

# **LG Chem, Ltd. and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2007 and 2006**

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

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# Samil PricewaterhouseCoopers

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 1 to the consolidated financial statements, LG Chem Poland Sp.Z.O.O with total assets exceeding ₩7,000 million is included in the Company's consolidation for 2007. As a result, before the elimination of intercompany transactions, the Company's consolidated assets increased by ₩23,722 million as of December 31, 2007, and sales increased by ₩11,507 million for the year ended December 31, 2007.

As discussed in Notes 1 and 31 to the consolidated financial statements, on November 1, 2007, the Company merged with LG Petrochemical Co., Ltd., which was consolidated in 2006.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying 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 27, 2008

This report is effective as of March 27, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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.

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Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 1 to the consolidated financial statements, LG Chem Poland Sp.Z.O.O with total assets exceeding W7,000 million is included in the Company's consolidation for 2007. As a result, before the elimination of intercompany transactions, the Company's consolidated assets increased by W23,722 million as of December 31, 2007, and sales increased by W11,507 million for the year ended December 31, 2007.

As discussed in Notes 1 and 31 to the consolidated financial statements, on November 1, 2007, the Company merged with LG Petrochemical Co., Ltd., which was consolidated in 2006.

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# LG Chem, Ltd.

## Consolidated Statements of Changes in Shareholders' Equity

December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Notes 14 and 30)	₩ 590,516	₩ 387,222
Short-term investments (Note 5)	106,606	20,458
Trade accounts and notes receivable, net (Notes 6, 7, 14, and 27)	1,437,558	1,199,798
Other accounts receivable, net (Notes 7, 14 and 27)	120,225	126,792
Accrued income	3,748	2,001
Advance payments	24,977	37,405
Prepaid expenses	21,793	20,735
Inventories, net (Note 8)	1,481,590	1,229,811
Deferred income tax assets (Note 22)	23,237	1,618
Other current assets	9,340	5,880
<b>Total current assets</b>	<b>3,819,590</b>	<b>3,031,720</b>
Long-term financial instruments (Note 4)	91	122
Investment securities (Note 9)	2,038	1,861
Equity-method investments (Note 3)	95,245	93,863
Other investments	577	394
Property, plant and equipment, net (Notes 2, 10 and 28)	4,636,309	4,545,311
Intangible assets, net (Notes 2, 11 and 28)	(154,101)	(168,760)
Long-term trade accounts and notes receivable, net (Note 7)	207	465
Long-term other accounts receivable, net (Note 7)	639	1,054
Long-term guarantee deposits	40,333	41,962
Long-term prepaid expenses	49,337	49,342
Deferred income tax assets (Note 22)	3,282	5,942
Other non-current assets	57,207	35,159
<b>Total assets</b>	<b>₩ 8,550,754</b>	<b>₩ 7,638,435</b>



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

(in millions of Korean won)

	2007	2006
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts and notes payable (Notes 14 and 27)	₩ 1,005,725	₩ 930,664
Short-term borrowings (Note 12)	538,156	438,451
Other accounts payable (Notes 14 and 27)	596,005	574,676
Withholdings	60,216	54,372
Accrued expenses	51,770	54,150
Income tax payable (Note 22)	249,809	105,670
Current maturities of long-term debts, net (Note 12)	401,214	470,308
Other current liabilities	22,026	11,575
Total current liabilities	2,924,921	2,639,866
Debentures, net (Note 13)	684,007	913,799
Other long-term debts, net (Note 13)	744,571	589,481
Accrued severance benefits, net (Note 2)	98,505	107,357
Deferred income tax liabilities (Notes 22)	18,850	90,201
Derivative instrument transaction credit (Note 17)	3,141	3,094
Other non-current liabilities	32,813	9,239
Total liabilities	4,506,808	4,353,037
Commitments and contingencies (Note 17)		
Shareholders' equity (Note 1)		
Common stock (Note 18)	376,194	322,126
Preferred stock	43,306	43,306
	419,500	365,432
Capital surplus (Note 18)		
Paid-in capital in excess of par value	1,052,640	532,002
Other capital surplus	249,728	252,173
	1,302,368	784,175
Capital adjustment		
Treasury stock (Note 20)	(23,475)	(23,129)
Other capital adjustment	-	(41,517)
	(23,475)	(64,646)
Accumulated other comprehensive income (Notes 2 and 23)		
Cumulative effect of foreign currency translation	(15,223)	(41,829)
Gain on valuation of equity-method investments	15	583
Loss on valuation of equity-method investments	(3,446)	(4,904)
(Loss) gain on valuation of derivatives	(386)	154
Others, net	(2,263)	(2,314)
	(21,303)	(48,310)
Retained earnings (Note 19)		
Legal reserve	56,729	49,438
Other reserves	1,460,097	1,221,519
Unappropriated retained earnings	684,182	315,491
	2,201,008	1,586,448
Minority interest in consolidated subsidiaries	165,848	662,299
Total shareholders' equity	4,043,946	3,285,398
Total liabilities and shareholders' equity	₩ 8,550,754	₩ 7,638,435

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

# LG Chem, Ltd.

## Consolidated Statements of Changes in Shareholders' Equity Years Ended December 31, 2007 and 2006

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

	2007		2006	
	₩		₩	
Sales (Notes 27 and 28)	13,524,809		11,431,514	
Cost of sales (Notes 21 and 27)	11,109,521		9,609,529	
Gross profit	2,415,288		1,821,985	
Selling and administrative expenses	1,228,135		1,144,886	
Operating income	1,187,153		677,099	
<b>Non-operating income</b>				
Interest income	26,863		15,063	
Foreign exchange gains	69,336		84,144	
Gain on foreign currency translation	30,453		41,590	
Gain on valuation of equity-method investments (Note 3)	9,608		11,169	
Gain on disposal of equity-method investment (Note 3)	750		-	
Gain on disposal of property, plant and equipment	6,891		4,486	
Gain on disposal of intangible assets	9		-	
Reversal of negative goodwill (Notes 2 and 31)	39,170		39,170	
Reversal of bad debt allowance	550		176	
Reversal of compensation expenses associated with stock options (Note 16)	-		1,039	
Gain on valuation of derivative instrument (Note 17)	2,818		-	
Others	25,282		51,784	
	211,730		248,621	
<b>Non-operating expenses</b>				
Interest expenses	116,956		113,005	
Foreign exchange losses	68,903		57,203	
Loss on foreign currency translation	14,209		4,290	
Loss on disposal of trade accounts receivable (Note 2)	36,399		34,076	
Loss on disposal of investment securities	549		5	
Impairment loss on investment securities (Note 9)	19		361	
Loss on valuation of equity-method investments (Note 3)	2,848		8,107	
Loss on disposal of property, plant and equipment (Note 2)	27,513		16,353	
Impairment loss on property, plant and equipment	9,909		-	
Loss on disposal of intangible assets	1,030		135	
Impairment loss on intangible assets (Note 11)	16,596		5,117	
Loss on valuation of derivative instruments (Note 17)	-		3,093	
Donations	9,708		7,892	
Others	21,552		57,438	
	326,191		307,075	
Income from continuing operations before income tax	1,072,692		618,645	
<b>Income from continuing operations tax expense (Note 22)</b>	221,827		158,535	
Income from continuing operations	850,865		460,110	
<b>Loss from discontinued operations (Note 29)</b>	14,992		2,068	
Net income	₩ 835,873		₩ 458,042	
<b>Parent interest in net income</b>	₩ 688,636		₩ 322,593	
<b>Minority interest in net income</b>	147,237		135,449	
	₩ 835,873		₩ 458,042	
<b>Per share data (in won) (Note 24)</b>				
Income from continuing operations per share	₩ 9,498		₩ 4,474	
Earnings per share	₩ 9,297		₩ 4,445	
Diluted income from continuing operations per share	₩ 9,498		₩ 4,474	
Diluted earnings per share	₩ 9,297		₩ 4,445	

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

**LG Chem, Ltd.**
**Consolidated Statements of Changes in Shareholders' Equity**
**Years Ended December 31, 2007 and 2006**
*(in millions of Korean won)*

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive Income	Retained earnings	Minority Interest Equity	Total
Balances as of January 1, 2006	₩ 365,432	₩ 778,293	₩ (23,129)	₩ (44,446)	₩ 1,358,811	₩ 634,554	₩ 3,069,515
Cumulative effects of restatements (Note 2)	-	-	-	7,329	(408)	-	6,921
Restated beginning balance	365,432	778,293	(23,129)	(37,117)	1,358,403	634,554	3,076,436
Dividends (Note 25)	-	-	-	-	(91,028)	(36,681)	(127,709)
Net income	-	-	-	-	322,593	135,449	458,042
Changes in cumulative effect of foreign currency translation	-	-	-	(17,027)	-	(3,084)	(20,111)
Others	-	5,882	(41,517)	5,834	(3,520)	(67,939)	(101,260)
Balances as of December 31, 2006	₩ 365,432	₩ 784,175	₩ (64,646)	₩ (48,310)	₩ 1,586,448	₩ 662,299	₩ 3,285,398
Balances as of January 1, 2007	₩ 365,432	₩ 784,175	₩ (64,646)	₩ (58,513)	₩ 1,588,986	₩ 662,321	₩ 3,277,755
Cumulative effects of restatements (Note 2)	-	-	-	10,203	(2,538)	(22)	7,643
Restated beginning balance	365,432	784,175	(64,646)	(48,310)	1,586,448	662,299	3,285,398
Dividends (Note 25)	-	-	-	-	(72,908)	(40,390)	(113,298)
Changes in percentage of ownership	-	(2,612)	41,517	-	-	(38,905)	-
Changes due to merger of consolidated subsidiary (Note 18)	54,068	520,638	-	-	-	(574,993)	(287)
Net income	-	-	-	-	688,636	147,237	835,873
Acquisition of treasury stock	-	-	(346)	-	-	-	(346)
Changes in cumulative effect of foreign currency translation	-	-	-	26,606	-	6,374	32,980
Others	-	167	-	401	(1,168)	4,226	3,626
Balances as of December 31, 2007	₩ 419,500	₩ 1,302,368	₩ (23,475)	₩ (21,303)	₩ 2,201,008	₩ 165,848	₩ 4,043,946

