematically lay the foundation for profitability across our organization. Our Petrochemicals Group consolidated facilities and pursued cost innovation to create a stronger, sounder business structure. Our Industrial Materials Group dramatically improved profitability by simplifying branding and expanding the choice of materials and designs to enhance value. Our Information & Electronic Materials Group expanded its leadership in the LCD polarizer and color filter photoresist fields by upgrading both quality and productivity. We also launched number of initiatives in the second-half of the year as we aimed to cut our strategy execution time in half, accelerate our pace of change, simplify our organization and workflow, and sharpen our competitiveness.

The Year Ahead

- Although the market challenges we face in 2007 are virtually identical to the ones we confronted last year, we believe that opportunities for growth do exist. Aiming for sales of KRW 9,700 billion, we will be focusing on boosting the competitiveness of our major businesses, securing engines for future growth, pursuing results-driven R&D, upgrading customer satisfaction, and transforming the way we do business.

- In closing, I am proud to say that we are celebrating our 60th anniversary this year. Over the past six decades, we have risen above countless crises to become one of Korea's leading chemical companies. Today, our goal is to be a true solution partner, delivering superior customer value through market-driven thinking and action as we aim to be one of the world's most innovative and profitable chemical makers. We look forward to sharing our progress with you again soon.

Bahn Suk Kim

Bahn-Suk Kim | President & CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

• LG Chem was founded in 1947. Over the past six decades, we have grown to become one of Korea's leading chemical companies. Our business operations are divided into three groups: Petrochemicals, Industrial Materials, and Information & Electronic Materials. Among these, we consider the Information & Electronic Materials Group to represent the strategic future direction of our company. We believe that our active ongoing investments in the fields and businesses connected with this group will provide the foundation for our next great leap forward.

2006 OVERVIEW

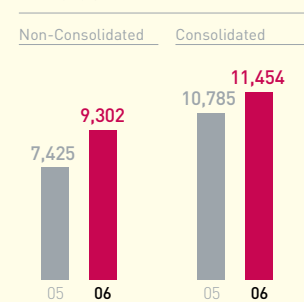
• Looking at parent company performance in 2006, we saw sales growth of approximately 25% to KRW 9,302.3 billion. This strong performance was due to our merger with LG Daesan Petrochemicals and steady growth by our Information & Electronic Materials Group. Contrary to expectations, operating profit fell KRW 87.8 billion to KRW 333.9 billion. Although the Information & Electronic Materials Group returned to profitability, high oil prices and a major facilities revamp by the Petrochemicals Group in the first-half of the year took a major toll on the group's profitability. Net income declined similarly, dropping KRW 81.5 billion to KRW 318.8 billion.

On a consolidated basis including all our global subsidiaries and affiliates, sales rose approximately 6.2% to KRW 11,453.7 billion. Operating profit tumbled KRW 116.1 billion to KRW 674.7 billion, while net income slid KRW 77.4 billion to KRW 324.7 billion.

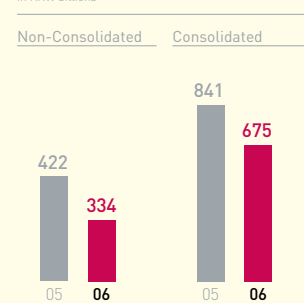
Looking at group performance on a parent-company basis, our Petrochemicals Group delivered sales growth of about 36% to top KRW 5,885 billion as it benefited from the merger with LG Daesan Petrochemicals. Operating profit, however, dropped nearly in half from KRW 310.5 billion to KRW 169.9 billion, affected by high prices for oil, ethylene, and other feedstocks as well as facility overexpansion in China by carbide-based PVC makers. On a positive note, the group did see operating profit begin to recover in the second-half of the year as it began to reap the benefits of vertical integration with LG Daesan and stability in oil prices.

Our Industrial Materials Group sales growth remained virtually flat at KRW 2,088.0 billion. The primary cause for this weak performance was a stagnant domestic real estate market and an extended strike that hit the Korean auto industry. This lack of

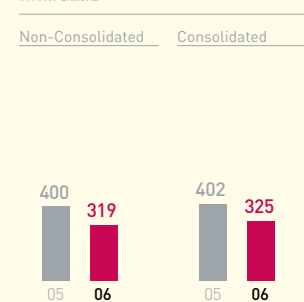
SALES



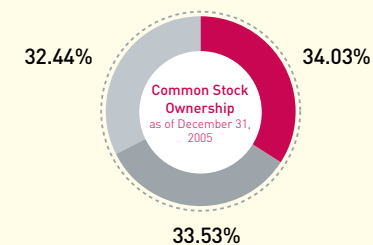
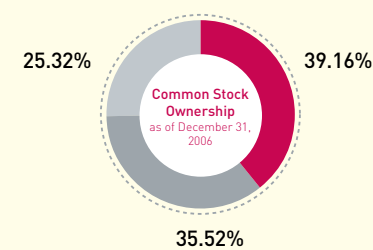
OPERATING PROFIT



NET INCOME



SHAREHOLDER COMPOSITION



• LG Corp.
• Korean Individuals & Institutions
• Foreign Shareholders

growth, coupled with high marketing costs associated with the launch of a new master brand, led to a roughly 16% fall in operating income to KRW 118.0 billion. On the positive side, the group's "Z:IN" (pronounced "z-in") master brand enjoyed rapid growth in awareness, projecting a premium image that's helping it gain market share. The group also began to see the results of its ongoing cost-cutting initiatives and diversification into new international markets in 2006.

Our Information & Electronic Materials Group returned to profitability after a major loss in 2005 as it dealt with low operating capacity ratios and slow orders in the aftermath of the battery quality problems and costly product recall. Strict quality control helped the battery business win new orders from high-volume clients such as HP and Dell, significantly reducing losses. The group's optical materials business made a remarkable turnaround thanks to the sales growth and cost reduction targets achieved despite sluggish demand for LCDs. Sales grew over 26% to KRW 1,610.7 billion, while operating profit rose KRW 73.6 billion to KRW 48.7 billion for the year.

Our R&D efforts continue to position us for growth as a total solution provider in all our businesses. Our Information & Electronic Materials Group is focusing on batteries for hybrid and electric vehicles, LCD color filter photoresists, and the full internalization of the raw materials used to make them. Our Industrial Materials Group is focusing on construction materials, sign media, and functional film products. Our Petrochemicals Group is exploring high polymer compounds as well as process and feedstock technologies.

Our ongoing investment in R&D and a solid foundation of talent and facilities capable of delivering results continue to lead the way in our search for emerging business opportunities. Our R&D organization will play a pivotal role in meeting our target of generating 60% of sales from our core product portfolio by 2010. We plan to invest approximately KRW 310.0 billion in R&D in 2007.

In 2006, we planned to invest a total of KRW 646.1 billion on capital projects, including KRW 237.2 billion in petrochemical businesses, KRW 97.7 billion in industrial material businesses, KRW 221.7 billion in information and electronic material businesses, and KRW 89.5 billion on other projects. Our actual investments for the year totaled KRW 590.5 billion, about KRW 55 billion less than projected as we delayed some planned projects due to a slowdown in the global LCD market and an economic contraction at home.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL INFORMATION

Financial Structure

Although we suffered a setback in our operating performance in 2006, our parent company debt-to-equity ratio fell over 7 percentage points to 122% and our net debt-to-equity ratio dropped 16 percentage points to 61% thanks to an increase in cash from the merger with LG Daesan and a change in some of our investment plans. On a consolidated basis, the ratios were 133% and 74%, respectively.

With the global petrochemical market trending upward and a significantly larger post-merger Petrochemicals Group, we expect our cash flow to substantially improve in 2007. We aim to improve our financial structure in the coming year through sound investment planning, growing operational profitability, business restructuring, and efficient working capital management.

We plan to internally fund our 2006 R&D and capital expenditures. Our mid- to long-term target is to maintain our net debt-to-equity ratio around the 50% level.

KEY FINANCIAL RATIOS

	Non-Consolidated		Consolidated	
	2005	2006	2005	2006
Debt-to-equity	129.4%	121.9%	137.5%	133.0%
Net debt-to-equity	76.5%	60.6%	85.2%	73.6%
Interest coverage	4.5%	3.8%	6.8%	5.9%
Return on assets	7.1%	5.6%	7.9%	6.2%
Return on equity	17.3%	12.6%	19.3%	14.5%

• The consolidated ROE and ROA are calculated with total new income, which includes the income of minority interests.

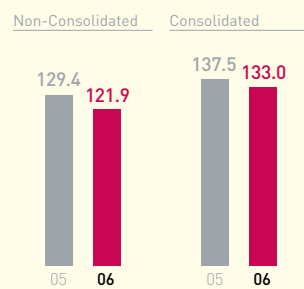
DEBT BY CURRENCY

in KRW billions

	Dec 2005	Dec 2006	Change
Korean won	1,529.8	1,269.2	-260.6
Foreign currency	335.6	316.1	-19.5
Total	1,865.4	1,585.3	-280.1

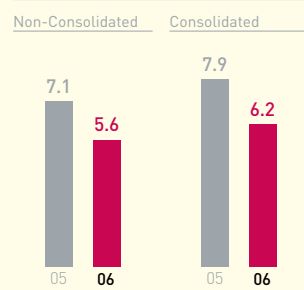
DEBT-TO-EQUITY

%



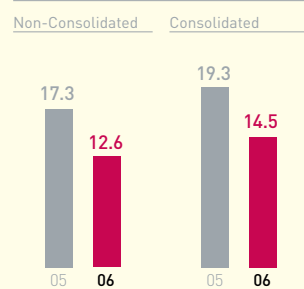
RETURN ON ASSETS

%



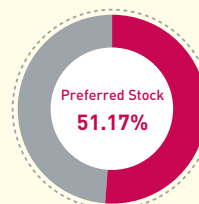
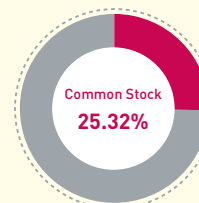
RETURN ON EQUITY

%



FOREIGN INVESTOR HOLDINGS

(in KRW billions)



Equity

Under current Korean trade regulations, holding companies must maintain at least a 30% ownership stake in the listed subsidiary's total outstanding shares-including preferred shares-to retain their status. In 2006, LG Corp. raised its ownership stake from 34% to 39% of LG Chem's common stock.

