SolutionPartner

Market Outlook

July 2007

LG Chem

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(Unit : KRW bn)	Non-Consolidated				Consolidated			
	'06 2Q	'07 2Q	'07 1Q	YoY	'06 2Q	'07 2Q	'07 1Q	YoY
Sales	2,272.5	2,644.9	2,380.0	16.4%	2,850.7	3,383.7	3,040.5	18.7%
Operating Profit	48.1	162.6	127.0	238.0%	88.5	292.1	258.1	230.1%
(%)	(2.1)	(6.1)	(5.3)		(3.1)	(8.6)	(8.5)	
Recurring Profit *	46.5	217.6	155.8	368.0%	67.2	292.2	238.7	334.8%
(%)	(2.0)	(8.2)	(6.5)		(2.4)	(8.6)	(7.9)	
Equity Method Gains	14.6	58.4	47.3	300.0%	2.7	1.9	3.1	△29.6%
Net Income	45.1	236.7	113.0	424.8%	45.1	236.7	113.0	424.8%
Total Net Income	–	–	–	–	61.8	280.8	164.4	354.4%

* Recurring Profit stands for "Profit from continuing operations before income tax"

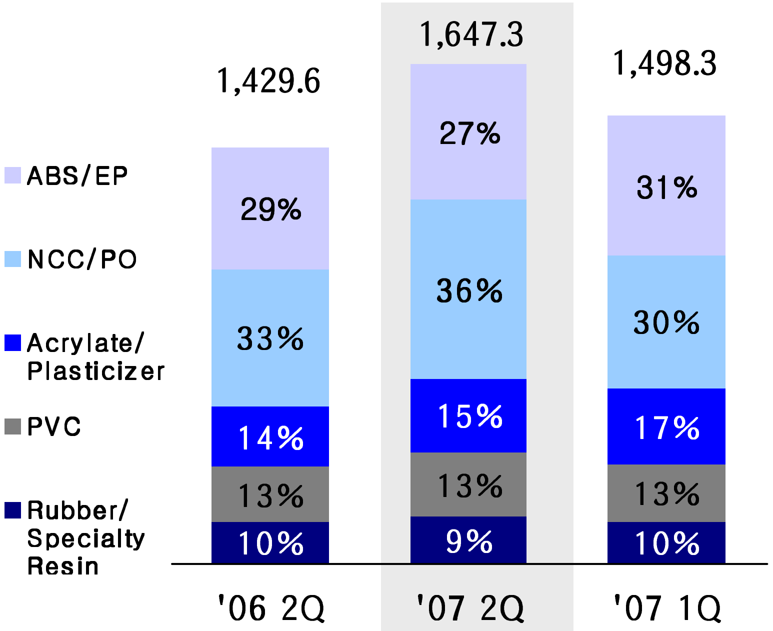
Balance Sheets

(Unit : KRW bn)

	Non-Consolidated '06	Non-Consolidated '07 2Q	Consolidated '06	Consolidated '07 2Q
Assets	5,806.5	6,082.0	7,638.5	8,103.0
(Cash and equivalents)	115.8	134.0	387.2	462.4
Liabilities	3,189.3	3,133.6	4,360.7	4,470.0
(Borrowings)	1,585.3	1,549.6	2,412.1	2,396.0
Shareholder's Equity	2,617.2	2,948.4	3,277.8	3,633.0
Total Liabilities / Equity (%)	121.9	106.3	133.0	123.0
Debt / Equity (%)	60.6	52.6	73.6	66.0
Interest Coverage Ratio	3.8	6.1	5.9	9.9
ROE (%)	12.6	26.8	14.5	25.8
ROA (%)	5.6	12.6	6.2	11.3
EBITDA	866.0	549.9	–	–

Business results

(Unit:KRW bn)



	'06 2Q	'07 2Q	'07 1Q
Operating Profit	-5.5	99.5	89.0
Margin(%)	-0.3	6.0	5.9

Analysis

- Analysis(2Q)

▣ Increase in PVC price and restructuring efforts resulted in remarkable improvement in profitability
  · PVC : U$ 854('07 1Q)→ 928('07 2Q)

▣ Strong Oxo-Alcohol margin remained

▣ Seasonal demand pick-up and entering high-end overseas markets helped improve profitability from Synthetic rubber/Specialty resin