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



# LG Chem, Ltd.

## Consolidated Statements of Changes in Shareholders' Equity Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
<b>Cash flows from operating activities</b>		
Net income	₩ 835,873	₩ 458,042
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	622,205	681,432
Provision for severance benefits	67,486	71,924
Gain on foreign currency translation, net	(14,883)	(37,838)
Loss on disposal of trade accounts receivable	36,399	34,076
Loss on disposal of investment securities	549	5
Impairment loss on investment securities	19	361
Gain on valuation of equity method investments, net	(6,760)	(3,062)
Gain on disposal of equity method investment	(750)	-
Loss on disposal of property, plant and equipment, net	20,622	11,867
Impairment loss on property, plant and equipment	9,909	-
Loss on disposal of intangible assets, net	1,030	135
Impairment loss on intangible asset	16,596	5,117
(Gain) loss on valuation of derivative instruments	(2,818)	3,093
Reversal of negative goodwill	(39,170)	(39,170)
Reversal of bad debt allowance	(550)	(176)
Reversal of compensation expenses associated with stock options	-	(1,039)
Others, net	44,647	37,970
	<u>754,531</u>	<u>764,695</u>
<b>Changes in operating assets and liabilities</b>		
Increase in trade accounts and notes receivable	(257,263)	(295,323)
Increase in inventories	(215,814)	(77,594)
Dividends received	77	-
Decrease in other accounts receivable	7,076	6,220
Increase in accrued income	(1,747)	(1,389)
Decrease (increase) in advance payments	14,473	(24,174)
(Increase) decrease in prepaid expenses	(3,982)	1,896
(Increase) decrease in deferred income tax assets	(35,317)	12,503
(Increase) decrease in other current assets	(2,143)	1,833
Increase in trade accounts and notes payable	63,102	239,649
Increase in other accounts payable	5,888	106,426
(Decrease) increase in accrued expenses	(15,186)	6,749
Increase (decrease) in income taxes payable	143,990	(3,140)
Increase in other current liabilities	12,468	12,860
Accrued severance benefits transferred from affiliated company	807	584
Decrease in deferred income tax liabilities	(74,009)	(2,922)
Payment of severance benefits	(66,011)	(69,843)
Others, net	12,398	4,728
	<u>(411,193)</u>	<u>(80,937)</u>
Net cash provided by operating activities	<u>1,179,211</u>	<u>1,141,800</u>

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

<i>(in millions of Korean won)</i>	2007	2006
<b>Cash flows from investing activities</b>		
(Acquisition) disposal of short-term investments, net	₩ (106,144)	₩ 25,536
Disposal of property, plant and equipment	22,111	15,597
Disposal of long-term guarantee deposits, net	1,790	32,650
Acquisition of property, plant and equipment	(675,655)	(953,972)
Acquisition of investment securities, net	(28)	(139)
Disposal (acquisition) of equity method securities, net	1,586	(14,083)
Acquisition of intangible assets, net	(18,966)	(30,753)
Others, net	(20,705)	(27,500)
Net cash used in investing activities	(796,011)	(952,664)
<b>Cash flows from financing activities</b>		
Repayment of short-term borrowings, net	113,312	(160,857)
Repayment of current maturities of long-term debts	(471,288)	(739,680)
Issuance of debentures	94,059	419,750
Payment of dividends	(72,907)	(91,046)
Proceeds from long-term debts, net	179,775	268,082
Others, net	(35,314)	(124,874)
Net cash used in financing activities	(192,363)	(428,625)
<b>Other capital adjustment</b>	8,593	9,102
<b>Cash flows from changes in the scope of consolidation</b>	(190,503)	(171,914)
<b>Cash flows from merger</b>	194,367	181,507
Net increase (decrease) in cash and cash equivalents	203,294	(220,794)
<b>Cash and cash equivalents</b>		
Beginning of the year	387,222	608,016
End of the year	₩ 590,516	₩ 387,222

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

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

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**1. The Consolidated Companies and Equity-Method Investees**

The accompanying consolidated financial statements include the accounts of LG Chem, Ltd. and its subsidiaries (collectively referred to as "the Company"). General information on the Controlling Company, its consolidated subsidiaries and its equity-method investees is described below.

**The Controlling Company**

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

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006. In addition, the company merged with LG Petrochemical Co., Ltd. on November 1, 2007 (Note 31).

As of December 31, 2007, the Company has an outstanding capital stock of ₩419,500 million, including preferred stock of ₩43,306 million. The Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Company is authorized to issue 292 million shares of common stock with par value of ₩5,000 per share. As of December 31, 2007, the Company has issued 75,238,770 common shares (2006: 64,425,064 common shares) and 8,661,251 preferred shares (2006: 8,661,251 preferred shares). Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.



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

**Consolidated Companies**

Consolidated subsidiaries and equity-method investees as of December 31, 2007 and 2006, are as follows:

Consolidated Subsidiaries	Percentage of Ownership(%) <sup>16</sup>		Number of Shares	
	2007	2006	2007	2006
LG Petrochemical Co., Ltd. <sup>1</sup>	-	40.00	-	18,080,000
LG Dow Polycarbonate Ltd. <sup>2</sup>	50.00	50.00	7,025,785	7,025,785
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	-	-
Tianjin LG New Building Materials Co., Ltd. <sup>3</sup>	100.00	100.00	-	-
Ningbo LG Yongxing Chemical Co., Ltd. <sup>4</sup>	75.00	75.00	-	-
LG Chemical Hong Kong Ltd. <sup>5</sup>	100.00	100.00	6,500,000	300,000
LG Chem America, Inc.	100.00	100.00	3,420	3,420
LG Chemical India Pvt. Ltd. <sup>6</sup>	100.00	100.00	126,746,122	126,746,122
LG Vina Chemical J/V Company	40.00	40.00	1,520,000	1,520,000
Tianjin LG Window & Door Co., Ltd. <sup>3</sup>	-	100.00	-	-
LG Solid Source, LLC <sup>7</sup>	51.00	51.00	-	-
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. <sup>8</sup>	100.00	100.00	-	-
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. <sup>9</sup>	100.00	100.00	-	-
LG Chem (Taiwan), Ltd. <sup>10</sup>	100.00	100.00	6,922,566	1,972,220
LG Chem Industrial Materials Inc.	100.00	100.00	6,160	6,160
LG Chem Display Materials (Beijing) Co., Ltd.	100.00	100.00	-	-
Tianjin LG Bohai Chemical Co., Ltd. <sup>11</sup>	75.00	63.00	-	-
LG Chem (China) Investment Co., Ltd.	100.00	100.00	-	-
Ningbo LG Yongxing Latex Co., Ltd. <sup>4</sup>	-	75.00	-	-
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	100.00	100.00	-	-
LG Chem Europe GmbH	100.00	100.00	-	-
LG Chem Poland Sp. Z.O.O <sup>12</sup>	100.00	100.00	-	-

Equity-Method Investees	Percentage of Ownership (%)		Number of Shares	
	2007	2006	2007	2006
M. Dohmen S.A.	49.00	49.00	-	-
SEETEC Co., Ltd.	50.00	50.00	3,325,680	3,325,680
LG Chem Europe Sarl <sup>13</sup>	-	100.00	-	2,000,000
LG Holdings (HK) Ltd. <sup>14</sup>	18.18	18.18	37,084,000	37,084,000
Compact Power Inc. <sup>15</sup>	81.00	81.00	2,076,924	2,076,924
LG Chem Brasil, Ltd. <sup>15</sup>	100.00	100.00	-	-
LG Chem Trading (Shanghai) Co., Ltd. <sup>15</sup>	100.00	100.00	-	-
Ningbo Bond International Trade <sup>15</sup>	90.00	90.00	-	-