As of December 31, 2006, LG Corp.'s holdings totaled 39.2%, foreign shareholders held 25.3%, and Korean individual and institutional investors held 35.5%.

STOCK INFORMATION

as of December 31, 2006

	Outstanding Shares	Paid-In Capital in KRW billions	Foreign Investor Holdings
Commons Stock	64,425,064	322.1	25.32%
Preferred Stock	8,661,251	43.3	51.17%
Total	73,086,315	365.4	28.38%

Funding Strategy

Long- and Short-Term Borrowings

Our policy is to use long-term loans to fund plant and equipment investments, and short-term loans for operating capital. To guard against liquidity risk, we limit short-term borrowings to less than 90% of our net working capital.

Interest Rates

We use an appropriate mix of fixed and floating-rate loans to give us flexibility in responding to interest rate fluctuations. We limit floating-rate loans to between 20% and 40% of total borrowings.

Foreign Currency Borrowings

We maintain a certain level of foreign borrowings as a natural hedge against foreign exchange exposure. In 2007, our estimated exposure will be approximately USD 1.8 billion, and we will maintain foreign borrowings of around USD 400 million as a hedge.

COST OF CAPITAL

in KRW billions

	2006	2007 (E)	Change
Interest paid	88.6	86.3	-2.3
Interest rate	5.19%	5.32%	+13 bp

MANAGEMENT'S DISCUSSION & ANALYSIS

DEBT BY CURRENCY

in KRW billions

	Dec 2006	Dec 2007 (E)	Change
Korean won	1,269.2	1,206.5	-62.7
Foreign currencies	316.1	372.0	+55.9
Total	1,585.3	1,578.5	-6.8

Dividend Policy & Dividends

We consider dividends to be the most fundamental way to return profits to our shareholders. When determining the dividend, we consider a variety of factors such as the company's financial structure and funding requirements for planned investments.

Taking into account the financial performance setback we had in 2005, the ongoing revamp of our Daesan naphtha cracking center to improve the competitiveness of our Petrochemicals Group, our investment in both R&D and production facilities for polarizers and other growth businesses, and our policy to maintain our net debt-to-equity ratio at the 50% level, we have declared a 2006 dividend payout of 20% for common stock and 21% for preferred stock, both 5 percentage points lower than 2005. The payout is based on the share face value of KRW 5,000.

We aim to continuously increase shareholder value by enhancing the competitiveness of our core businesses and generating solid profits. It is our intention to maintain dividends at a level that satisfies both our commitment to sound financial governance and investor expectations for profit sharing.

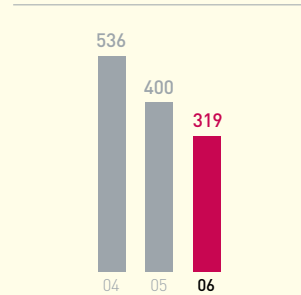
DIVIDEND SUMMARY

	2004	2005	2006
Net income in KRW billions	536,420	400,258	318,782
EPS in KRW	7,341	5,501	4,392
Total dividends in KRW billions	109,976	91,028	72,909
Dividends-to-net income	20.51%	22.74%	22.87%
Dividend payout, common	30%	25%	20%
Dividend payout, preferred	31%	26%	21%
Dividend yield ratio	3.6%	2.2%	2.3%

* Dividend payout is percentage of KRW 5,000 face value.

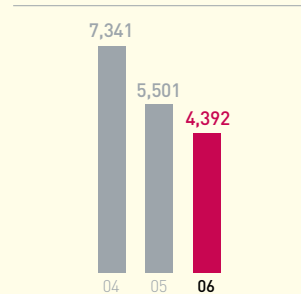
NET INCOME

in KRW billions



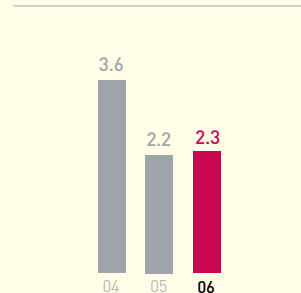
EPS

in KRW



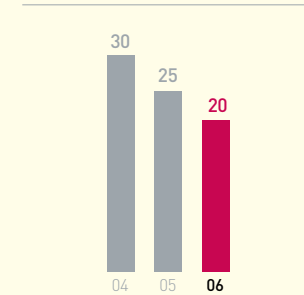
DIVIDEND YIELD RATIO

in %



COMMON STOCK DIVIDEND PAYOUT

in %



MERGER WITH LG DAESAN PETROCHEMICALS

The merger with LG Daesan Petrochemicals on January 1, 2006 enabled us to generate consolidated sales of approximately KRW 11,453.7 billion as we continued to grow as a global general chemical company. The merger has enabled us to achieve cost leadership through vertical integration in our mainstay petrochemicals businesses. Once the revamp of our Daesan naphtha cracking center is completed in 2007, we will have an even greater capacity to supply ourselves with major feedstocks, giving us a substantial overall competitive edge. We believe that our merged companies will help significantly improve profitability as global petrochemical markets recover in the coming years.

Our cash flow has also improved as we have been able to tap LG Daesan's surplus cash flow, enabling us to significantly reduce our outstanding borrowings. Going forward, this continuing cash flow will be a key source of funding for investments in both future growth businesses and R&D.

CAPITAL EXPENDITURES

Of the KRW 590.5 billion we invested in 2006, KRW 240.8 billion went to our Petrochemicals Group for projects such as the revamping of the Daesan naphtha cracking center slated for completion in 2007. Another KRW 167.8 billion went to projects in the fast-growing Information & Electronic Materials Group. The latter group originally had KRW 221.7 billion budgeted for projects, however slower-than-forecast growth in global infotech markets prompted us to adjust the scope of the plans, resulting in overall capital expenditures of approximately KRW 55 billion less than planned.

We will continue to invest conservatively in 2007. Our main focus will be on getting the maximum benefit from recovering global petrochemical markets by finishing the Daesan NCC revamping project as well as pushing ahead with selected Information & Electronic Materials Group projects related to LCD polarizers and other businesses projected to enjoy explosive growth in the coming years.

MANAGEMENT'S DISCUSSION & ANALYSIS

CAPITAL EXPENDITURES

in KRW billions

	2006	2007 (E)
Petrochemicals	240.8	257.5
Industrial Materials	80.8	115.2
Information & Electronic Materials	167.8	184.3
Other Projects	101.1	114.5
Total	590.5	671.5

2007 OUTLOOK

While economic and market recovery are still nowhere in sight in Korea and the global LCD and other infotech markets are equally uncertain, core information and electronic material businesses like LCD polarizers are expected to continue to generate sales growth, as is the steadily improving global petrochemical market. These latter positives are why we are forecasting parent company sales growth of around 4% to KRW 9,700 billion and consolidated sales growth of about 5% to KRW 12,130 billion in 2007.

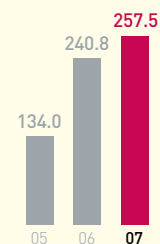
The petrochemical industry is now poised for recovery after a lackluster year in 2006 caused by high oil prices and weak demand. While our home market prospects are expected to gradually improve, we will continue to pursue greater profitability by breaking into new global markets and expanding sales of value-added products.

Our Petrochemicals Group will focus on cost competitiveness as it continues to bolster vertical integration with the revamped Daesan NCC facility and new EDC and VCM plants in Tianjin. The group will be aiming to secure a fundamental competitive edge in its PVC and ABS businesses, executing a total tear-down and redesign of production, sales, and R&D operations as it continues to pursue emerging opportunities for growth.

CAPITAL INVESTMENT BY BUSINESS GROUP

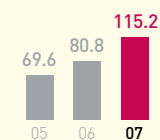
PETROCHEMICALS

in KRW billions



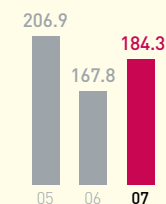
INDUSTRIAL MATERIALS

in KRW billions



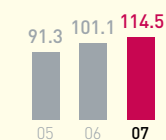
INFORMATION & ELECTRONIC MATERIALS

in KRW billions



OTHER PROJECTS

in KRW billions



Our Industrial Materials Group will counter the slow-to-recover Korean construction market by leveraging its excellent R&D and marketing capabilities to drive value-added product sales in the United States, China, and other strategic global markets. The group's launch of the new "Z:IN" master brand continues to rapidly build customer awareness, projecting a premium brand image as part of its differentiation strategy. The group also plans to conduct a full review of operations to reduce costs in the pursuit of greater competitiveness.

Our Information & Electronic Materials Group will face a tough market environment as competition intensifies in these steadily growing fields, bringing the dual challenges of falling prices and unfavorable exchange rates. The group plans to overcome these obstacles by quickly ramping up production capabilities to meet rapidly rising demand, continuously cutting production costs, expanding its product mix with high-performance products, and diversifying into new markets. It will continue to pursue growth and profitability by achieving greater economies of scale in LCD polarizers, bringing the production of core battery materials in-house, and developing entirely new kinds of materials.