- Outlook

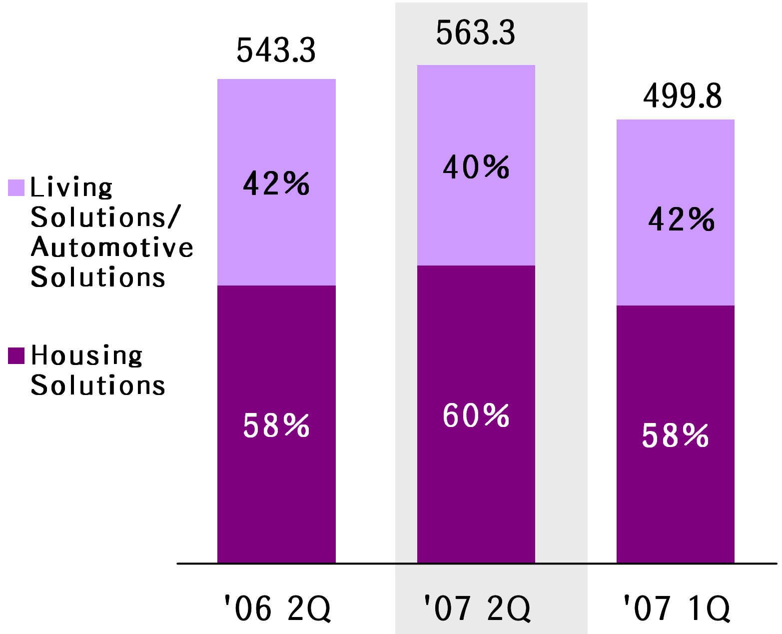
▣ Expects margin improvement from ABS, PVC, backed by strong demand and stabilization of raw material prices

▣ Supply shortage of Oxo-Alcohols expected to continue

▣ Termination of special depreciation in existing Daesan plant assets (2H depreciation : 70bn ↓)

Business results

(Unit:KRW bn)



	'06 2Q	'07 2Q	'07 1Q
Operating Profit	41.9	35.9	30.1
Margin(%)	7.7	6.4	6.0

Analysis

- Analysis(2Q)

▣ Thanks to seasonal demand pick-up, sales and margin for Housing Solutions (HS) improved (QoQ)

▣ Margin from Living Solutions (LS) declined due to high raw material prices and KRW depreciation (YoY)

▣ Successfully launched kitchen furniture and BIPV * businesses

- Outlook

▣ Margins are expected to be sustained in HS business even though sales might be affected temporarily during the summer vacation period

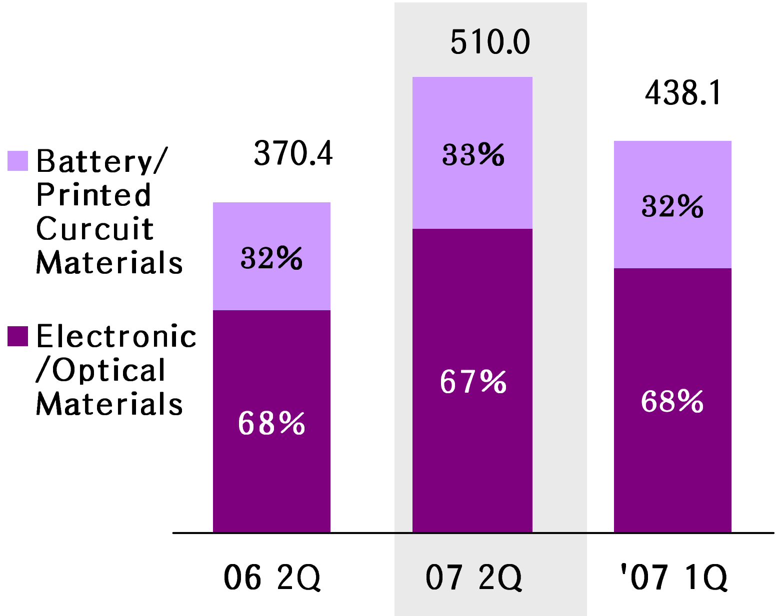
▣ Continue cost-cutting efforts and business restructuring

* BIPV (Building Integrated Photovoltaic)

Divisional Results & Outlook

Business results

(Unit:KRW bn)