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

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- <sup>1</sup> On November 1, 2007, the Company merged with LG Petrochemical Co., Ltd., which was consolidated in 2006 (Note 31).
- <sup>2</sup> The Company purchased 50% ownership in LG Dow Polycarbonate Ltd. from LG Corp. on December 30, 2003. As a result, LG Dow Polycarbonate Ltd. was included in the scope of consolidated subsidiaries of the Company.
- <sup>3</sup> On July 1, 2007, Tianjin LG New Building Materials Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd., which was consolidated in 2006.
- <sup>4</sup> In 2007, the Company acquired additional shares of Ningbo LG Yongxing Chemical Co., Ltd. for ₩8,666 million. Ningbo LG Yongxing Chemical Co., Ltd. merged with Ningbo LG Yongxing Latex Co., Ltd., which was consolidated in 2006.
- <sup>5</sup> The number of shares in LG Chemical Hong Kong Ltd. increased due to investee's issuance of new shares in 2007.
- <sup>6</sup> The fiscal year end for LG India Holdings Inc., a 100% shareholder of LG Chemical India Pvt. Ltd., is March 31. In preparing the consolidated financial statements, the unaudited financial statements as of and for the year ended December 31, 2007, of LG India Holdings Inc. were used.
- <sup>7</sup> LG Solid Source, LLC, a subsidiary of the Company's subsidiary, LG Chem America, Inc., was included in the scope of consolidation in 2003. As of December 31, 2007, LG Chem America, Inc. has 51% ownership over LG Solid Source, LLC. LG Solid Source, LLC has not issued shares yet.
- <sup>8</sup> The Company acquired additional shares of LG Chem (Guangzhou) Engineering Plastics Co., Ltd. for ₩2,605 million in 2007.
- <sup>9</sup> The Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩7,408 million in 2007.
- <sup>10</sup> The Company acquired additional shares of LG Chem (Taiwan), Ltd. for ₩4,597 million in 2007.
- <sup>11</sup> The Company acquired additional shares of Tianjin LG Bohai Chemical Co., Ltd. for ₩5,111 million. Further, the Company merged with LG Petrochemical Co., Ltd. which held 20% of ownership in Tianjin LG Bohai Chemical Co., Ltd. As a result, the Company's percentage of ownership increased from 63% to 75%.
- <sup>12</sup> As their total assets exceeded ₩7,000 million as of December 31, 2006, these subsidiaries are included in the consolidation for the year 2007. As a result, before the elimination of intercompany transactions, the Company's consolidated assets increased by ₩23,722 million as of December 31, 2007, and sales increased by ₩11,507 million for the year ended December 31, 2007.
- <sup>13</sup> In 2007, this subsidiary was liquidated.
- <sup>14</sup> This investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.
- <sup>15</sup> As their total assets were not over ₩7,000 million as of December 31, 2006, these subsidiaries were not included from the consolidation for the year 2007.
- <sup>16</sup> The Company's percentage of ownership includes both direct ownership and indirect ownership throughout the controlling company and its subsidiaries.

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

The major businesses of the consolidated subsidiaries and their respective transactions with the Controlling Company are summarized as follows:

<b>Subsidiary</b>	<b>Major Business</b>	<b>Transaction</b>
LG Petrochemical Co., Ltd. <sup>1</sup>	Manufacturing and marketing of PE products	Purchase of raw materials
LG Dow Polycarbonate Ltd.	Manufacturing and marketing of polycarbonate	Purchase of raw materials
Tianjin LG Dagu Chemical Co., Ltd.	Manufacturing and marketing of PVC resin	Supply of raw materials
Tianjin LG New Building Materials Co., Ltd.	Manufacturing and marketing of PVC Tiles and C-MAT	Supply of products and merchandises
Ningbo LG Yongxing Chemical Co., Ltd.	Manufacturing and marketing of ABS resin	Supply of raw materials
LG Chemical Hong Kong Ltd.	Trading and marketing	Import and export of products and raw materials
LG Chem America, Inc.	Trading and related services	Supply of products and merchandises
LG Chemical India Pvt. Ltd. <sup>2</sup>	Manufacturing of PS	Supply of raw materials
LG Vina Chemical J/V Company	Manufacturing and marketing of DOP	Supply of raw materials
Tianjin LG Window & Door Co., Ltd. <sup>3</sup>	Manufacturing and marketing of PVC windows and door	Purchase of raw materials and products
LG Solid Source, LLC	Trading and marketing	Supply of products and merchandise
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Manufacturing and marketing of EP	Supply and purchase of products and merchandise
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	Manufacturing and marketing of LCD display and battery	Supply of products and semi products
LG Chem (Taiwan), Ltd.	Trading and marketing	Import and export of products and merchandise
LG Chem Industrial Materials Inc.	Manufacturing and marketing of scagliola	Supply of products
LG Chem Display Materials (Beijing) Co., Ltd.	Manufacturing and marketing of LCD display	Supply of products and semi-products
Tianjin LG Bohai Chemical Co., Ltd.	Manufacturing and marketing of VCM	Purchase of raw materials
LG Chem (China) Investment Co., Ltd.	Holding company in China	Export of products and merchandise
Ningbo LG Yongxing Latex Co., Ltd. <sup>4</sup>	Manufacturing and marketing of SBL	Supply and purchase of products and merchandise
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	Manufacturing and marketing of EP	Supply and purchase of products and merchandise
LG Chem Europe GmbH	Trading and marketing	Export of products and merchandise
LG Chem Poland Sp. Z.O.O <sup>5</sup>	Manufacturing of LCD display	Supply of products and semi-products

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

<sup>2</sup> Wholly owned by LG India Holdings Inc.

<sup>3</sup> Tianjin LG New Building Materials Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. , in 2007.



**LG Chem, Ltd. and Subsidiaries**  
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<sup>4</sup> Ningbo LG Yongxing Chemical Co., Ltd. merged with Ningbo LG Yongxing Latex Co., Ltd. , in 2007.

<sup>5</sup> As its total assets as of December 31, 2006, exceeded ₩7,000 million, this subsidiary was consolidated in 2007.

The significant financial data of the Controlling Company and its subsidiaries included in the accompanying consolidated financial statements as of and for the years ended December 31, 2007 and 2006, are summarized as follows:

(in millions of Korean won)

Company	2007			
	Total Assets	Shareholders' Equity	Sales	Net Income (Loss)
LG Chem, Ltd.	₩ 7,049,952	₩ 3,878,196	₩ 10,795,320	₩ 686,205
LG Petrochemical Co., Ltd. <sup>1</sup>	-	-	2,132,586	247,141
LG Dow Polycarbonate Ltd.	337,703	148,633	259,509	(8,813)
Tianjin LG Dagu Chemical Co., Ltd.	157,445	61,818	293,692	7,722
Tianjin LG New Building Materials Co., Ltd. <sup>2</sup>	77,742	40,799	71,399	4,617
Ningbo LG Yongxing Chemical Co., Ltd. <sup>2</sup>	461,002	200,722	961,046	55,236
LG Chemical Hong Kong Ltd.	47,025	6,997	502,488	814
LG Chem America, Inc.	100,089	4,934	286,426	(1,549)
LG India Holdings Inc.	69,334	50,288	119,752	3,447
LG Vina Chemical J/V Company	13,158	6,535	49,267	2,233
LG Solid Source, LLC	22,375	12,921	150,738	5,311
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	55,972	16,031	91,245	3,508
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	139,310	51,846	105,486	6,228
LG Chem (Taiwan), Ltd.	214,719	7,363	403,344	(1,764)
LG Chem Industrial Materials Inc.	38,937	8,903	32,338	(1,414)
LG Chem Display Materials (Beijing) Co., Ltd.	18,792	7,961	9,075	1,541
Tianjin LG Bohai Chemical Co., Ltd.	364,694	103,084	190,004	151
LG Chem (China) Investment Co., Ltd.	61,320	42,139	75,856	1,128
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	25,390	7,795	34,738	1,806
LG Chem Europe GmbH	23,839	2,728	74,489	324
LG Chem Poland Sp.Z.O.O <sup>3</sup>	32,950	8,817	11,507	2,592
Elimination and equity pick-up	(760,994)	(624,564)	(3,125,496)	(180,591)
	₩ 8,550,754	₩ 4,043,946	₩13,524,809	₩ 835,873

<sup>1</sup> The Company merged with LG Petrochemical Co., Ltd. in 2007. Sales and net income of LG Petrochemical Co., Ltd. are for the period from January 1, 2007 to November 1, 2007.

<sup>2</sup> Includes sales and net income of Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd. respectively, which were merged with these subsidiaries.

<sup>3</sup> As its total assets as of December 31, 2006, exceeded ₩7,000 million, this subsidiary was consolidated for 2007.

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(in millions of Korean won)

Company	2006			
	Total Assets	Shareholders' Equity	Sales	Net Income (Loss)
LG Chem, Ltd.	₩ 5,806,516	₩ 2,623,360	₩ 9,280,154	₩ 316,000
LG Petrochemical Co., Ltd.	1,139,070	855,631	2,195,239	190,883
LG Dow Polycarbonate Ltd.	257,749	158,370	222,174	16,763
Tianjin LG Dagu Chemical Co., Ltd.	128,950	49,795	229,277	138
Tianjin LG New Building Materials Co., Ltd.	47,029	23,727	32,748	2,624
Ningbo LG Yongxing Chemical Co., Ltd.	379,974	156,550	679,761	43,703
LG Chemical Hong Kong Ltd.	110,123	6,120	900,185	1,327
LG Chem America, Inc.	100,779	6,477	356,478	887
LG India Holdings Inc.	59,268	41,007	108,588	2,613
LG Vina Chemical J/V Company	11,952	6,363	37,115	2,229
Tianjin LG Window & Door Co., Ltd.	26,187	9,554	23,772	(605)
LG Solid Source, LLC	17,971	7,468	164,692	3,805
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	43,649	11,883	68,866	2,302
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	157,778	35,928	217,659	(7,177)
LG Chem (Taiwan), Ltd.	104,079	4,341	208,208	1,858
LG Chem Industrial Materials Inc.	41,386	10,229	31,475	(346)
LG Chem Display Materials (Beijing) Co., Ltd.	37,072	5,526	45,265	(1,885)
Tianjin LG Bohai Chemical Co., Ltd.	253,595	86,140	-	-
LG Chem (China) Investment Co., Ltd.	55,117	40,216	70,037	75
Ningbo LG Yongxing Latex Co., Ltd.	47,428	6,684	39,905	(1,166)
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	21,646	5,463	18,511	(62)
LG Chem Europe GmbH	22,373	2,017	44,718	131
Elimination and equity pick-up	(1,231,256)	(867,451)	(3,543,313)	(116,055)
	<u>₩ 7,638,435</u>	<u>₩ 3,285,398</u>	<u>₩11,431,514</u>	<u>₩ 458,042</u>



**LG Chem, Ltd. and Subsidiaries**  
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**2. Summary of Significant Accounting Policies**

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

**Basis of Consolidated Financial Statement Presentation**

The Controlling Company and its subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language, in conformity with 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 consolidated financial statements have been condensed, restructured and translated into English from the Korean language 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 consolidated financial statements.