MESSAGE FROM THE CFO

“ Our successful merger and integration with LG Daesan Petrochemicals in 2006 brought improved cash flow that enabled us to significantly reduce outstanding borrowings, reducing our debt-to-equity ratio by roughly seven percentage points to 122%. ”



• LG Chem faced considerably tougher market conditions at home and abroad in 2006. Most notable among these were the continued delay of significant economic recovery in Korea, increased raw material costs due to sustained high oil prices in the USD 60-per-barrel range, and greater exchange rate volatility. Our primary emphasis was on ensuring the soundness of our financial structure to ensure our ability to secure the financial resources essential for investment in our strategic mid- and long-term businesses.

• The successful completion of our merger with LG Daesan Petrochemicals was a restructuring from a financial point of view. Our debt-to-equity ratio improved by roughly seven percentage points, falling from 129% at the end of 2005 to 122%. We also expanded the capabilities of our current enterprise-wide risk management system by setting up a global executive information system covering our 15 overseas subsidiaries and an investment tracking system.

• In 2007, our first and foremost priority will be on further reducing our debt-to-equity ratio to strengthen our financial base. Our ratio is slightly above the average for our industry, so we feel that reducing it further is a prudent choice in our ongoing efforts to improve financial soundness. Toward this end, it is our policy to limit

investment to levels our internal cash flow can support. We also plan to improve management of our operating capital and further reduce our overhead costs.

• Our second priority in 2007 will be to reduce risk by effectively managing key business threats such as volatile exchange rates and oil prices as we seek to maximize corporate value. Toward this end, we will continue to pursue cost savings by minimizing our currency risk and optimizing our long- and short-term debt structure.

• Last, but certainly not least, we will continue to generate value for our shareholders. We will continue to vigorously upgrade and expand our investor relations activities to reach potential investors at home and abroad. This will include attending conferences around the globe as well as holding non-deal roadshows and one-on-one meetings to share the LG Chem value proposition.

Suk-Jeh Cho | Executive Vice President and CFO

REPORT OF INDEPENDENT AUDITORS

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

PRICEWATERHOUSECOOPERS 

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We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. (the "Company") as of December 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, 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 5.6% of the Company's total assets as of December 31, 2006 (2005: 7.6%), and the equity in their net profits and losses represent 4.8% of the Company's net income before income taxes for the year ended December 31, 2006 (2005: 7.6%). 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, 2006 and 2005, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in Note 27 to the non-consolidated financial statements, the Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006.

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 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 5, 2007



This report is effective as of March 5, 2007, 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, 2006 and 2005

(in millions of Korean won)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents (Note 25)	₩ 115,830	₩ 189,445
Trade accounts and notes receivable, net (Notes 2, 4, 5, 16, 22 and 25)	818,384	499,382
Other accounts receivable, net (Notes 5 and 25)	121,142	100,059
Accrued income	1,704	55
Advance payments	1,807	3,062
Prepaid expenses	14,130	15,142
Inventories, net (Notes 2 and 6)	869,138	608,850
Deferred income tax assets (Note 19)	127	11,545
Other current assets	6,959	8,756
Total current assets	1,949,221	1,436,296
Long-term financial instruments (Note 3)	60	51
Investment securities (Note 7)	1,718	1,939
Equity-method investments (Notes 8 and 27)	876,622	1,476,532
Long-term trade accounts and notes receivable, net (Note 5)	465	775
Long-term other accounts receivable, net (Note 5)	1,054	1,491
Long-term guarantee deposits	39,344	67,611
Long-term prepaid expenses	20,107	20,470
Other investments	31,893	30,557
Property, plant and equipment, net (Notes 2, 9, 24 and 27)	3,099,022	2,456,822
Intangible assets, net (Notes 2, 10, 24 and 27)	(212,990)	100,855
Total assets	₩ 5,806,516	₩ 5,593,399

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

(in millions of Korean won)

	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 11)	₩ 25,076	₩ 100,224
Current maturities of long-term debts, net (Note 11)	439,932	740,604
Trade accounts and notes payable (Notes 22 and 25)	750,762	596,580
Other accounts payable (Note 25)	516,955	372,834
Withholdings	50,488	39,400
Accrued expenses (Note 13)	42,276	30,452
Income tax payable (Note 19)	44,241	63,609
Other current liabilities	2,925	3,207
Total current liabilities	1,872,655	1,946,910
Long-term debts, net (Note 12)	1,110,683	988,805
Accrued severance benefits, net (Notes 2, 3 and 14)	98,415	80,410
Deferred income tax liabilities (Notes 19 and 27)	95,316	111,020
Derivative instrument transaction credit (Note 16)	3,089	23,814
Other long-term liabilities	9,118	3,915
Total liabilities	3,189,276	3,154,874
Commitments and contingencies (Note 16)		
Shareholders' equity (Note 1)		
Common stock	322,126	322,126
Preferred stock	43,306	43,306
	365,432	365,432
Capital surplus (Note 17)		
Paid-in capital in excess of par value	532,002	532,002
Gain on disposal of treasury stock	841	841
Asset revaluation surplus	206,769	206,769
	739,612	739,612
Retained earnings (Note 17)		
Legal reserve	49,438	40,335
Other reserves	1,221,519	921,393
Unappropriated retained earnings	318,787	400,261
	1,589,744	1,361,989
Capital adjustments		
Gain on valuation of equity-method investments (Note 8)	1,355	36,109
Loss on valuation of equity-method investments (Note 8)	(55,774)	(41,043)
Treasury stock (Note 18)	(23,129)	(23,129)
Loss on valuation of derivative instruments (Note 16)	-	(445)
	(77,548)	(28,508)
Total shareholders' equity	2,617,240	2,438,525
Total liabilities and shareholders' equity	₩ 5,806,516	₩ 5,593,399

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

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2006 and 2005

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

	2006	2005
Sales(Notes 22 and 24)	₩ 9,302,341	₩ 7,425,104
Cost of sales (Note 22)	7,965,401	6,107,725
Gross profit	1,336,940	1,317,379
Selling and administrative expenses (Note 22)	1,002,995	895,665
Operating income	333,945	421,714
Non-operating income		
Interest income	8,918	12,193
Foreign exchange gains	62,687	45,795
Gain on foreign currency translation	32,213	13,894
Gain on disposal of short-term investment assets (Note 7)	-	14,960
Gain on disposal of investment securities (Note 7)	-	10,306
Gain on valuation of equity-method investments (Note 8)	133,491	243,751
Gain on disposal of property, plant and equipment	1,945	8,574
Reversal of negative goodwill (Notes 2 and 27)	39,170	-
Reversal of bad debt allowance	63	-
Reversal of compensation expenses associated with stock options (Note 15)	1,042	-
Others	41,916	23,134
	321,445	372,607
Non-operating expenses		
Interest expenses	88,610	94,731
Foreign exchange losses	34,214	24,748
Loss on foreign currency translation	2,572	5,321
Loss on disposal of trade accounts receivable (Note 2)	34,052	22,747
Loss on disposal of investment securities	5	73
Loss on disposal of property, plant and equipment	10,379	35,468
Loss on valuation of equity-method investments (Note 8)	27,471	33,731
Impairment loss on investment securities (Note 7)	361	2,161
Impairment loss on equity-method investments (Note 8)	10,993	-
Impairment loss on intangible assets (Note 10)	2,778	51,434
Impairment loss on property, plant and equipment	-	23,912
Loss on valuation of derivative instruments (Note 16)	3,089	3,080
Donations	6,513	5,950
Others	39,052	23,287
	260,089	326,643
Income before income taxes	395,301	467,678
Income tax expense (Note 19)	76,519	67,420
Net income	318,782	400,258
Per share data (in won)		
Earnings per share (Note 20)	4,392	5,501
Ordinary income per share (Note 20)	₩ 4,392	₩ 5,501

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, 2006 and 2005

(Date of appropriations: March 16, 2007 and March 9, 2006 for the years ended December 31, 2006 and 2005)

(in millions of Korean won)

	2006	2005
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ 5	₩ 3
Net income	318,782	400,258
	318,787	400,261
Transfers from other reserves		
Reserve for technology development	63,333	46,667
Appropriation of retained earnings		
Legal reserve	7,291	9,103
Dividend	72,909	91,028
Reserve for technology development	220,120	182,270
Reserve for investment losses	81,791	164,522
	382,111	446,923
Unappropriated retained earnings carried forward to subsequent year	₩ 9	₩ 5

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

(in millions of Korean won)

	2006	2005
Cash flows from operating activities		
Net income	₩ 318,782	₩ 400,258
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	532,091	372,092
Provision for severance benefits	66,651	55,853
Gain on foreign currency translation, net	(30,177)	(10,515)
Loss on disposal of trade accounts receivable	34,052	22,747
Impairment loss on investment securities	361	2,161
Impairment loss on equity-method investments	10,993	-
Loss on disposal of property, plant and equipment, net	8,434	26,894
Impairment loss on property, plant and equipment	-	23,912
Impairment loss on intangible asset	2,778	51,434
Gain on disposal of short-term investment assets	-	(14,960)
Loss (gain) on disposal of investment securities, net	5	(10,233)
Gain on valuation of equity-method investments, net	(106,020)	(210,020)
Loss on valuation of derivative instruments	3,089	3,080
Reversal of negative goodwill	(39,170)	-
Reversal of bad debt allowance	(63)	-
Reversal of compensation expenses associated with stock option	(1,042)	-
Others, net	19,782	26,392
	501,764	338,837
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(209,801)	(72,358)
(Increase) decrease in inventories	(71,669)	11,109
Dividend received	46,899	68,415
Increase in other accounts receivable	(10,565)	(16,968)
(Increase) decrease in accrued income	(1,402)	78
Decrease (increase) in advance payments	1,255	(1,390)
Decrease (increase) in prepaid expenses	1,249	(2,531)
Decrease (increase) in deferred income tax assets	11,486	(23,832)
Decrease in other current assets	1,230	232
Decrease in long-term trade accounts and notes receivable	-	454
Increase (decrease) in trade accounts and notes payable	76,137	(168,313)
Increase in other accounts payable	124,662	6,302
Increase in accrued expenses	7,353	8,135
Decrease in income taxes payable	(26,415)	(14,089)
Increase in other current liabilities	9,558	3,865
Increase in long-term accrued expenses	1,994	-
Accrued severance benefits transferred from affiliated company	351	361
Decrease in deferred income tax liabilities	(4,830)	(20,896)
Payment of severance benefits	(64,166)	(49,068)
Others, net	3,838	2,557
	(102,836)	(267,937)
Net cash provided by operating activities	₩ 717,710	₩ 471,158