	06 2Q	07 2Q	'07 1Q
Operating Profit	13.1	26.4	7.3
Margin(%)	3.5	5.2	1.7

Analysis

- Analysis(2Q)

▣ Battery : Substantial improvement
- Cylindrical : Fully utilized due to healthy PC demand
- Prismatic : Utilization improved on increased cell phone battery sales to LG Electronics
- Polymer : Maintained full utilization

▣ Electronic & Optical : Sales & margin improvement
- A fall in ASP slowed down and revenue increased due to LCD market recovery
- Continuous productivity improvement (speed up stretching process by 20%)

- Outlook

▣ Battery : Close to BEP
- Cylindrical : Expects better profitability due to extended usage of new specialty cathode
- Prismatic : Focus on developing top tier customers
- Mid-large : Commercialization of HEV batteries

▣ Electronic & Optical : Continuous improvement
- Expects growth in LCD market
- Aims to increase market share in Taiwan by increasing sales of TV-type polarizing films (New post-processing line expected to come onstream in August)

Subsidiaries' Results & Outlook

Business results

(Unit: KRW bn)

		'06 2Q	'07 2Q	'07 1Q
LG Petro-chemical	Sales	450.3	639.5	602.5
	Operating Profit (%)	11.2 (7.8)	90.3 (14.1)	126.2 (21.0)
	Net Income	9.5	67.0	94.5
Overseas*	Sales	353.6	514.9	403.7
	Operating profit (%)	21.1 (6.0)	33.0 (6.4)	18.0 (4.5)
	Net Income	12.6	25.9	13.0

* Figures exclude marketing subsidiaries.

Analysis & Outlook

- LG Petrochem
  - ▣ High Naphtha price led to lower NCC profitability
  - ▣ BPA continued to show strong margin
- Overseas Subsidiaries
  - ▣ LG YX sustained solid performance thanks to strong domestic demand in China
  - ▣ LG Dagu's profit swung to positive territory thanks to rising PVC prices

LG PC Merger Effect

By achieving vertical integration, LG Chem aims to maximize economies of scale, strengthen business competitiveness and obtain future growth engine

Issues	Effects
Scale	◆ Economies of scale & product portfolios diversification – Two large scale NCC plants: securing economies of scale – Well balanced product mix with performance resin & chemicals
Integration	◆ Strengthen business competitiveness – Cash cost improvement – Integration in productions, sales and R&D – Bargaining power in raw material procurement (Naphtha etc.) – Able to pursue integrated marketing strategy for both upstream and downstream business
Growth	◆ Prepare for the future growth – Securing resources for large scale projects and M&A opportunities – Quick decision making process

LG Petrochemicals Merger Effect

Positive effects on financial structure

Financial structure

(Unit :KRW trillion)

June.2007

【LG Chem】

Assets (6.08)

Liabilities (3.13)

Equity (2.95)

Liabilities / equity 106%

【LG Petrochem】

Assets (1.32)

Liabilities (0.36)

Equity (0.97)

Liabilities / equity 37%

December.2007

【LG Chem+ LG Petrochem】

Assets (6.63)

Liabilities (2.94)

Equity (3.69)

Liabilities / equity 80%

Effects

◆ Improve financial structure

- Total Liability/Equity : June '07 106%→Dec '07 80%
- Able to pay back 300 KRW billion worth of debt with LG PC's cash balance
- Securing cash for large scale investment projects

◆ Save financial costs with improved credibility

- Expects higher credit ratings
- Able to finance potential investments with lower and longer-term interest rates

◆ Increase shareholder's value

- Minimize new shares
  (New shares will not be issued on 40% of LG Chem's stock and 10.21% of treasury stock)
- Revaluation on LGPC assets

Sales & Operating Profit

(Unit : KRW bn)