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

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

In accordance with SKFAS No. 21, *Preparation and Presentation of Financial Statements I*, the Company classified its capital adjustments account into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of its comprehensive income in the notes to the financial statements. In addition, the Company disclosed its earnings per share for the profit attributable to controlling interest on the face of its statements of income.

In accordance with SKFAS No. 25, *Consolidated Financial statements*, the Company disclosed its profit for the year attributable to controlling interest and minority interest on the face of its statements of income.

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

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**Restatement of Prior Year Financial Statements**

In the preparation of the financial statements for the year ended December 31, 2007, the Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*. The consolidated financial statements as of and for the year ended December 31, 2006, have been retroactively restated to reflect the changes in accordance with SKFAS No. 1. As a result, income tax expense decreased by ₩926 million, profit for the year attributable to controlling interest and minority interest increased by ₩903 million and ₩23 million, respectively, retained earnings decreased by ₩1,632 million, cumulative effect of foreign currency translation decreased by ₩3,069 million, gain on valuation of equity-method investments decreased by ₩6 million, minority interest decreased by ₩3 million, deferred income tax liabilities decreased by ₩1,432 million, and deferred income tax assets decreased by ₩4 million as of and for the year ended December 31, 2007.

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

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

	2006		2005	
	Before adjustment	After adjustment	Before Adjustment	After adjustment
Deferred income tax assets	₩ 5,956	₩ 5,942	₩ 8,328	₩ 8,328
Deferred income tax liabilities	97,858	90,201	113,913	106,991
Unappropriated retained earnings	1,588,986	1,586,448	1,358,811	1,358,403
Accumulated other comprehensive income	(58,513)	(48,310)	(44,446)	(37,117)
Minority interest	662,321	662,299	634,554	634,554
Income from continuing operations	462,262	460,110	<sup>2</sup>	<sup>2</sup>
Income tax	155,959	158,535	160,396	164,608
Net income	460,194	458,042	557,798	553,587
Profit for the year attributable to controlling interest	324,723	322,593	402,109	397,898
Profit for the year attributable to minority interest	135,471	135,449	155,689	155,689
Income from continuing operations per share (won) <sup>1</sup>	4,503	4,474	<sup>2</sup>	<sup>2</sup>
Earnings per share (won) <sup>1</sup>	4,474	4,445	5,530	5,469

<sup>1</sup> Represents income from continuing operations per share and earnings per share for the controlling interest, respectively. There are no outstanding convertible bonds or other dilutive securities as of December 31, 2007 and 2006. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

<sup>2</sup> Not applicable for 2005.

**Elimination of Investment and Capital Accounts**

The investment account of the Controlling Company is eliminated against the corresponding capital accounts of its consolidated subsidiaries.



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The Company records differences between the investment account and corresponding capital accounts of subsidiaries as a goodwill or negative goodwill. The goodwill or negative goodwill is amortized in accordance with the Accounting Standards for Business Combination. The differences between the investment account and the corresponding capital account for equity-method investees at the date of acquisition of the investment are amortized in accordance with the Accounting Standards for Business Combination. Changes in the goodwill and negative goodwill accounts, and the equity-method adjustment accounts are summarized as follows:

(in millions of Korean won)

	Goodwill	Negative Goodwill	Equity Method Adjustment	
			Debit	Credit
January 1, 2006	₩ 17,342	₩ 353,752	₩ 4,248	₩ 70,619
Decrease due to changes in the scope consolidation <sup>1</sup>	-	(353,752)	-	-
Increase due to merger <sup>1</sup>	-	353,752	-	-
Acquisition(disposal) <sup>2</sup>	6,502	(1,225)	(845)	-
Amortization	(3,153)	(39,170)	(524)	(3,363)
December 31, 2006	20,691	313,357	2,879	67,256
Decrease due to changes in the scope consolidation <sup>2</sup>	(11,134)	(353,752)	-	-
Increase due to merger <sup>2</sup>	11,134	353,752	-	-
Amortization	(8,788)	(39,170)	(524)	(3,363)
December 31, 2007	₩ 11,903	₩ 274,187	₩ 2,355	₩ 63,893

<sup>1</sup> On January 1, 2006, The Company merged with LG Daesan Petrochemical Ltd., which was consolidated in 2005 (Note 31).

<sup>2</sup> On November 1, 2007, The Company merged with LG Petrochemical Co., Ltd., which was consolidated in 2006 (Note 31).

**Elimination of Intercompany Unrealized Profit**

Unrealized profit included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized profit arising from sales by the Controlling Company to the consolidated subsidiaries is fully eliminated and charged to the equity of the Controlling Company. Unrealized profit arising from sales by the consolidated subsidiaries to the Controlling Company or between consolidated subsidiaries is charged to the equity of the Controlling Company to the extent of the Controlling Company's percentage of ownership.

Unrealized profits included in inventories and other accounts, as a result of intercompany transactions, for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

	Unrealized Profit	
	2007	2006
Transactions with consolidated subsidiaries	₩ 10,271	₩ 14,226
Transactions with equity-method investees	₩ 16	₩ 5

# **LG Chem, Ltd. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007 and 2006**

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#### **Translation of Foreign Currency Financial Statements**

Accounts and records of the overseas subsidiaries are maintained in foreign currencies. For presentation in the accompanying consolidated financial statements, the financial statements of the overseas subsidiaries have been translated at exchange rates as of the balance sheet date for the balance sheets and the average exchange rates for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in the capital adjustment account in shareholders' equity.

#### **Merger**

The Company merged with LG Petrochemical Ltd. in 2007. In addition, Tianjin LG New Building Materials Co., Ltd., and Ningbo LG Yongxing Chemical Co., Ltd., which were included in the scope of consolidation in 2006, merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively. The Company also merged with LG Daesan Petrochemical Ltd. in 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 the book value on the consolidated financial statements (Note 31).

#### **Accounting Estimates**

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

#### **Revenue Recognition**

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

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

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

#### **Government Grants**

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



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**Cash and Cash Equivalents**

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

**Asset-Backed Securities**

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

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method (Note 7).

**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 created 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 ceases to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

**Securities**

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

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

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

**Equity-Method Investments**

In the 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.

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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.

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

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

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

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

Accounts and records of the overseas equity method investees 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 rates 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.



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

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

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

	<b>Estimated Useful Lives</b>
Buildings	25 – 50 years
Structures	15 – 50 years
Machinery and equipment	6 – 15 years
Others	3 – 6 years

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

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

The Company assesses the potential impairment of property, plant and equipment when there is an 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.

For the year ended December 31, 2007, the Company realized a loss on the disposal of property, plant and equipment amounting to ₩36,892 million (2006: ₩16,431 million).

**Lease Transactions**

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

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

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**Intangible Assets**

Intangible assets, 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 year incurred. For the year ended December 31, 2007, the Company expensed ₩212,360 million (2006: ₩199,071 million) as normal development expense.

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

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

**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.

**Impairment of Assets**

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

**Revaluation of Receivables**

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

**Premiums or Discounts on Debentures**

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

**Translation of assets and liabilities denominated in foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the balance sheet and the resulting translation gains and losses are recognized in current operations (Note 14).



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**Accrued Severance Benefits**

Employees and directors with at least one year of service with the Company are entitled to receive a lump-sum payment upon termination of their service with the Company, 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 with the Company as of the balance sheet date.

Accrued severance benefits are funded at approximately 63.8% as of December 31, 2007 (2006: 59.9% %), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

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

**Provisions and Contingent Liabilities**

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

**Income Tax and Deferred Income Tax**

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

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

**Derivative Financial Instruments**

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

**LG Chem, Ltd. and Subsidiaries**  
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**Share-based Compensation**

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

**Discontinued Operations**

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

**3. Equity-Method Investments**

For the years ended December 31, 2007 and 2006, changes in equity method investments are as follows:

(in millions of Korean won)

Investee	2007						
	Beginning Balance	Changes in Consolidated Subsidiaries	Acquisition	Dividend income	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	Ending Balance
M. Dohmen S.A.	₩ 993	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 993
SEETEC Co., Ltd.	54,749	-	-	-	9,542	15	64,306
LG Chem Trading (Shanghai) Co., Ltd.	1,653	-	-	-	(71)	142	1,724
LG Chem Europe Sarl <sup>1</sup>	1,441	-	(1,441)	-	-	-	-
LG Holdings (HK) Ltd.	28,681	-	-	-	(2,777)	1,317	27,221
Compact Power Inc.	545	-	-	-	60	6	611
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258
LG Chem Poland Sp. Z.O.O. <sup>2</sup>	5,352	(5,352)	-	-	-	-	-
Ningbo Bond International Trade	191	12	-	(77)	6	-	132
	<u>₩ 93,863</u>	<u>₩ (5,340)</u>	<u>₩ (1,441)</u>	<u>₩ (77)</u>	<u>₩ 6,760</u>	<u>₩ 1,480</u>	<u>₩ 95,245</u>

<sup>1</sup> The investee was liquidated in 2007.

<sup>2</sup> As their total assets exceeded ₩7,000 million as of December 31, 2006, these subsidiaries were included in the scope of the consolidation for the year 2007.