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

(in millions of Korean won)

	2006	2005
Cash flows from investing activities		
Disposal of property, plant and equipment	₩ 6,463	₩ 30,138
(Acquisition) disposal of short-term investment assets, net	(4)	74,513
Disposal (acquisition) of long-term guarantee deposits, net	31,663	(1,035)
Disposal (acquisition) of other investment, net	411	(3,347)
Acquisition of property, plant and equipment	(527,215)	(451,447)
(Acquisition) disposal of investment securities, net	(140)	22,873
Acquisition of equity method securities, net	(64,170)	(72,860)
Acquisition of intangible assets, net	(22,416)	(19,055)
Others, net	(27,970)	(9,203)
Net cash used in investing activities	(603,378)	(429,423)
Cash flows from financing activities		
Repayment of short-term borrowings, net	(100,865)	(81,090)
Repayment of current maturities of long-term debts	(732,158)	(322,266)
Issuance of debentures	419,750	227,344
Payment of dividends	(91,046)	(109,963)
Proceeds from long-term debts, net	138,532	41,635
Acquisition of treasury stock	-	(20,779)
Others, net	(3,667)	(888)
Net cash used in financing activities	(369,454)	(266,007)
Cash flows from merger	181,507	-
Net decrease in cash and cash equivalents	(73,615)	(224,272)
Cash and cash equivalents		
Beginning of the year	189,445	413,717
End of the year	₩ 115,830	₩ 189,445

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 27).

As of December 31, 2006, 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 December 31, 2006, 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 dividend 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.

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 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 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 parent company and its subsidiary. Therefore, assets and liabilities taken over by the Company were assessed at their book values on the consolidated financial statements (Note 27).

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

Sales of manufactured products and goods are recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Asset-Backed Securities

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

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated realizable value of the receivables.

Inventories

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

Securities

In accordance with SKFAS No. 8, *Investments in Securities*, 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. Trading securities are classified as current assets, and available-for-sale securities and held-to-maturity securities are classified as long-term investments, except for those securities that mature or are certain to be disposed of within one year, which are classified as part of current assets.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the moving average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at the reasonable interest rate determined considering the credit ratings provided by independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

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 capital adjustments 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 capital adjustments.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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 overseas operation translation debit or credit under the capital adjustments, a component of 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 Company's equity-method investments as of December 31, 2006, decreased by ₩10,029 million. Also, the gain on valuation of equity-method investments decreased by ₩2,773 million, while the loss on valuation of equity-method investments increased by ₩7,256 million for the year ended December 31, 2006.

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	6 years
Tools	6 years
Furniture and fixtures	6 years
Others	3 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 assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

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, consisting of intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from three to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. For the year ended December 31, 2006, the Company expensed ₩198,198 million (2005: ₩190,348 million) as normal development expense.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method. The Company performs periodic assessments of the recoverability of development costs. Unrecoverable costs are charged to operations in the period that they are first identified.

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.

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.

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 58.6% (2005: 59.9%) as of December 31, 2006 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.

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.

Impairment Loss

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets on which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the year.

Deferred income tax assets (liabilities) for temporary differences are classified into current assets (current liabilities) or investments (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

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Derivative financial

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

instruments for trading or hedging purpose are valued at estimated market price with the resulting unrealized gains or losses recognized in the current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rate in effect at the balance sheet date, and 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, 2006, is ₩929.6: US\$1 (2005: ₩1,013: US\$1).

3. Restricted Bank Deposits

As of December 31, 2006, long-term financial instruments of ₩60 million (2005: ₩51 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. 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, 2006, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩123,761 million (2005: ₩49,760 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, 2006, trade accounts receivable transferred to the special purpose companies amounted to ₩283,761 million (2005: ₩209,760 million).

5. Receivables

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

	2006		2005	
Trade accounts and notes receivable	₩	864,339	₩	546,511
Less: Allowance for doubtful accounts		(45,955)		(47,129)
	₩	818,384	₩	499,382
Other accounts receivable	₩	145,889	₩	123,520
Less: Allowance for doubtful accounts		(24,719)		(23,419)
Less: Present value discount accounts		(28)		(42)
	₩	121,142	₩	100,059
Long-term trade accounts and notes receivable	₩	550	₩	926
Less: Allowance for doubtful accounts		(85)		(151)
	₩	465	₩	775
Long-term other accounts receivable	₩	1,188	₩	1,690
Less: Present value discount accounts		(134)		(199)
	₩	1,054	₩	1,491

6. Inventories

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

	2006		2005	
Merchandise, net of valuation allowance of ₩649 million (2005: ₩561 million)	₩	47,064	₩	29,750
Finished products, net of valuation allowance of ₩11,973 million (2005: ₩12,881 million)		375,421		279,431
Work-in-process		104,860		82,377
Raw materials, net of valuation allowance of ₩414 million (2005: ₩315 million)		212,788		149,709
Supplies		30,559		17,914
Materials-in-transit		98,446		49,669
	₩	869,138	₩	608,850

As of December 31, 2006, inventories are insured against fire and other casualty losses up to ₩656,075 million (2005: ₩514,020 million).

7. Investment Securities

Non-marketable stocks classified as available-for-sale as of December 31, 2006 and 2005, consist of the following:

	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value ⁴	
	2006	2005	2006	2005	2006	2005	2006	2005
Long-term Investment								
N&L Marble	22.73	22.73	₩ 539	₩ 539	₩ -	₩ -	₩ 114	₩ 114
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	564	564
TECWIN ¹	19.90	19.90	419	279	419	279	2,042	1,550
Chemizen. Com Ltd.	2.62	2.62	300	300	10	10	10	10
LG Mozel Ltd.	9.75	9.75	195	195	195	195	392	377
EICO Properties Pte. Ltd. ²	9.20	9.20	2,298	2,298	509	870	509	870
LG Environment Strategy Institute	6.00	6.00	9	9	9	9	10	10
LG Lucoat Powder Coatings Ltd. ³	-	13.30	-	1,036	-	-	-	574
			₩ 4,336	₩ 5,232	₩ 1,718	₩ 1,939	₩ 3,641	₩ 4,069

1_ The Company acquired an additional 27,860 shares of TECWIN for ₩140 million in 2006 without any change in percentage of ownership.

2_ The Company recognized an impairment loss of ₩361 million in 2006.

3_ The Company disposed of all shares of LG Lucoat Powder Coatings Ltd. in 2006.

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.

The Company disposed of all common stocks of LG Card Co., Ltd. which were acquired through the debt-to-equity swap, resulting to a gain on disposal of ₩10,306 million for the year ended December 31, 2005. And the Company realized gains on disposals of ₩14,960 million from the commercial papers upon their maturity for the year ended December 31, 2005.

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8. Equity-Method Investments

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

(in millions of Korean won)

Investee ¹⁾	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	₩ 352,579	₩ 338,017	₩ 342,029	₩ 325,493
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,440	17,498	21,465	30,172	21,502	41,256
Tianjin LG New Building Materials Co., Ltd. ²⁾	82.80	81.47	20,341	19,894	16,849	16,037	21,609	17,343
Tianjin LG Window & Door Co., Ltd.	90.00	90.00	13,308	13,308	7,689	7,479	8,955	8,290
Ningbo LG Yongxing Chemical Co., Ltd. ³⁾	75.00	75.00	95,237	86,417	112,539	103,608	111,924	107,004
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	40,906	43,441	40,906	44,066
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	6,669	6,141	6,120	5,257
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	2,239	2,270	2,549	2,621
LG Chem America, Inc.	100.00	100.00	9,596	9,596	5,200	5,764	8,388	8,993
M. Dohmen S.A. ⁴⁾	49.00	49.00	43,203	43,203	993	18,306	14,835	18,306
LG Daesan Petrochemical Ltd. ⁵⁾	-	100.00	-	554,634	-	650,565	-	1,113,010
SEETEC Co., Ltd.	50.00	50.00	36,643	36,643	54,749	44,663	152,280	145,429
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	80,246	71,534	79,287	70,925
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	10,486	10,486	11,301	9,249	11,325	10,125
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁶⁾	73.43	79.01	43,296	41,679	21,370	28,130	35,687	31,323
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	1,653	1,850	1,656	1,687
LG Chem (China) Investment Co., Ltd. ⁷⁾	100.00	100.00	40,340	31,339	40,298	31,757	40,298	31,666
LG Chem (Taiwan), Ltd.	100.00	100.00	2,291	2,291	1,158	2,113	4,341	3,155
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	9,850	11,873	10,229	11,845
LG Chem Europe Sarl.	100.00	100.00	5,635	5,635	1,441	-	1,441	196
LG Holdings (HK) Ltd. ⁸⁾	18.18	18.18	41,582	30,494	28,682	22,302	25,802	18,904
Ningbo LG Yongxing Latex Co., Ltd.	75.00	75.00	6,843	6,843	4,748	6,158	4,759	6,209
Compact Power Inc.	81.00	81.00	4,635	4,635	545	1,120	545	277
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	4,639	4,415	5,419	4,675
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	4,977	6,898	5,526	6,894
Tianjin LG Bohai Chemical Co., Ltd. ⁹⁾	43.89	22.07	38,445	8,185	37,294	8,169	47,377	8,206
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	933	1,448	1,964	1,840
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O. ¹⁰⁾	100.00	100.00	5,790	2,795	5,352	2,795	5,352	2,795
			₩ 694,597	₩ 1,185,06	₩ 876,622	₩ 1,476,532	₩ 1,012,363	₩ 2,048,048