	2006					2007				
	1Q	2Q	3Q	4Q	Sum	1Q	2Q	3Q	4Q	Sum
Sales	**2,129.1**	**2,272.5**	**2,482.5**	**2,418.2**	**9,302.3**	**2,380.0**	**2,644.9**			**5,025.0**
Operating Profit	**65.6**	**48.1**	**107.1**	**112.3**	**333.9**	**127.0**	**162.6**			**289.9**
Petrochemicals	**1,364.8**	**1,429.6**	**1,582.2**	**1,508.2**	**5,884.8**	**1,498.3**	**1,647.3**			**3,145.6**
NCC/PO	498.4	495.8	567.7	561.0	2,122.9	483.5	637.4			1,120.9
Synthetic Rubber/ Specialty Resin	132.6	149.1	142.2	146.1	570.0	153.2	168.2			321.4
PVC	187.5	197.7	231.2	210.4	826.8	206.3	229.3			435.6
ABS/EP	440.0	436.9	453.6	454.5	1,785.0	495.1	489.3			984.4
Acrylate/Plasticizer	206.9	216.0	248.6	238.5	910.0	267.4	269.3			536.7
Operating Profit	**27.5**	**-5.5**	**62.9**	**85.1**	**170.0**	**89.0**	**99.5**			**188.6**
Industrial Materials	**476.0**	**543.3**	**521.6**	**546.9**	**2,087.8**	**499.8**	**563.3**			**1,063.2**
Building/Decorative	253.7	314.1	323.3	321.4	1,212.5	291.5	339.7			631.2
Living/Automotive	224.1	231.7	200.4	227.2	883.4	209.8	225.5			435.3
Operating Profit	**27.4**	**41.9**	**24.5**	**24.0**	**117.9**	**30.1**	**35.9**			**66.0**
I & E Materials	**361.2**	**370.4**	**448.5**	**430.6**	**1,610.7**	**438.1**	**510.0**			**948.1**
Battery/PCM	108.6	120.8	142.6	135.7	506.3	143.8	171.6			315.4
Optical/Electronic	254.8	253.3	309.5	298.2	1,197.1	298.8	346.8			645.6
Operating Profit	**10.5**	**13.1**	**18.9**	**6.1**	**48.7**	**7.3**	**26.4**			**33.7**

* Difference between total of all business divisions and total of each business unit indicates inter-company business sales.

Borrowings

(Unit : KRW bn)

	Balance			'07 (P)
	'06	'07 2Q	Changes	
Total	1,585.3 (100%)	1,549.6 (100%)	-35.7	1,578.5 (100%)
KRW Currency	1,269.2 (80%)	1,178.9 (76%)	-90.3	1,206.5 (78%)
C P	25.0	52.0	27.0	-
C B	1,080.0	880.0	-200.0	1,080.0
Others	164.2	246.9	82.7	126.5
Foreign Currency	316.1 (20%)	370.7 (24%)	54.6	372.0 (23%)
FRN	213.9	278.0	64.1	269.7
Others	102.2	92.7	-9.5	102.3
Short-term	465.9 (29%)	462.6 (30%)	-3.3	386.2 (24%)
Long-term	1,119.4 (71%)	1,087.0 (70%)	-32.4	1,212.3 (76%)

☞ The % is calculated to total borrowings

Cash Flow

(Unit : KRW bn)

	'06	'07 1H
Beginning	371.0	115.8
Operating/Investing	115.8	126.8
Net Income	318.8	349.7
Depreciation	502.2	246.2
Working Capital	-178.5	-95.6
CAPEX	-590.5	-277.1
Others	63.9	-96.4
Financing	-370.9	-108.6
Borrowings	-279.9	-35.7
Dividend	-91.0	-72.9
End	115.8	134.0