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Investee	2006						
	Beginning Balance	Changes in Consolidated Subsidiaries	Acquisition	Impairment loss	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	Ending Balance
M. Dohmen S.A. <sup>1</sup>	₩ 18,306	₩ -	₩ -	₩ (10,993)	₩ (3,369)	₩ (2,951)	₩ 993
SEETEC Co., Ltd.	44,663	-	-	-	10,070	16	54,749
LG Chem Trading (Shanghai) Co., Ltd.	-	1,850	-	-	48	(245)	1,653
LG Chem (China) Investment Co., Ltd.	29,535	(29,535)	-	-	-	-	-
LG Chem Europe Sarl <sup>2</sup>	-	-	-	-	754	687	1,441
LG Holdings (HK) Ltd.	22,302	-	11,088	-	(4,173)	(536)	28,681
Ningbo LG Yongxing Latex Co., Ltd.	6,158	(6,158)	-	-	-	-	-
Compact Power Inc.	1,120	-	-	-	287	(862)	545
LG Chem (Tianjin) Engineering Plastics Co., Ltd	4,415	(4,415)	-	-	-	-	-
LG Chem Europe Gmbh	1,448	(1,448)	-	-	-	-	-
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258
LG Chem Poland Sp. Z.O.O.	2,795	-	2,995	-	(565)	127	5,352
Ningbo Bond International Trade	192	(11)	-	-	10	-	191
	<u>₩ 131,192</u>	<u>₩ (39,717)</u>	<u>₩ 14,083</u>	<u>₩ (10,993)</u>	<u>₩ 3,062</u>	<u>₩ (3,764)</u>	<u>₩ 93,863</u>

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

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

#### 4. Restricted Bank Deposits

As of December 31, 2007, long-term financial instruments of ₩71 million (2006: ₩90 million) are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

Group severance insurance deposits are restricted as to their withdrawal in relation to employees' retirement payments (Note 2).



**LG Chem, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**5. Short-Term Investments**

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Time deposits	₩	100,055	¥	3,465
Available-for-sale <sup>1</sup>		4		-
Short-term loans receivable		6,547		16,993
	₩	106,606	₩	20,458

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

**6. Asset-Backed Securitization**

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

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

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

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

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

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**7. Receivables**

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

<i>(in millions of Korean won)</i>	2007	2006
Trade accounts and notes receivable	₩ 1,493,764	₩ 1,248,441
Less: Allowance for doubtful accounts	(56,206)	(48,643)
	<u>₩ 1,437,558</u>	<u>₩ 1,199,798</u>
Other accounts receivable	₩ 144,489	₩ 151,591
Less: Allowance for doubtful accounts	(24,228)	(24,771)
Less: Present value adjustment	(36)	(28)
	<u>₩ 120,225</u>	<u>₩ 126,792</u>
Long-term trade accounts and notes receivable	₩ 239	₩ 550
Less: Allowance for doubtful accounts	(32)	(85)
	<u>₩ 207</u>	<u>₩ 465</u>
Long-term other accounts receivable	₩ 685	₩ 1,188
Less: Present value discount accounts	(46)	(134)
	<u>₩ 639</u>	<u>₩ 1,054</u>

**8. Inventories**

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

<i>(in millions of Korean won)</i>	2007	2006
Merchandise, net of valuation allowance of ₩607 million (2006: ₩650 million)	₩ 91,792	₩ 90,530
Finished products, net of valuation allowance of ₩11,367 million (2006: ₩11,972 million)	658,830	507,762
Work-in-process	153,856	120,782
Raw materials, net of valuation allowance of ₩335 million (2006: ₩414 million)	427,846	318,098
Supplies	47,005	51,066
Materials-in-transit	102,261	141,573
	<u>₩ 1,481,590</u>	<u>₩ 1,229,811</u>

**LG Chem, Ltd. and Subsidiaries**  
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**9. Investment Securities**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Government and public bonds	₩	31	₩	31
Non-marketable stocks		2,007		1,830
Total	₩	<u>2,038</u>	₩	<u>1,861</u>

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

<i>(in millions of Korean won)</i>	<b>Percentage of Ownership (%)</b>		<b>Acquisition Cost</b>		<b>Book Value</b>		<b>Fair Value or Net Asset Value <sup>4</sup></b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
N&L Marble	22.73	22.73	₩ 539	₩ 539	₩ -	₩ -	₩ -	₩ 114
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	670	564
TECWIN	19.90	19.90	419	419	419	419	2,420	2,042
Chemizen. Com Ltd. <sup>1</sup>	2.62	2.62	300	300	-	10	-	10
LG Mozel Ltd.	13.00	9.75	195	195	195	195	544	392
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	793	509
Neocos <sup>1,2</sup>	4.86	6.00	9	9	-	9	-	10
Sacrom Seongwon <sup>3</sup>	0.00	-	182	-	182	-	1	-
Ninbo Zhenhai Zhoungan Warehouse Storage Management Co. Ltd.	4.65	4.65	26	26	28	26	28	26
AP Gas Power Corp.	1.00	1.00	95	95	98	86	98	86
			₩ 4,639	₩ 4,457	₩ 2,007	₩ 1,830	₩ 4,554	₩ 3,753

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

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

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

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



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

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

<i>(in millions of Korean won)</i>	2007	2006
	₩	₩
Buildings	1,234,200	1,136,389
Structures	573,245	514,975
Machinery and equipment	5,653,592	5,020,452
Vehicles	32,568	33,363
Tools and furniture	640,273	636,113
Others	12,935	12,935
	8,146,813	7,354,227
Accumulated depreciation	(4,327,323)	(3,979,454)
Accumulated impairment loss	(12,407)	(19,510)
	3,807,083	3,355,263
Land	512,548	513,069
Construction-in-progress	296,595	629,931
Machinery-in-transit	20,083	47,048
	₩ 4,636,309	₩ 4,545,311

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

As of December 31, 2007, inventories and property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩10,944,838 million (2006: ₩10,116,718 million). In addition, as of December 31, 2007 and 2006, the Company has business interruption insurance policies.

As of December 31, 2007, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩365,822 million (2006: ₩365,405 million) (Notes 12 and 13).

As of December 31, 2007, the appraised value of the Company's land, as determined by the local governments of Korea for property tax assessment purposes, amounted to approximately ₩785,544 million (2006: ₩752,085 million).

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**11. Intangible Assets**

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

<i>(in millions of Korean won)</i>	2007	2006
Intellectual property rights	₩ 24,597	₩ 17,764
Exclusive facility use rights	8,083	9,236
Development costs	45,953	66,919
Goodwill	11,903	20,691
Others	29,550	29,987
Negative goodwill	(274,187)	(313,357)
	<u>₩ (154,101)</u>	<u>₩ (168,760)</u>

The changes in development costs of the Controlling Company and its domestic subsidiaries for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Beginning balance	₩ 66,712	₩ 86,522
Increase	15,896	10,341
	<u>82,608</u>	<u>96,863</u>
Less: Amortization	(21,167)	(24,970)
Disposal	(68)	-
Impairment loss	(15,902)	(5,181)
Ending balance	<u>₩ 45,471</u>	<u>₩ 66,712</u>

For the years ended December 31, 2007 and 2006, expenses of the Controlling Company and its domestic subsidiaries that may have potential future benefits, but were not capitalized as intangible assets due to their uncertainty of future economic benefits, include:

<i>(in millions of Korean won)</i>	2007	2006
Employee education expenses	₩ 13,469	₩ 13,771
Advertising expenses	41,807	44,845
	<u>₩ 55,276</u>	<u>₩ 58,616</u>

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

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

(in millions of Korean won)	Annual Interest Rate (%)			2007	2006
	2007	2006			
<b>Short-term borrowings, including US\$ 176,531 thousand, CNY 201,860 thousand, TWD 280,000 thousand, INR 121,741 thousand (2006: US\$ 120,427 thousand, CNY 344,615 thousand)</b>					
General term loans	CD+0.6	CD+1.45	₩	13,000	₩ 76
Commercial paper	-	4.71		-	25,000
Bank overdrafts	5.7	-		13,514	246
Notes discounted	5.87	LIBOR+0.65		309,092	260,071
Foreign currency loans	LIBOR+2.9	LIBOR+1.0		202,550	153,058
				<u>538,156</u>	<u>438,451</u>
<b>Current maturities of long-term debts, including US\$ 178,473 thousand, CNY 92,305 thousand (2006: US\$ 152,578 thousand)</b>					
Debentures	LIBOR+0.4~5.0	3.5~LIBOR+0.95		327,893	374,368
Won currency loans	3.0~9.0	3.0~9.0		2,599	3,135
Foreign currency loans	LIBOR+0.6	LIBOR+0.6		71,408	93,700
				<u>401,900</u>	<u>471,203</u>
Less: Discount on debentures issued				(604)	(895)
Less: Present value discount accounts				(82)	-
				<u>401,214</u>	<u>470,308</u>
			₩	<u>939,370</u>	<u>₩ 908,759</u>

Certain property, plant and equipment are provided as collaterals for the above borrowings as of December 31, 2007 and 2006 (Note 10).