- 1_ As of December 31, 2006, the market value of the shares of LG Petrochemical Co., Ltd. owned by the Company amounted to ₩424,880 million.
- 2_ In 2006, the Company acquired additional shares of Tianjin LG New Building Materials Co., Ltd. for ₩447 million. As a result, the Company's percentage of ownership in Tianjin LG New Building Materials Co., Ltd. increased from 81.47% to 82.80%.
- 3_ In 2006, the Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,820 million without any change in its percentage of ownership.
- 4_ The Company recognized an impairment loss of ₩10,993 million for the difference between the estimated realizable value and the book value in 2006.
- 5_ As the Company merged with LG Daesan Petrochemical Ltd., this investment was eliminated in 2006 (Note 27).
- 6_ The Company acquired new shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩1,617 million in 2006. 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%.
- 7_ In 2006, the Company acquired additional shares of LG Chem (China) Investment Co., Ltd. for ₩9,001 million without any change in its percentage of ownership.
- 8_ This investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%. The Company acquired additional shares of LG Holdings (HK) Ltd. for ₩11,088 million without any change in its percentage of ownership.
- 9_ The Company acquired additional shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩30,260 million in 2006. As a result, the Company's percentage of ownership in Tianjin LG Bohai Chemical Co., Ltd. increased from 22.07% to 43.89%. Of the acquisition amount, ₩6,274 million was paid to Tianjin LG Dagu Chemical Co., Ltd.
- 10_ In 2006, 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.
- 11_ As of December 31, 2006, the Company has control over all the investees, except for M. Dohmen S.A., SEETEC Co., Ltd. and LG Holdings (HK) Ltd.

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Changes in equity-method investments for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

Investee	2006					
	January 1, 2006	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	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.

(in millions of Korean won)

Investee	2005					
	January 1, 2005	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	December 31, 2005
LG Petrochemical Co., Ltd.	₩ 291,131	₩ -	₩ (31,640)	₩ 79,341	₩ (815)	₩ 338,017
Tianjin LG Dagu Chemical Co., Ltd.	42,110	-	(3,008)	(8,482)	(448)	30,172
Tianjin LG New Building Materials Co., Ltd.	14,864	-	-	1,172	1	16,037
Tianjin LG Window & Door Co., Ltd.	8,558	-	-	(1,054)	(25)	7,479
Ningbo LG Yongxing Chemical Co., Ltd.	94,810	13,070	(27,612)	25,243	(1,903)	103,608
LG Chemical India Pvt. Ltd.	52,348	-	(5,393)	889	(4,403)	43,441
LG Chemical Hong Kong Ltd.	5,378	-	-	919	(156)	6,141
LG Vina Chemical J/V Company	2,140	-	(762)	986	(94)	2,270
LG Chem America, Inc. ¹	-	-	-	4,156	1,608	5,764
M. Dohmen S.A.	21,299	-	-	(1,731)	(1,262)	18,306
Hyundai Petrochemical Co., Ltd. ²	585,372	(585,372)	-	-	-	-
LG Daesan Petrochemical Ltd. ²	-	554,634	-	95,931	-	650,565
SEETEC Co., Ltd. ²	-	36,643	-	8,031	(11)	44,663
Lotte Daesan Petrochemical Ltd. ²	-	-	-	-	-	-
LG Dow Polycarbonate Ltd.	46,704	-	-	24,830	-	71,534
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	7,401	-	-	1,881	(33)	9,249
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	41,679	-	-	(9,041)	(4,508)	28,130
LG Chem Trading (Shanghai) Co., Ltd.	1,723	-	-	139	(12)	1,850
LG Chem (China) Investment Co., Ltd.	6,253	25,086	-	(197)	615	31,757
LG Chem (Taiwan), Ltd.	2,291	-	-	(51)	(127)	2,113
LG Chem Industrial Materials Inc.	17,846	-	-	(3,904)	(2,069)	11,873
LG Chem Europe Sarl ³	2,321	-	-	(2,239)	(82)	-
LG Holdings (HK) Ltd.	30,494	-	-	(4,915)	(3,277)	22,302
LG Chemical (Hunan) Phosphor.	1,793	(2,027)	-	234	-	-
Ningbo LG Yongxing Latex Co., Ltd.	3,162	3,681	-	(553)	(132)	6,158
Compact Power Inc. ⁴	454	710	-	-	(44)	1,120
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	-	5,589	-	(1,225)	51	4,415
LG Chem Display Materials Co., Ltd.	-	6,865	-	-	33	6,898
Tianjin LG Bohai Chemical Co., Ltd.	-	8,185	-	-	(16)	8,169
LG Chem Europe GmbH	-	1,927	-	(340)	(139)	1,448
LG Chem Brasil, Ltd.	-	258	-	-	-	258
LG Chem Poland Sp. Z.O.O.	-	2,795	-	-	-	2,795
	₩ 1,280,131	₩ 72,044	₩ (68,415)	₩ 210,020	₩ (17,248)	₩ 1,476,532

1_ The Company resumed the equity method of accounting since the investee's net asset value became positive in 2005.

2_ 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 (LGPC) and Lotte Daesan Petrochemical Ltd. (LDPC). The remaining businesses of HPCL are maintained by the continuing company, SEETEC Co., Ltd. (formerly Hyundai Petrochemical Co., Ltd.). The spin off resulted to the Company owning 50% of LGPC, LDPC and SEETEC Co., Ltd. The book value of the Company's investment security in HPCL as of January 1, 2005, consists of acquisition costs of investment securities in LGPC, LDPC, and SEETEC, in proportion to the fair values of the three companies. On April 30, 2005, the Company swapped its 50% ownership in LDPC for Honam Petrochemical's 50% ownership in LGPC. The Company did not recognize any gain or loss on disposal of equity-method investments for this transaction. As of December 31, 2006, the Company has 100% ownership of LGPC and 50% ownership of SEETEC Co., Ltd.. The equity method was applied on the investment in LGPC since the spin-off to account for the 100% ownership.

3_ During the year ended December 31, 2005, the Company discontinued the application of the equity method as the investment's book value was reduced to nil. The accumulated unrecognized loss after the discontinuation amounted to ₩293 million.

4_ During the year ended December 31, 2005, the Company acquired additional shares and recognized impairment loss.

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The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

Investee	2006				2005			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
LG Petrochemical Co., Ltd.	₩ 16,120	₩ -	₩ 2,608	₩ 13,512	₩ 18,703	₩ -	₩ 2,583	₩ 16,120
Tianjin LG New Building Materials Co., Ltd.	180	-	180	-	212	-	32	180
Hyundai Petrochemical Co., Ltd.	-	-	-	-	(337,487)	337,487 ²	-	-
LG Daesan Petrochemical Ltd. ¹	(353,752)	353,752	-	-	-	(393,058) ²	(39,306)	(353,752)
SEETEC Co., Ltd.	(70,619)	-	(3,363)	(67,256)	-	(73,982) ²	(3,363)	(70,619)
LG Dow Polycarbonate Ltd.	1,586	-	198	1,388	1,784	-	198	1,586
LG Holdings (HK) Ltd.	3,403	-	524	2,879	-	5,235	1,832	3,403
Compact Power Inc.	845	(845)	-	-	-	845	-	845
	₩ (402,237)	₩ 352,907	₩ 147	₩ (49,477)	₩ (316,788)	₩ (123,473)	₩ (38,024)	₩ (402,237)

1_ As the Company merged with LG Daesan Petrochemical Ltd. in 2006, a negative goodwill of ₩353,752 million was recorded in 2006 (Note 27).

2_ As of January 1, 2005, the date of the spin-off of Hyundai Petrochemical Co., Ltd., the differences between the Company's book values for LG Daesan Petrochemical Ltd. and SEETEC Co., Ltd., and the Company's respective proportionate fair value for each company represent their respective negative goodwill.