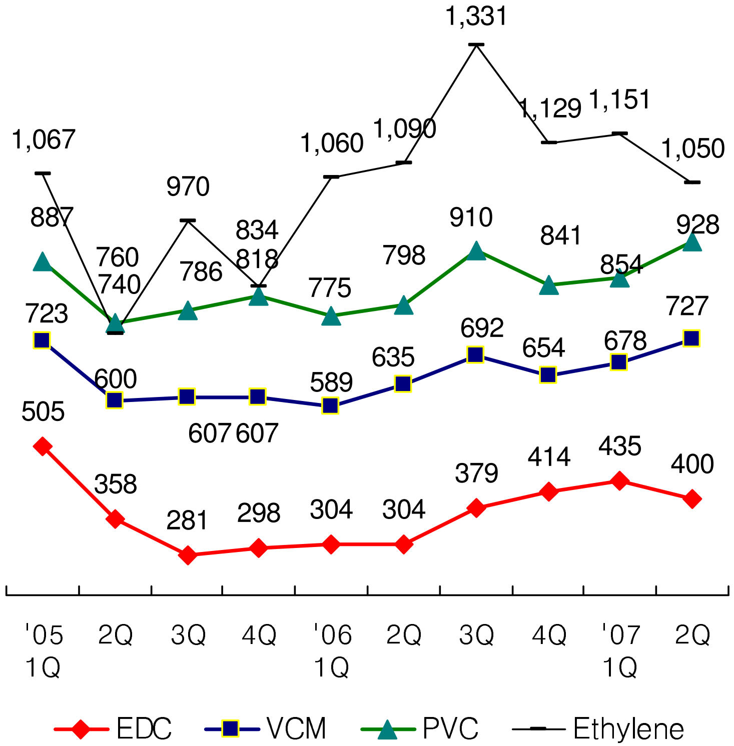
Capex Plan & Results

(Unit : KRW bn)

		'05 Results	'06 Results	'07 Plan	'07 1H
Petrochemicals	New/Expansion	23.7	118.2	180.6	94.0
	Maintenance	69.1	83.6	59.8	31.4
	Equity Investment	41.2	39.0	7.5	13.8
	Total	**134.0**	**240.8**	**247.9**	**139.2**
Industrial Materials	New/Expansion	17.1	14.5	44.9	6.8
	Maintenance	49.1	56.4	53.1	25.9
	Equity Investment	3.5	9.9	9.7	-
	Total	**69.6**	**80.8**	**107.7**	**32.7**
I & E Materials	New/Expansion	147.4	121.9	150.2	20.9
	Maintenance	39.0	37.6	33.2	17.3
	Equity Investment	20.5	8.2	8.5	4.6
	Total	**206.9**	**167.8**	**191.9**	**42.8**
Common Expenses	New/Expansion	-	-	7.5	-
	Maintenance	88.0	87.1	116.5	62.4
	Equity Investment	3.2	14.0	-	-
	Total	**91.3**	**101.1**	**124.0**	**62.4**
Total	New/Expansion	188.2	254.6	383.2	121.7
	Maintenance	245.2	264.7	262.6	137.0
	Equity Investment	68.5	71.2	25.7	18.4
	Total	**501.8**	**590.5**	**671.5**	**277.1**

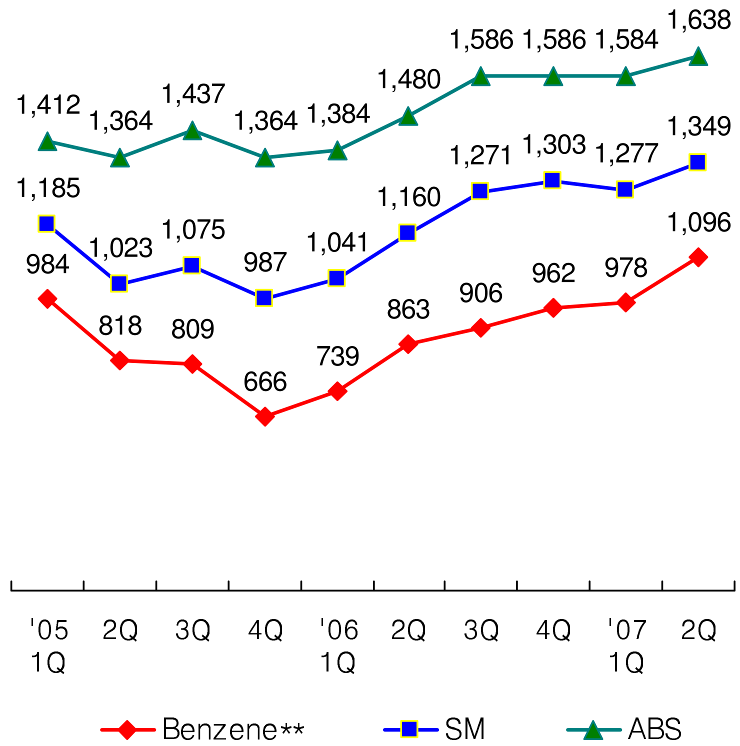
Vinyls

(Unit:U$/MT)



Styrenics

(Unit:U$/MT)



- The prices are average price of CFR FE Asia for general grade in each product group.

** Average of FOB Korea price