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**13. Long-term Debts**

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

*(in millions of Korean won)*

	Reference	2007		2006	
Debentures	(1)	₩	684,007	₩	913,799
Loans	(2)		744,571		589,481
		₩	1,428,578	₩	1,503,280

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

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)			
	2007	2006	2007	2006
Publicly offered debentures, payable through 2013	3.5~5.02	3.5~5.0	₩ 680,000	₩ 980,000
Privately offered debentures, payable through 2009	5.02~5.32	CD+0.7	100,000	100,000
Foreign debentures of US\$ 250 million (2006: US\$ 230 million), payable through 2010 <sup>1</sup>	LIBOR+0.4-0.95	Libor+0.45-0.92	234,550	213,808
			1,014,550	1,293,808
Less: Current maturities			(327,893)	(374,368)
Discount on debentures issued			(2,650)	(5,641)
			₩ 684,007	₩ 913,799

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

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

<i>(in millions of Korean won)</i>		<b>Annual Interest Rate (%)</b>			
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Won currency loans</b>					
Energy fund loans	4.25	3.5	₩	5,859	₩ 7,565
General term loans	CD+0.6	CD+0.6		50,000	32,000
Financial lease <sup>1</sup>	9.0	9.0		13,593	14,867
Housing loans	3.0	3.0		4,200	4,368
Movement expense	-	-		1,754	1,754
				<u>75,406</u>	<u>60,554</u>
Less: Current maturities				(2,599)	(3,135)
				<u>72,807</u>	<u>57,419</u>
<b>Foreign currency loans of US\$ 614,634 thousand, CNY 896,390 thousand, EUR 13,000 (2006: US\$ 537,550 thousand, CNY 1,061,390 thousand)</b>					
General term loans	LIBOR+0.3-0.6	LIBOR+0.35-0.6		320,892	243,582
Others	LIBOR+0.48-1.0	LIBOR+0.7-1.1		361,675	364,602
Facility loans	LIBOR+0.6	LIBOR+0.6		60,990	18,127
				<u>743,557</u>	<u>626,311</u>
Less: Current maturities				(71,408)	(93,700)
Discount on loans				(385)	(549)
				<u>671,764</u>	<u>532,062</u>
			₩	<u>744,571</u>	₩ <u>589,481</u>

<sup>1</sup> Capital lease liabilities are liabilities associated with a financing lease of property, plant and equipment of methyl tertiary butyl ether factory after their sale (Note 10).

Certain property, plant and equipment are provided as collaterals for the above borrowings as of December 31, 2007 and 2006 (Note 10).

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

*(in millions of Korean won)*

<b>Year</b>	<b>Debentures</b>	<b>Won Currency Loans</b>	<b>Foreign Currency Loans</b>	<b>Total</b>
2009	₩ 479,747	₩ 10,476	₩ 56,426	₩ 546,649
2010	146,910	16,105	201,505	364,520
2011	-	18,632	60,775	79,407
Thereafter	60,000	30,991	24,266	115,257
	<u>686,657</u>	<u>76,204</u>	<u>342,972</u>	<u>1,105,833</u>
Unearned interests	-	(3,397)	-	(3,397)
	<u>₩ 686,657</u>	<u>₩ 72,807</u>	<u>₩ 342,972</u>	<u>₩ 1,102,436</u>



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**14. Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities of the Controlling Company and its domestic subsidiaries denominated in foreign currencies, excluding items referred to in Notes 12 and 13, as of December 31, 2007 and 2006, consist of the following:

	Foreign Currencies (in thousands)				Korean Won Equivalent (in millions)	
	2007		2006		2007	2006
Cash and cash equivalents	US\$	19,575	US\$	27,410	₩ 25,783	₩ 26,872
	EUR	487	EUR	870		
	GBP	130	GBP	146		
	JPY	770,523	JPY	5,814		
Trade accounts and notes receivable	US\$	333,412	US\$	173,787	456,267	184,201
	EUR	10,493	EUR	4,045		
	GBP	110	GBP	11		
	JPY	15,450,855	JPY	2,262,079		
Other accounts receivable	US\$	22,066	US\$	15,726	24,406	33,568
	EUR	168	EUR	199		
	JPY	413,613	JPY	2,392,503		
Trade accounts and notes payable	US\$	171,240	US\$	178,564	256,115	274,322
	EUR	1,998	GBP	351		
	JPY	11,105,747	JPY	13,797,996		
Other accounts payable	US\$	44,566	US\$	54,096	50,563	62,320
	JPY	472,984	JPY	1,193,161		
	EUR	2,087	EUR	1,921		

Gains and losses on foreign currency translation(including discontinued operations) for the year ended December 31, 2007, are ₩30,472 million (2006: ₩41,651 million) and ₩14,217 million (2006: ₩4,295 million), respectively.

**15. Contingent Liabilities**

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

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**16. Stock Options**

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

Details of the stock options granted are as follows:

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

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

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

**17. Commitments and Contingencies**

As of December 31, 2007, the Controlling 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 Controlling Company has provided a joint guarantee for obligations outstanding as of January 1, 2005 for Lotte Daesan Petrochemical Ltd. and SEETEC Co., Ltd. In addition, the Controlling Company has provided financial guarantee to customers.

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

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

The Controlling Company has guaranteed repayment of various obligations of its subsidiaries and affiliated companies. The outstanding balance of such guarantees as of December 31, 2007, amounts to ₩160,286 million (2006: ₩134,173 million) (Note 26).



## **LG Chem, Ltd. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2007 and 2006**

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As of December 31, 2007, the Controlling Company and its domestic subsidiaries are contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩347,765 million. Further, as of December 31, 2007, the Controlling Company and its domestic subsidiaries are contingently liable for trade receivables transferred to the special purpose companies amounting to ₩286,959 million (Note 6).

As of December 31, 2007, the Controlling Company and its domestic subsidiaries have bank overdraft agreements with several banks for up to ₩138,100 million. The Controlling Company and its domestic subsidiaries have also entered into contracts with several financial institutions to open import letters of credit for up to ₩101,600 million and US\$ 518 million. The Controlling Company and its domestic subsidiaries have entered into contracts with several financial institutions for discounting notes from export for up to ₩15,000 million and US\$ 904 million, for other foreign currency payment guarantee of up to US\$ 15 million, and for other notes of up to ₩80,000 million.

As of December 31, 2007, the Controlling Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. Further, the Controlling Company has entered into manufacture and production technical contracts with Toyo Engineering Corp., while having BPA manufacturing technical contracts with three companies including Exxon Mobile. The Controlling 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 goods that the Company manufactures and sells as well as on the services the Company provides in relation to its business.

As of December 31, 2007, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 4,317 thousand guarantee for this contract (2006: US\$ 162 thousand). Furthermore, as of December 31, 2007 and 2006, the Company provided EUR 1,000 thousand additional guarantees for customs clearance and US\$45,620 thousand additional guarantees for purchase contract for certain raw materials, respectively.

The Controlling Company and LG Dow Polycarbonate Ltd. have interest rate swap, currency swap, forward exchange contracts and options for hedging against fluctuations in foreign exchange rates and interest rates. As of December 31, 2007, outstanding contracts and options include interest rate swaps of ₩20,000 million and US\$ 30,000 thousand (2006: ₩20,000 million), currency swaps and options of US\$ 242,029 thousand (2006: US\$ 152,029 thousand) and forward exchange contracts and options of US\$ 130,000 thousand (2006: US\$ 9,500 thousand and JPY 120,000 thousand).

As of December 31, 2007 and 2006, the Controlling Company has been named as a defendant and plaintiff in various legal actions. Management believes that these legal actions will not have any material adverse impact on the Controlling Company's operations or financial position although the outcome of these legal actions is uncertain.



**LG Chem, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**18. Capital Surplus**

Changes in capital in 2007 are as follows:

*(in millions of Korean won)*

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

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

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

**19. Retained Earnings**

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

*(in millions of Korean won)*

	<b>2007</b>	<b>2006</b>
Appropriations		
Legal reserve	₩ 56,729	₩ 49,438
Reserve for business rationalization	4,000	4,000
Reserve for technology development	997,664	840,877
Reserve for investment losses	246,313	164,522
Voluntary reserve	212,120	212,120
	<u>1,516,826</u>	<u>1,270,957</u>
Unappropriated retained earnings	684,182	315,491
	<u>₩ 2,201,008</u>	<u>₩ 1,586,448</u>

**Legal Reserve**

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

**Other Reserve**

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

**LG Chem, Ltd. and Subsidiaries**  
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**20. Treasury Stock**

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

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

**21. Cost of Sales**

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

*(in millions of Korean won)*

	<b>2007</b>	<b>2006</b>
<b>Products</b>		
Beginning balance of inventories	₩ 628,001	₩ 605,194
Changes in the scope of consolidation	-	2,521
Cost of goods manufactured	9,504,338	7,484,790
Ending balance of inventories	(811,314)	(628,001)
Others	(45,108)	(72,069)
Discontinued operations	(10,693)	(18,459)
	<u>9,265,224</u>	<u>7,373,976</u>
<b>Merchandise</b>		
Beginning balance of inventories	90,530	80,254
Changes in the scope of consolidation	-	2,579
Purchases	1,766,904	2,218,541
Ending balance of inventories	(91,792)	(90,530)
Others	(72)	652
Discontinued operations	(21)	(35)
	<u>1,765,549</u>	<u>2,211,461</u>
Other cost of sales	<u>78,748</u>	<u>24,092</u>
Total	<u>₩ 11,109,521</u>	<u>₩ 9,609,529</u>

**LG Chem, Ltd. and Subsidiaries**  
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**22. Income Taxes**

Income tax expense for the years ended December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	<b>Controlling Company and Domestic Subsidiaries</b>		<b>Overseas Subsidiaries</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current income taxes under the tax law	₩303,907	₩136,854	₩ 9,446	₩ 8,321	₩313,353	₩145,175
Changes in deferred income tax assets(liabilities) <sup>1</sup>	(90,889)	(4,077)	(1,343)	2,140	(92,232)	(1,937)
Deferred income taxes directly added to shareholders' equity <sup>2</sup>	(4,981)	14,873	-	-	(4,981)	14,873
Income taxes from discontinued operations	(5,687)	(424)	-	-	(5,687)	(424)
Income taxes	<u>₩213,724</u>	<u>₩148,074</u>	<u>₩8,103</u>	<u>₩10,461</u>	<u>₩221,827</u>	<u>₩158,535</u>

<sup>1</sup> The changes in deferred income tax assets (liabilities) of the Controlling Company and domestic subsidiaries are as follows:

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Beginning balance	₩(307,225)	₩ (324,980)	₩ (84,487)	₩ (89,370)
Ending balance	23,279	(307,225)	6,402	(84,487)
			90,889	4,883
Deferred income taxes added to beginning balance			-	806
			<u>₩ 90,889</u>	<u>₩ 4,077</u>