The eliminated unrealized gains incurred from transactions entered into with equity method investees as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

Investee	2006		2005	
	Inventory		Inventory	
LG Petrochemical Co., Ltd.	₩	3,814	₩	4,268
Tianjin LG Dagu Chemical Co., Ltd.		68		39
Tianjin LG New Building Materials Co., Ltd.		92		45
Tianjin LG Window & Door Co., Ltd.		45		8
Ningbo LG Yongxing Chemical Co., Ltd.		91		39
LG Chemical Hong Kong Ltd.		755		421
LG Vina Chemical J/V Company		310		198
LG Chem America, Inc.		3,205		3,843
LG Daesan Petrochemical Ltd.		-		159
LG Dow Polycarbonate Ltd.		437		1,002
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.		30		223
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.		559		1,070
LG Chem Trading(Shanghai) Co., Ltd.		5		-
LG Chem (China) Investment Co., Ltd.		-		3
LG Chem (Taiwan), Ltd.		3,186		1,221
LG Chem Industrial Materials Inc.		424		17
LG Chem Europe Sarl		-		430
Ningbo LG Yongxing Latex Co., Ltd.		11		24
LG Chem Europe GmbH		1,033		393
LG Chem (Tianjin) Engineering Plastics Co., Ltd.		166		116
	₩	14,231	₩	13,519

Changes in gain (loss) on valuation of investment securities accounted for as capital adjustment for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

	2006			2005		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩ 48,396	₩ (41,079)	₩ 7,317	₩ 48,697	₩ (24,131)	₩ 24,566
Increase	-	(14,779)	(14,779)	2,318	(16,948)	(14,630)
Decrease	46,873	-	46,873	2,619	-	2,619
Ending balance	1,523	(55,858)	(54,335)	48,396	(41,079)	7,317
Tax effect ¹	(168)	84	(84)	(12,287)	36	(12,251)
Net ending balance	₩ 1,355	₩ (55,774)	₩ (54,419)	₩ 36,109	₩ (41,043)	₩ (4,934)

1_ As the Company adopted SKFAS No. 16, *Deferred Income Tax*, the Company recognized deferred income taxes for the temporary differences arising from the capital adjustments, which may be realized in the future (Note 19).

The summary financial information on the equity-method investees as of and for the years ended December 31, 2006 and 2005, is as follows:

(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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

[in millions of Korean won]

Investee	2005			
	Total Assets	Total Liabilities	Sales	Net Income(Loss)
LG Petrochemical Co., Ltd.	₩ 1,039,959	₩ 226,227	₩ 1,988,923	₩ 192,944
Tianjin LG Dagu Chemical Co., Ltd.	137,445	82,437	222,000	(6,312)
Tianjin LG New Building Materials Co., Ltd.	51,399	30,112	25,725	1,754
Tianjin LG Window & Door Co., Ltd.	28,208	18,997	19,330	(1,046)
Ningbo LG Yongxing Chemical Co., Ltd.	263,545	120,873	574,657	36,205
LG Chemical India Pvt. Ltd.	69,894	25,828	117,244	1,721
LG Chemical Hong Kong Ltd.	140,271	135,014	867,162	211
LG Vina Chemical J/V Company	12,091	5,539	30,790	2,218
LG Chem America, Inc.	129,051	120,058	328,464	3,262
M. Dohmen S.A.	103,300	65,941	65,536	(1,733)
LG Daesan Petrochemical Ltd.	1,298,694	185,684	1,631,874	15,611
SEETEC Co., Ltd.	503,698	212,841	358,713	6,394
LG Dow Polycarbonate Ltd.	259,550	117,701	316,612	51,284
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	37,151	27,026	56,966	1,720
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	159,447	119,803	248,728	(6,342)
LG Chem Trading (Shanghai) Co., Ltd.	3,716	2,029	4,824	(123)
LG Chem (China) Investment Co., Ltd.	40,924	9,258	52,233	(194)
LG Chem (Taiwan), Ltd.	73,725	70,570	121,687	1,471
LG Chem Industrial Materials Inc.	45,328	33,483	9,868	(2,692)
LG Chem Europe Sarl	7,605	7,409	14,722	(1,420)
LG Holdings (HK) Ltd.	167,689	63,707	-	(3,877)
Ningbo LG Yongxing Latex Co., Ltd.	39,827	31,548	11,674	(496)
Compact Power Inc.	669	327	2,607	101
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	14,852	9,658	1,237	(1,063)
LG Chem Display Materials Co., Ltd.	18,663	11,003	-	-
Tianjin LG Bohai Chemical Co., Ltd.	87,233	50,050	-	-
LG Chem Europe GmbH	10,316	8,476	9,486	53
LG Chem Brasil Ltd.	258	-	-	-
LG Chem Poland Sp. Z.O.O.	2,795	-	-	-
	₩ 4,747,303	₩ 1,791,599	₩ 7,081,062	₩ 289,651

9. Property, Plant and Equipment

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

[in millions of Korean won]

	2006	2005
Buildings	₩ 925,972	₩ 774,933
Structures	366,588	260,851
Machinery and equipment	3,737,563	3,068,204
Vehicles	26,356	24,087
Tools and furniture	596,301	553,310
Others	12,935	-
	5,665,715	4,681,385
Less: Accumulated depreciation	(3,346,920)	(2,763,241)
Accumulated impairment loss	(19,510)	(23,912)
	2,299,285	1,894,232
Land	430,480	340,755
Construction-in-progress	324,841	179,757
Machinery-in-transit	44,416	42,078
	₩ 3,099,022	₩ 2,456,822

For the year ended December 31, 2006, capitalized interest expense amounted to ₩2,386 million (2005: ₩4,575 million). As a result of the capitalization of interest expense, for the year ended December 31, 2006, property, plant and equipment increased by ₩20,038 million (2005: ₩18,422 million), and net income increased by ₩1,302 million (2005: ₩3,010 million).

As of December 31, 2006, property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩7,467,353 million (2005: ₩6,622,074). In addition, as of December 31, 2006 and 2005, the Company has business interruption insurance policies.

As of December 31, 2006, certain property, plant and equipment have been pledged as collaterals for certain bank loans, for up to a maximum of ₩356,988 million (2005: ₩369,442 million) (Notes 11 and 12).

As of December 31, 2006, the appraised value of the Company's land, as determined by the local governments in Korea for property tax assessment purposes, amounted to approximately ₩662,742 million (2005: ₩525,953 million).

As of December 31, 2006, the Company has a financing lease agreement on certain property, plant and equipment of the methyl tertiary butyl ether factory, which it previously sold. The book values of the said property, plant and equipment total ₩10,924 million as of December 31, 2006, and their total depreciation expense amounts to ₩2,178 million for the year then ended (Note 12).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible Assets

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

(in millions of Korean won)

	2006		2005	
Intellectual property rights	₩	17,761	₩	10,966
Exclusive facility use rights		1,443		169
Development costs, net		66,345		83,392
Others		14,818		6,328
Negative goodwill		(313,357)		-
	₩	(212,990)	₩	100,855

The changes in development costs for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

	2006		2005	
Beginning balance	₩	83,392	₩	135,865
Increase		10,341		23,795
Less: Amortization		93,733		159,660
Disposal		(24,610)		(24,149)
Impairment loss		-		(685)
Ending balance	₩	(2,778)	₩	(51,434)
	₩	66,345	₩	83,392

For the years ended December 31, 2006 and 2005, expenses which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

(in millions of Korean won)

	2006		2005	
Employee education expenses	₩	12,519	₩	13,897
Advertising expenses		44,161		35,125
	₩	56,680	₩	49,022

11. Short-Term Borrowings and Current Maturities of Long-Term Debts

Short-term borrowings and current maturities of long-term debts as of December 31, 2006 and 2005, consist of the following:

(in millions of Korean won)

	Annual Interest Rate (%)		2006	2005
	2006	2005		
Short-term borrowings			₩	₩
General term loans	CD+1.45	CD+1.45	76	224
Commercial paper	4.71	3.66-3.68	25,000	100,000
			25,076	100,224
Current maturities of long-term debts				
Debentures, including US\$ 80million (2005: US\$ 130 million)	3.5-LIBOR+0.95	LIBOR+0.45-5.0	374,368	696,495
Won currency loans	3.0-9.0	3.0-7.0	1,387	195
Foreign currency loans of US\$ 70million (2005: US\$ 31.245million)	LIBOR+0.6	LIBOR+0.6-0.92	65,072	46,847
			440,827	743,537
Less: Discount on debentures issued			(895)	(2,933)
			439,932	740,604
			₩	₩
			465,008	840,828

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2006 (Note 9).

12. Long-term Debts

Long-term debts as of December 31, 2006 and 2005, consist of the following:

(in millions of Korean won)

	Reference	2006	2005
Debentures	(1)	₩ 913,798	₩ 872,470
Loans	(2)	196,885	116,335
		₩ 1,110,683	₩ 988,805

(1) Debentures as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

	Annual Interest Rate (%)		2006	2005
	2006	2005		
Publicly offered debentures, payable through 2013	3.5-5.02	3.5-5.0	₩ 980,000	₩ 1,200,000
Privately offered debentures, payable through 2009	5.02-5.32	CD+0.7	100,000	100,000
Foreign debentures of US\$230million (2005: US\$275 million, payable through 2009 ¹)	LIBOR+0.4-0.95	LIBOR+0.45-0.92	213,808	278,575
			1,293,808	1,578,575
Less: Current maturities			(374,368)	(696,495)
Discount on debentures issued			(5,642)	(9,610)
			₩ 913,798	₩ 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 were also issued on June 24, 2004 to mature on June 24, 2007; and on March 23, 2006 to mature on September 23, 2008 and September 23, 2009.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(2) Loans as of December 31, 2006 and 2005, consist of the following:

(in millions of Korean won)

	Annual Interest Rate [%]		2006	2005
	2006	2005		
Won currency loans				
Energy fund loans	-	7.0	₩ -	₩ 100
Housing loans	3.0	3.0	3,141	3,247
Company housing				
Movement expense	5.7	5.7	1,754	1,754
Capital lease ¹	9.0	-	14,867	-
			19,762	5,101
Less: Current maturities			(1,387)	(195)
			18,375	4,906
Foreign currency loans				
General term loans of US\$262.029 million (2005:US\$156.245 million)	LIBOR+0.35-0.6	LIBOR+0.6-1.1	243,582	158,276
			(65,072)	(46,847)
Less: Current maturities			178,510	111,429
			₩ 196,885	₩ 116,335

1_ 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 (Note 9).

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2006 (Note 9).

The annual maturities of long-term debts, excluding discounts and premiums on debentures, as of December 31, 2006, are as follows:

(in millions of Korean won)

Year	Debentures	Won Currency Loans			Foreign Currency Loans	Total
		Loans	Lease			
2008	₩ 326,904	₩ 1,754	₩ 2,481	₩ 37,184	₩ 368,323	
2009	432,536	-	2,481	48,366	483,383	
2010	100,000	-	2,481	46,480	148,961	
Thereafter	60,000	3,028	10,636	46,480	120,144	
Unearned interest	-	-	(4,486)	-	(4,486)	
	₩ 919,440	₩ 4,782	₩ 13,593	₩ 178,510	₩ 1,116,325	

13. 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 accrued as of December 31, 2006. The amount may change pending final decision of the FTC.

14. Accrued Severance Benefits

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

(in millions of Korean won)

	2006	2005
Provision for severance benefits	₩ 246,543	₩ 209,759
Less: Group severance insurance deposits	(144,394)	(125,737)
Contribution to National Pension Plan	(3,734)	(3,612)
Ending balance	₩ 98,415	₩ 80,410

15. 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 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.

The Company reversed stock compensation expense of ₩1,042 million due to the decline in the stock price of the Company for the year ended December 31, 2006.

16. Commitments and Contingencies

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

As of December 31, 2006, the Company has provided one blank promissory note to the Korea National Oil Corporation as a collateral in relation to petroleum import surcharges.

The Company has guaranteed repayments of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2006, amounted to ₩118,424 million (2005: ₩204,241 million) (Note 22).

As of December 31, 2006, the Company is contingently liable for notes receivable from export sales amounting to ₩558,731 million which were discounted through financial institutions in the ordinary course of business. Also, as of December 31, 2006, the Company is contingently liable for trade accounts receivable transferred to the special purpose companies amounting to ₩283,761 million (Note 4).

As of December 31, 2006, the Company has bank overdraft agreements with several banks for up to ₩77,100 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩88,600 million and US\$602 million. The Company has entered into contracts with several financial institutions for discounting notes from export for up to ₩10,000 million and US\$740 million, and for other notes up to ₩100,000 million.

As of December 31, 2006, the Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

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

As of December 31, 2006, the Company has a long-term purchase contract for certain raw materials and was provided US\$162 thousand as a guarantee for the contract performance. As of December 31, 2005, the Company provided US\$30,833 thousand as a guarantee for the above contract performance. Furthermore as of December 31, 2006, the Company provided US\$45,620 thousand as a guarantee in regard to purchase contract for certain raw materials.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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, 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 December 31, 2006 and 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.

17. Capital Surplus and Retained Earnings

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 par value.

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, 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.

18. Treasury Stock

Changes in treasury stock for the years ended December 31, 2006 and 2005, are as follows:

	2006					
	Common Stock		Preferred Stock			
	Number of Shares	Amount	Number of Shares	Amount		
January 1, 2006	606,881	₩ 23,109	3,657	₩ 20		
Increase	1	-	-	-		
Decrease	-	-	-	-		
December 31, 2006	606,882	₩ 23,109	3,657	₩ 20		

	2005					
	Common Stock		Preferred Stock			
	Number of Shares	Amount	Number of Shares	Amount		
January 1, 2005	54,080	₩ 2,383	3,657	₩ 20		
Increase	568,000	21,395	-	-		
Decrease	(15,199)	(669)	-	-		
December 31, 2005	606,881	₩ 23,109	3,657	₩ 20		

19. Income Taxes

Income taxes for the years ended December 31, 2006 and 2005, consist of the following:

	2006		2005	
Current income taxes under the tax law	₩	67,822	₩	112,132
Income tax directly added to capital surplus ¹		-		15
Changes in deferred income tax assets (liabilities) ²		8,697		(44,727)
Income taxes	₩	76,519	₩	67,420

1_ Income tax resulting from loss on disposal of treasury stock was directly added to capital surplus.

2_ The changes in deferred income tax assets (liabilities) are as follows:

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2006	2005	2006	2005
Beginning balance	₩ 361,727	₩ 480,435	₩ (99,475)	₩ (132,120)
Ending balance	346,137	361,727	(95,189)	(99,475)
Deferred income taxes added to (deducted from) shareholders' equity ^{1,2}			4,286	32,645
Deferred income taxes due to merger and others			11,998	(12,082)
			985	-
			₩ (8,697)	₩ 44,727

1_ Deferred income taxes directly added to (deducted from) shareholders' equity as of December 31, 2006, are as follows:

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
Beginning balance	₩	(43,938)	₩	(12,082)
Ending balance		(306)		(84)
			₩	11,998

2_ Deferred income taxes directly added to (deducted from) shareholders' equity as of December 31, 2005, are as follows:

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
Gain on valuation of equity-method investments	₩	(44,552)	₩	(12,251)
Loss on valuation of derivative instruments		614		169
	₩	(43,938)	₩	(12,082)

1_ As the Company adopted SKFAS No. 16, *Deferred Income Tax*, in 2005, the Company recognized deferred income taxes for the temporary differences arising from the capital adjustments, which may be realized in the future.

Current income taxes under the tax law for the years ended December 31, 2006 and 2005, are calculated as follows:

	2006		2005	
Income before income taxes	₩	395,301	₩	467,678
Additions to pretax income		1,077,687		564,210
Deductions from pretax income		(1,136,804)		(584,716)
Taxable income	₩	336,184	₩	447,172

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

Changes in temporary differences for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)

	2006								
	Beginning Balance Before adjustment	Adjustment due to merger, etc. ¹	Beginning Balance After adjustment	Increase	Decrease	Ending Balance	Current	Non-current	
Accrued severance benefits	₩ 122,243	₩ 19,264	₩ 141,507	₩ 35,084	₩ 32,400	₩ 144,191	₩ -	₩ 144,191	
Severance insurance plans	(122,243)	(19,264)	(141,507)	(35,084)	(32,400)	(144,191)	-	(144,191)	
Allowance for doubtful accounts	67,037	60	67,097	67,200	64,569	69,728	61,283	8,445	
Accrued interest income	(2)	(248)	(250)	(1)	(250)	(1)	(1)	-	
Research and development costs	(7,932)	-	(7,932)	-	(5,338)	(2,594)	-	(2,594)	
Present value discount	69	-	69	-	37	32	32	-	
Depreciation	40,326	-	40,326	91,872	19,029	113,169	-	113,169	
Gain on valuation of equity-method investments	(411,061)	-	(411,061)	(59,120)	(215,328)	(254,853)	-	(254,853)	
Reserves for technology development	(306,666)	-	(306,666)	(90,000)	(63,333)	(333,333)	(76,666)	(256,667)	
Others	121,109	3,772	124,881	24,596	62,567	86,910	15,812	71,098	
Equity ²	(6,704)	-	(6,704)	61,642	604	54,334	-	54,334	
	(503,824)	3,584	(500,240)	₩ 96,189	₩ (137,443)	(266,608)	460	(267,068)	
Gain on valuation of equity-method investments ³	(179,331)	-	(179,331)			24,889	-	24,889	
Equity ³	37,234	-	37,234			54,640	-	54,640	
Total	₩ (361,727)	₩ 3,584	₩ (358,143)			₩ (346,137)	₩ 460	₩ (346,597)	
Deferred income tax assets (liabilities)	₩ (99,475)	₩ 985	₩ (98,490)			₩ (95,189)	₩ 127	₩ (95,316)	

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, as 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)

	2005					
	Beginning Balance	Increase	Decrease	Ending Balance	Current	Non-current
Accrued severance benefits	₩ 116,503	₩ 32,534	₩ 26,794	₩ 122,243	₩ -	₩ 122,243
Severance insurance plans	(116,503)	(32,534)	(26,794)	(122,243)	-	(122,243)
Allowance for doubtful accounts	60,827	64,917	58,707	67,037	64,524	2,513
Accrued interest income	(399)	(232)	(629)	(2)	(2)	-
Research and development costs	(25,771)	-	(17,839)	(7,932)	-	(7,932)
Present value discount	130	-	61	69	69	-
Depreciation	40,138	10,552	10,364	40,326	-	40,326
Gain on valuation of equity-method investments	(417,984)	(210,020)	(216,943)	(411,061)	-	(411,061)
Gain on foreign currency translation	450	-	450	-	-	-
Reserves for technology development	(263,333)	(90,000)	(46,667)	(306,666)	(46,666)	(260,000)
Others	125,507	93,867	98,265	121,109	24,055	97,054
Equity ¹	(20,754)	17,861	3,811	(6,704)	-	(6,704)
	(501,189)	₩ (113,055)	₩ (110,420)	(503,824)	41,980	(545,804)
Gain on valuation of equity-method investments ²	-			(179,331)	-	(179,331)
Equity ²	(20,754)			37,234	-	37,234
Total	₩ (480,435)			₩ (361,727)	₩ 41,980	₩ (403,707)
Deferred income tax assets (liabilities)	₩ (132,120)			₩ (99,475)	₩ 11,545	₩ (111,020)

1_ As the Company adopted SKFAS No. 16, *Deferred Income Tax*, in 2005, the accumulated temporary differences for equity were included in the list of accumulated temporary differences.

2_ As of December 31, 2005, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes.

The statutory income tax rate, including resident tax surcharges, applicable to the Company for the years ended December 31, 2006 and 2005, 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, 2006, was 19.4% (2005: 14.4%).