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

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Beginning balance	₩ 29,367	₩(24,147)	₩ 8,076	₩ (6,797)
Ending balance	11,252	29,367	3,095	8,076
			<u>₩ (4,981)</u>	<u>₩ 14,873</u>



**LG Chem, Ltd. and Subsidiaries**  
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Changes in temporary differences of the Controlling Company and domestic subsidiaries for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

	2007						
	Beginning Balance Before Adjustment <sup>3</sup>	Adjustment <sup>3</sup>	Increase	Decrease	Ending Balance	Current	Non- Current
Accrued severance benefits	W 145,959	W -	W 47,300	W 30,303	W 162,956	W -	W 162,956
Severance insurance plans	(144,191)	-	(46,606)	(30,303)	(160,494)	-	(160,494)
Allowance for doubtful accounts	69,728	-	65,267	61,901	73,094	62,695	10,399
Accrued interest income	(21)	-	(1,852)	(1,670)	(203)	(203)	-
Research and development costs	(2,594)	-	-	(2,374)	(220)	-	(220)
Present value discount	32	-	(550)	(61)	(457)	(72)	(385)
Depreciation	113,172	-	24,867	19,289	118,750	-	118,750
Gain on valuation of equity-method investments	(254,853)	-	(110,932)	(280,220)	(85,565)	-	(85,565)
Reserves for technology development	(333,333)	-	-	(76,667)	(256,666)	(76,666)	(180,000)
Others	103,658	313	133,999	44,179	193,791	102,079	91,712
Equity <sup>2</sup>	46,903	7,431	(73,891)	(38,972)	19,415	-	19,415
Subtotal <sup>1</sup>	(255,540)	W 7,744	W 37,602	W(274,595)	64,401	87,833	(23,432)
Gain on valuation of equity-method investments <sup>2</sup>	34,149	-	-	-	32,959	2,415	30,544
Equity <sup>2</sup>	17,536	-	-	-	8,163	-	8,163
Total	W(307,225)	-	-	-	W 23,279	W 85,418	W (62,139)
Deferred income tax assets (liabilities)	W (84,487)	-	-	-	W 6,402	W 23,490	W (17,088)

<sup>1</sup> As of December 31, 2007, negative goodwill of W274,187 million was not recognized as deferred income tax assets, as the Company adopted SKFAS No. 16, *Deferred Income Tax*.

<sup>2</sup> As of December 31, 2007, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes.

<sup>3</sup> On November 1, 2007, the Company merged with LG Petrochemical Ltd., which was consolidated in 2006, but this merger did not result in any changes in amounts of deferred income tax assets and liabilities.

**LG Chem, Ltd. and Subsidiaries**  
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2006

	Beginning Balance Before adjustment <sup>3</sup>	Changes in Beginning Balance <sup>5</sup>	Beginning Balance After adjustment	Increase	Decrease	Ending Balance	Current	Non- Current
Accrued severance benefits	₩ 143,417	₩ -	₩ 143,417	₩ 35,084	₩ 32,542	₩ 145,959	₩ -	₩145,959
Severance insurance plans	(141,507)	-	(141,507)	(35,084)	(32,400)	(144,191)	-	(144,191)
Allowance for doubtful accounts	67,103	-	67,103	67,200	64,575	69,728	61,283	8,445
Accrued income	(285)	-	(285)	(21)	(285)	(21)	(21)	-
Research and development costs	(7,932)	-	(7,932)	-	(5,338)	(2,594)	-	(2,594)
Present value discount	69	-	69	-	37	32	32	-
Depreciation	111,366	(71,037)	40,329	91,872	19,029	113,172	-	113,172
Gain on valuation of equity-method investments	(411,061)	-	(411,061)	(59,120)	(215,328)	(254,853)	-	(254,853)
Gain on foreign currency translation	(14)	-	(14)	-	(14)	-	-	-
Reserves for technology development	(306,666)	-	(306,666)	(90,000)	(63,333)	(333,333)	(76,666)	(256,667)
Others	120,736	20,278	141,014	41,661	79,017	103,658	21,233	82,425
Equity	(14,135)	-	(14,135)	61,642	604	46,903	-	46,903
Subtotal <sup>1</sup>	(438,909)	(50,759)	(489,668)	₩113,234	₩(120,894)	(255,540)	5,861	(261,401)
Gain on valuation of equity-method investments <sup>2</sup>	(124,511)	(53,690)	(178,201)			34,149	-	34,149
Equity <sup>2</sup>	10,582	-	10,582			17,536	-	17,536
Total	₩ (324,980)	₩ 2,931	₩ (322,049)			₩(307,225)	₩ 5,861	₩(313,086)
Deferred income tax assets (liabilities)	₩ (89,370)	₩ 806	₩ (88,564)			₩ (84,487)	₩ 1,612	₩ (86,099)

<sup>1</sup> 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*.

<sup>2</sup> As of December 31, 2006, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes.

<sup>3</sup> On January 1, 2006, the Company merged with LG Daesan Petrochemical Ltd., which was consolidated in 2005, but this merger did not result in any changes in amounts of deferred income tax assets and liabilities.

**LG Chem, Ltd. and Subsidiaries**  
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**23. Comprehensive Income**

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

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
Net income	₩	835,873	₩	458,042
Changes in cumulative effect of foreign currency translation <sup>1</sup>		32,980		(20,111)
Changes in equity from movements in the equity-method investments <sup>2</sup>		890		(2,987)
Gain on valuation of derivatives <sup>3</sup>		(924)		600
Others		51		8,221
Comprehensive income	₩	868,870	₩	443,765
Parent interest in comprehensive income	₩	715,642	₩	311,400
Minority interest in comprehensive income		153,228		132,365

<sup>1</sup> Includes income tax effects of ₩7,181 million (2006: deduction of ₩2,704 million).

<sup>2</sup> Includes income tax effects of ₩123 million (2006: deduction of ₩861 million).

<sup>3</sup> Includes income tax effects of ₩59 million (2006: addition of ₩227 million).

**24. Earnings Per Share**

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

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

	<b>2007</b>		<b>2006</b>	
Income from continuing operations	₩	703,628	₩	324,661
Preferred stock dividends		(17,748)		(9,090)
Preferred stock share in the remaining profit available for dividend		(62,543)		(30,073)
Income from continuing operations available for common stock (A)	₩	623,337	₩	285,498
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>		65,624,898		63,818,183
Basic income from continuing operations per share (A/B)	₩	9,498	₩	4,474



**LG Chem, Ltd. and Subsidiaries**  
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(in millions of Korean won, except per share amounts)

	2007	2006
Net income	₩ 688,636	₩ 322,593
Preferred stock dividends	(17,748)	(9,090)
Preferred stock share in the remaining profit available for dividends	(60,796)	(29,826)
Net income available for common stock (A)	₩ 610,092	₩ 283,677
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>	65,624,898	63,818,183
Basic earnings per share (A/B)	₩ 9,297	₩ 4,445

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

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

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

	2007	2006
Loss from discontinued operations per share	₩ 201	₩ 29

## 25. Dividends

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

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

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Dividend payout ratio

Dividends (A)	₩	167,006	₩	72,908
Net income (B)		688,636		322,593
Dividend payout ratio (A/B)		<u>24.25%</u>		<u>22.6%</u>

Dividend yield ratio

	2007		2006	
	Common Stock	Preferred Stock	Common Stock	Preferred Stock
Dividend per share (A)	₩ 2,000	₩ 2,050	₩ 1,000	₩ 1,050
Market value at the end of year (B)	89,600	40,800	43,100	25,650
Dividend yield ratio (A/B)	<u>2.23%</u>	<u>5.02%</u>	<u>2.32%</u>	<u>4.09%</u>

**26. Transactions with Subsidiaries**

Significant transactions which occurred in the ordinary course of business with consolidated subsidiaries as of and for the years ended December 31, 2007 and 2006, are summarized as follows:

*(in millions of Korean won)*

Company	Sales to / Purchases from Subsidiary	2007			
		Sales	Purchases	Receivables	Payables
LG Chem, Ltd.	LG Petrochemical Co., Ltd. <sup>1</sup>	₩ 15,134	₩1,321,426	₩ -	₩ -
	LG Chem America, Inc.	254,738	1,025	1,864	415
	LG Chemical Hong Kong Ltd.	346,134	1,591	956	-
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	38,109	85,923	821	7,844
	LG Chem (Taiwan), Ltd.	368,733	2,866	6,472	205
	LG Chem Display Materials (Beijing) Co., Ltd.	1	9,262	-	1,025
	Others	104,858	103,196	21,341	8,569
LG Chemical Hong Kong Ltd.	Tianjin LG Dagu Chemical Co., Ltd.	22,390	-	-	-
	Ningbo LG Yongxing Chemical Co., Ltd.	69,507	-	95	-
	Others	60,337	8,418	22,379	198
Others		<u>313,003</u>	<u>-</u>	<u>57,446</u>	<u>-</u>
		<u>₩1,592,944</u>	<u>₩1,533,707</u>	<u>₩111,374</u>	<u>₩ 18,256</u>

<sup>1</sup> Includes sales and purchase of LG Petrochemical Co., Ltd. until its merger with the Controlling Company

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Sales to / Purchases from		2006			
Company	Subsidiary	Sales	Purchases	Receivables	Payables
LG Chem, Ltd.	LG Petrochemical Co., Ltd.	₩ 15,553	₩1,471,578	₩ 8,955	₩ 183,673
	LG Chem America, Inc.	314,955	1,559	3,022	271
	LG Chemical Hong Kong Ltd.	420,372	138,320	5,058	-
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	175,115	37,962	1,271	10,028
	LG Chem (Taiwan), Ltd.	162,729	2,047	315	297
	LG Chem Display Materials (Beijing) Co., Ltd.	40,620	36,256	12,089	15,718
	Others	80,749	90,696	3,912	8,143
LG Chemical Hong Kong Ltd.	Tianjin LG Dagu Chemical Co., Ltd	180,318	-	33,411	-
	Ningbo LG Yongxing Chemical Co., Ltd.	132,880	-	19,583	-
	Others	52,302	6,996	15,801	72
Others		183,389	-	47,086	-
		<u>₩1,758,982</u>	<u>₩1,785,414</u>	<u>₩150,503</u>	<u>₩ 218,202</u>

The Controlling Company and LG Chem (China) Investment Co., Ltd. have guaranteed the repayment of various obligations of its subsidiaries and affiliated companies. The outstanding balance of such guarantees as of December 31, 2007, amounted to approximately ₩160,286 million to guarantee the outstanding bank borrowings of ₩ 122,583 million (2006: ₩134,173 million to guarantee the outstanding bank borrowings of ₩111,914 million).



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

(in millions of Korean won)

		2007		
	Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
The Controlling Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 15,480	Bank of China	₩ 15,480
		18,764	Woori Bank	18,764
		15,856	Korea Exchange Bank	9,382
	LG Chem Industrial Materials Inc.	23,736	Wachovia Bank	23,736
	LG Chem Europe GmbH	4,144	Societe Generale	-
	Tianjin LG Bohai Chemical Co., Ltd.	37,528	Export-Import Bank of Korea	15,637
	LG Chem Poland Sp.Z.O.O	13,813	Export-Import Bank of Korea	13,813
		6,216	Nordea Bank	4,144
	LG Chem America, Inc	3,753	Woori Bank	3,753
		4,691	Kookmin Bank	3,753
LG Chem (China) Investment Co., Ltd.	LG Chem Display Materials Co., Ltd.	10,985	Agricultural Bank of China	8,801
			Industrial and Commercial Bank of China	
	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	5,320		5,320
		₩ 160,286		₩ 122,583

(in millions of Korean won)

		2006		
	Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
The Controlling Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 23,240	Bank of China	₩ 23,240
		18,592	Woori Bank	18,592
	LG Chem Industrial Materials Inc.	23,519	Wachovia Bank	23,519
	LG Chem Europe GmbH	3,667	Societe Generale	-
	Tianjin LG Bohai Chemical Co., Ltd.	37,184	Export-Import Bank of Korea	18,592
	LG Chem Poland Sp.Z.O.O	12,222	Export-Import Bank of Korea	12,222
	LG Chem Display Materials Co., Ltd.	10,478	Agricultural Bank of China	10,478
LG Chem (China) Investment Co., Ltd.	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	5,271	Industrial and Commercial Bank of China	5,271
		₩ 134,173		₩ 111,914

**LG Chem, Ltd. and Subsidiaries**  
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**27. Related Party Transactions**

Significant transactions, which occurred in the ordinary course of business with related companies for the years ended December 31, 2007 and 2006, and the related account balances as of those dates are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Sales</b>	<b>Purchases</b>	<b>Receivables</b>	<b>Payables</b>
Controlling company <sup>1</sup>	₩ 1	₩ 32,161	₩ 7,326	₩ 3,546
Equity-method investees <sup>2</sup>	57,083	154,446	8,988	17,862
Key management	-	55,250	-	50,355
Others <sup>3</sup>	1,662,870	510,867	317,909	94,804
2007 Total	₩1,719,954	₩ 752,724	₩ 334,223	₩ 166,567
2006 Total	₩1,275,459	₩ 641,827	₩ 243,306	₩ 129,203

<sup>1</sup> LG Corp. is the parent of the Company, and issues the consolidated financial statements.

<sup>2</sup> Please refer to Note 1 for percentage of ownership of the Company's investments to its related parties.

<sup>3</sup> Includes LG Philips LCD Co., Ltd. and LG Electronics Inc.

Compensation for key management officers of the Controlling company and its domestic listed subsidiary for the year ended December 31, 2007 and 2006, consists of :

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
Short-term employee benefits	₩ 28,846	₩ 20,949
Post-employment benefits	3,690	3,475
Other long-term employee benefits	13,648	2,459
Reversal of share-based compensation	11,856	(1,042)
Total	₩ 58,040	₩ 25,841

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

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**28. Segment Information**

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

(1) Industry Segment Information

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

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

(in millions of Korean won)	2007					Total
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Consolidation Adjustment	
Sales						
External sales <sup>1</sup>	₩10,641,578	₩2,239,698	₩2,259,370	₩1,509,659	₩(3,125,496)	₩13,524,809
Inter-segment sales	1,114,039	3,818	2,430	146,458	-	1,266,745
	₩11,755,617	₩2,243,516	₩2,261,800	₩1,656,117	₩(3,125,496)	₩14,791,554
Operating income	₩ 923,384	₩ 106,926	₩ 164,347	₩ 8,439	₩ (15,943)	₩ 1,187,153
Property, plant and equipment, and intangible assets <sup>2</sup>	₩ 2,838,593	₩ 526,180	₩ 1,003,622	₩ 421,590	₩ (33,590)	₩ 4,756,395



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(in millions of Korean won)	2006					
	Petrochemicals	Industrial Materials	Information & Electronic Materials	Others	Consolidation Adjustment	Total
Sales						
External sales <sup>1</sup>	₩ 9,210,971	₩2,143,132	₩1,859,971	₩1,760,755	₩(3,543,315)	₩11,431,514
Inter-segment sales	810,143	19,433	4,955	120,171	-	954,702
	<u>₩10,021,114</u>	<u>₩2,162,565</u>	<u>₩1,864,926</u>	<u>₩1,880,926</u>	<u>₩(3,543,315)</u>	<u>₩12,386,216</u>
Operating income	<u>₩ 515,560</u>	<u>₩ 124,275</u>	<u>₩ 41,669</u>	<u>₩ 4,885</u>	<u>₩ (12,290)</u>	<u>₩ 677,099</u>
Property, plant and equipment, and intangible assets <sup>2</sup>	<u>₩ 2,764,666</u>	<u>₩ 538,192</u>	<u>₩ 981,021</u>	<u>₩ 423,723</u>	<u>₩ (17,694)</u>	<u>₩ 4,689,908</u>

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

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

(2) Geographical Segment Information

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

<i>(in millions of Korean won)</i>									
	Domestic <sup>1</sup>	China	North America	South America	South-East Asia	Western Europe	Others	Consolidation adjustment	Total
2007	₩8,256,459	₩5,556,610	₩796,113	₩ 76,138	₩325,819	₩397,964	₩1,241,202	₩(3,125,496)	₩13,524,809
2006	₩7,476,038	₩4,967,498	₩925,692	₩102,611	₩303,606	₩291,770	₩ 907,614	₩(3,543,315)	₩11,431,514

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

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**29. Discontinued Operations**

**(1) Safety materials Business**

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

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

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

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

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

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

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

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

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

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

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

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

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

**(2) AMS Filter Business**

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

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

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

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

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

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

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



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

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

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

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

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

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

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**(3) PDP Fluorescent Substance Business**

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

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

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

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

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

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

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

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

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

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

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

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

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

**30. Supplemental Cash Flow Information**

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

<i>(in millions of Korean won)</i>	2007	2006
Reclassification of construction-in-progress to property, plant and equipment	₩ 605,882	₩ 424,002
Reclassification of machinery-in-transit to machinery and equipment	89,997	99,479
Reclassification of depreciation expenses to development costs	1,419	1,492
Reclassification of severance benefits to development costs	265	365
Gain on valuation of investment using the equity method of accounting (accumulated other comprehensive income and expenses)	1,481	3,762
Reclassification of long-term debt to current maturities of long-term debts	74,007	96,835
Reclassification of long-term debt to current maturities of debentures	327,893	374,368
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	960	613



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**31. Merger**

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

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

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

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

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

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

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

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

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

*(in millions of Korean won)*

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

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

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

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

**Condensed Balance Sheets as of October 31, 2007**

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

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

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



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Condensed Balance Sheets as of December 31, 2006

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

Condensed Income Statements for the year ended December 31, 2006

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

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

Hyundai Petrochemical Co., Ltd. (HPCL) was acquired by a consortium consisting of the Controlling 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 Controlling 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 Controlling 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 Controlling 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	₩	<u>393,058</u>

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Acquisition cost is calculated as follows:

*(in millions of Korean won)*

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

Changes in negative goodwill from January 1, 2005 to December 31, 2007, are as follows:

*(in millions of Korean won)*

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

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

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

*(in millions of Korean won)*

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



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

*(in millions of Korean won)*

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

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

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

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

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

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

Condensed Balance Sheets as of December 31, 2005

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

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

Condensed Income Statements for the year ended December 31, 2005

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

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

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 <sup>1</sup>		1,419,104		209
Property, plant and equipment		2,453,255		950,808
Intangible assets		150,463		-
Total assets	₩	5,679,529	₩	1,280,688
Current liabilities	₩	1,779,045	₩	155,527
Non-current liabilities		1,717,457		27,762
Total liabilities		3,496,502		183,289
Total shareholders' equity		2,183,027		1,097,399
Total liabilities and shareholders' equity	₩	5,679,529	₩	1,280,688

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

**32. Subsequent Event**

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

**33. Reclassification of Prior Year Financial Statements**

Certain amounts in the December 31, 2006 financial statements were reclassified to conform with the December 31, 2007 financial statement presentation. These reclassifications had no effect on the previously reported net income, shareholders' equity or cash flows.