20. Earnings Per Share

Basic ordinary income per share and earnings per share for the years December 31, 2006 and 2005, were computed as follows:

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

	2006	2005
Net income	₩ 318,782	₩ 400,258
Preferred stock dividends	(9,090)	(11,255)
Preferred stock share of remaining profit available for dividend	(29,371)	(36,839)
Net income and ordinary income available for common stock (A)	280,321	352,164
Weighted average number of shares of outstanding common stock (B) ¹	63,818,183	64,014,536
Basic earnings per share and ordinary income per share (A/B)	₩ 4,392	₩ 5,501

1_ Excludes treasury stock.

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

21. Dividends

Details of dividends for the years ended December 31, 2006 and 2005, are as follows:

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

	2006		2005	
Shares issued and outstanding (par value per share: ₩5,000)				
Common stock		63,818,182		63,818,183
Preferred stock		8,657,594		8,657,594
Dividend per share (in won)				
Common stock: cash	₩	1,000 (20%)	₩	1,250 (25%)
Preferred stock: cash	₩	1,050 (21%)	₩	1,300 (26%)
Cash dividend amount (in millions)				
Common stock	₩	63,818	₩	79,773
Preferred stock		9,091		11,255
	₩	72,909	₩	91,028

22. 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 years ended December 31, 2006 and 2005, and the related account balances as of December 31, 2006 and 2005, are summarized as follows:

(in millions of Korean won)

	Sales		Purchases		Receivables ¹		Payables	
Controlling company	₩	-	₩	27,031	₩	6,386	₩	653
Subsidiaries ^{1,2}		1,187,514		1,797,520		34,750		217,799
Equity method investees ¹		46,303		152,937		6,150		18,564
Other related companies ³		1,229,156		438,071		230,770		95,547
2006 Total	₩	2,462,973	₩	2,415,559	₩	278,056	₩	332,563
2005 Total	₩	2,147,383	₩	2,233,776	₩	171,552	₩	292,121

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 LG Philips LCD Co., Ltd. and LG Electronics Inc.

4_ Allowance for doubtful accounts for the outstanding balance as of December 31, 2006, amounts to ₩2,344 million. Bad debt expense recognized for the year then ended is ₩1,178 million.

Compensation for key management officers for the year ended December 31, 2006, consists of :

(in millions of Korean won)

Short-term employee benefits	₩	9,510
Post-employment benefits		3,221
Other long-term employee benefits		2,459
Reversal of share-based compensation		(1,042)
Total	₩	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, 2006 and 2005, are as follows:

(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 18,592 Woori Bank	₩	23,240 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

(in millions of Korean won)

Guarantee Beneficiary	2005			
	Amount of Guarantee	Financial Institution	Outstanding Loan Amount	
Tianjin LG Dagu Chemical Co., Ltd.	₩	12,156 Pudong Shanghai Development Bank 18,234 Agricultural Bank of China	₩	12,156 18,234
Tianjin LG New Building Materials Co., Ltd.		2,026 Industrial and Commercial Bank of China 4,660 Korea Development Bank		1,520 4,660
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.		25,325 Bank of China 25,325 Woori Bank		25,325 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 3,586 Societe Generale		1,378 1,384
Tianjin LG Bohai Chemical Co., Ltd.		40,520 Export-Import Bank of Korea		7,091
	₩	204,241	₩	125,032

23. Operating Results for the Final Interim Period

Operating results for the three-month periods ended December 31, 2006 and 2005, are as follows:

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

	Three-Month Periods Ended December 31			
	2006 (unaudited)		2005 (unaudited)	
Sales	₩	2,418,201	₩	1,910,751
Operating income		112,258		102,578
Net income		84,513		111,150
Earnings per share	₩	1,164	₩	1,532

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

24. 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 years ended December 31, 2006 and 2005, are as follows:

	2006				
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 5,611,535	₩ 2,068,581	₩ 1,605,789	₩ 16,436	₩ 9,302,341
Inter-segment sales	273,275	19,433	4,955	120,171	417,834
	5,884,810	2,088,014	1,610,744	136,607	9,720,175
Operating income	169,889	118,006	48,658	(2,608)	333,945
Property, plant and equipment, and intangible assets ¹	1,445,328	455,594	877,419	421,048	3,199,389
Depreciation and amortization	₩ 328,441	₩ 65,852	₩ 133,837	₩ 3,961	₩ 532,091

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

(in millions of Korean won)

	2005				
	Chemicals & Polymers	Industrial Materials	Information & Electronic Materials	Others	Total
Sales					
External sales	₩ 4,065,677	₩ 2,078,903	₩ 1,267,973	₩ 12,551	₩ 7,425,104
Inter-segment sales	261,058	7,823	3,413	47,689	319,983
	4,326,735	2,086,726	1,271,386	60,240	7,745,087
Operating income	310,497	140,264	(24,986)	(4,061)	421,714
Property, plant and equipment, and intangible assets	857,017	441,664	829,451	429,545	2,557,677
Depreciation and amortization	₩ 164,690	₩ 62,961	₩ 139,547	₩ 4,894	₩ 372,092

(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2006 and 2005, are as follows:

	2006							
	Domestic ¹	China	North America	South America	South East Asia	Western Europe	Others	Total
2006	₩ 5,314,756	₩ 2,198,221	₩ 374,629	₩ 102,611	₩ 266,491	₩ 291,770	₩ 753,863	₩ 9,302,341
2005	₩ 4,400,623	₩ 1,650,030	₩ 374,390	₩ 69,370	₩ 146,389	₩ 219,111	₩ 565,191	₩ 7,425,104

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

(3) Discontinued Operations

The Company discontinued or disposed of some businesses, including the 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:

	2005		2004	
	₩	₩	₩	₩
Sales		22,599		37,559
Cost of sales		23,275		34,322
Gross profit (loss)		(676)		3,237
Selling and administrative expenses		1,526		5,757
Operating loss	₩	(2,202)	₩	(2,520)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

25. 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, 2006 and 2005, monetary assets and liabilities denominated in foreign currencies, excluding items referred to in Notes 11 and 12, consist of the following:

	Foreign Currency (in thousands)		Korean Won (in millions)	
	2006	2005	2006	2005
Cash and cash equivalents	US\$ 4,442	US\$ 1,864	₩ 5,520	₩ 2,920
	EUR 870	EUR 483		
	GBP 146	GBP 197		
	JPY 5,814	JPY 12,688		
Trade accounts and notes receivable	US\$ 125,393	US\$ 77,828	₩ 139,214	₩ 97,761
	EUR 4,045	EUR 2,463		
	GBP 11	GBP 44		
	JPY 2,262,079	JPY 1,847,268		
Other accounts receivable	US\$ 15,414	US\$ 7,313	₩ 33,278	₩ 12,287
	EUR 199	EUR 53		
	JPY 2,392,503	JPY -		
Trade accounts and notes payable	US\$ 172,814	US\$ 78,185	₩ 268,976	₩ 210,924
	EUR 351	EUR 523		
	JPY 13,797,996	JPY 15,221,656		
Other accounts payable	US\$ 51,644	US\$ 41,547	₩ 59,026	₩ 55,968
	EUR 1,091	EUR 974		
	JPY 1,193,161	JPY 1,474,255		

26. Supplemental Cash Flow Information

Major transactions not involving an inflow or outflow of cash and cash equivalents for the years ended December 31, 2006 and 2005, are as follows:

	(in millions of Korean won)	
	2006	2005
Reclassification of construction-in-progress to property, plant and equipment	₩ 282,911	₩ 310,536
Reclassification of machinery-in-transit to machinery and equipment	₩ 77,698	₩ 92,134
Reclassification of depreciation expenses to development costs	₩ 1,857	₩ 3,929
Gain on valuation of investment using the equity method of accounting (capital adjustment)	₩ 61,642	₩ 17,248
Reclassification of long-term debt to current maturities of long-term debts	₩ 66,459	₩ 48,466
Reclassification of long-term debt to current maturities of debentures	₩ 373,368	₩ 700,037
Gain on valuation of derivatives (capital adjustment)	₩ 613	₩ 3,197

27. 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 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, 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	₩	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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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		5,369
Property, plant and equipment		648,357
Intangible assets		1,929
Total assets		1,190,000
Current liabilities ⁵		152,530
Long-term 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.

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 December 31, 2006, the remaining useful life is eight years.

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		1,599,426		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
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	₩	5,593,399	₩	1,298,694

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 and expenses		45,964		(1,887)
Income before income taxes		467,678		41,504
Income tax expense		(67,420)		(25,893)
Net income	₩	400,258	₩	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		1,419,104		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
Long-term liabilities		1,705,342		27,762
Total liabilities		3,484,387		183,289
Total shareholders' equity		2,195,142		1,097,399
Total liabilities and shareholders' equity	₩	5,679,529	₩	1,280,688

28. Approval of Financial Statements

The December 31, 2006 non-consolidated financial statements were approved on February 23, 2007, by the Board of Directors of the Company.

29. Reclassification of Prior Year Financial Statements

Certain amounts in the December 31, 2005 financial statements were reclassified to conform with the December 31, 2006 financial statement presentation. These reclassifications had no effect on the previously reported net income, shareholders' equity or cash flows.

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, 2006. 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, 2006, the Company's IACS has been designed and is operating effectively as of December 31, 2006, 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, 2006, and we did not review management's assessment of its IACS subsequent to December 31, 2006. 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 5, 2007

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, 2006.

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, 2006, in all material respects, in accordance with the IACS standards.

February 23, 2007

Cho, Suk-Jeh
Internal Accounting Control System Officer

Kim, Bahn-Suk
Chief Executive Officer

BOARD OF DIRECTORS



2007 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 overseas conferences 2-4 times a year Increase frequency of conference calls with prospective overseas investors Provide timely updates and new content on English website 	May, October Year round Once or more quarterly 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



- 1 **Bahn-Suk Kim**
President & 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

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.

