

LG CHEMICAL LTD.
BALANCE SHEETS
December 31, 1997 and 1996

ASSETS	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Current assets:				
Cash and bank deposits (Note 4) ₩	212,775,504	₩ 170,172,430	US\$ 150,371	US\$ 120,263
Marketable securities	1,092,438	3,602,869	772	2,546
Trade accounts and notes receivable, less allowance for doubtful accounts of ₩30,236,827 thousand in 1997 and ₩22,219,875 thousand in 1996	1,058,956,069	816,511,644	748,379	577,040
Other accounts receivable, less allowance for doubtful accounts of ₩520,683 thousand in 1997 and ₩47,522 thousand in	15,100,866	16,931,637	10,672	11,966
Short-term loans (Note 16)	356,221,123	9,253,260	251,746	6,539
Inventories (Note 5)	383,889,826	345,554,040	271,300	244,208
Accrued income	8,841,590	9,329,206	6,248	6,593
Advance payments	3,712,349	3,717,544	2,624	2,627
Prepaid expenses	68,022,497	25,027,962	48,073	17,688
Other current assets	10,554,714	10,249,754	7,459	7,244
Total current assets	2,119,166,976	1,410,350,346	1,497,644	996,714
Property, plant and equipment, less accumulated depreciation (Note 4)	2,875,552,731	2,779,300,358	2,032,193	1,964,170
Investments securities, less valuation allowance of ₩42,575 thousand in 1997 and ₩48,343 thousand in 1996 (Note 5)	644,576,339	517,051,100	455,531	365,407
Other investments	46,618,166	45,989,934	32,946	32,502
Noncurrent bank deposits (Note 4)	197,167,015	145,346,312	139,341	102,718
Other long-term accounts receivable, less present value adjustment of ₩1,107 thousand in 1997 and ₩12,961 thousand in 1996	11,067	213,359	8	151
Long-term guarantee deposits	47,461,969	40,858,994	33,542	28,876
Intangible assets	3,118,181	827,706	2,204	585
Deferred charges (Note 2)	229,335,847	31,936,854	162,074	22,570
₩ 6,163,008,291	₩ 4,971,874,963	US\$ 4,355,483	US\$ 3,513,693	

Continued;

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

LG CHEMICAL LTD.
BALANCE SHEETS, Continued
December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings (Note 8) ₩	1,219,431,577	₩ 987,018,913	US\$ 861,789	US\$ 697,540
Current maturities of long-term debt, less discounts on debentures of ₩2,605,088 thousand in 1997 and convertible right adjustment of ₩676,571 thousand in 1996 (Note	542,039,734	318,839,519	383,067	225,328
Trade accounts and notes payable (Note 16)	254,456,286	189,880,266	179,828	134,191
Other accounts payable	241,345,714	255,150,829	170,562	180,319
Income taxes payable (Note 15)	4,836,987	198,620	3,418	140
Accrued expenses	115,426,510	99,105,593	81,574	70,039
Other current liabilities	29,744,331	18,317,648	21,021	12,946
Total current liabilities	2,407,281,139	1,868,511,388	1,701,259	1,320,503
Long-term debt, less discounts on debentures of ₩38,702,870 thousand in 1997 and ₩28,390,897 thousand in 1996 (No	2,099,325,168	1,447,912,883	1,483,622	1,023,260
Accrued severance benefits less deposits to national pension fund of ₩15,614,773 thousand in 1997 and ₩12,306,633 thousand in 1996	198,983,022	194,918,559	140,624	137,752
Other long-term liabilities	11,798,511	11,912,780	8,338	8,419
Total long-term debt	2,310,106,701	1,654,744,222	1,632,584	1,169,431
Deferred liabilities (Note 2)	172,462	-	122	-
Total liabilities	₩ 4,717,560,302	₩ 3,523,255,610	US\$ 3,333,965	US\$ 2,489,934

Continued;

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LG CHEMICAL LTD.
BALANCE SHEETS, Continued
December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY, Continued				
Commitments and contingencies (Note 10)				
Shareholders' equity :				
Capital stock, ₩5,000 par value; authorized 193,000,000 shares				
Common stock, issued and outstanding 75,613,734 shares in 1997 and 1996	₩ 378,068,670	₩ 378,068,670	US\$ 267,187	US\$ 267,187
Preferred stock, issued and outstanding 13,123,108 shares in 1997 and 1996	65,615,540	65,615,540	46,371	46,371
	<u>443,684,210</u>	<u>443,684,210</u>	<u>313,558</u>	<u>313,558</u>
Capital surplus :				
Paid-in capital in excess of par value	345,340,676	345,340,676	244,057	244,057
Gain on business combination	21,859,338	21,859,338	15,448	15,448
Asset revaluation surplus (Note 6)	361,572,241	361,572,241	255,528	255,528
Other capital surplus (Note 11)	-	6,063,568	-	4,286
	<u>728,772,255</u>	<u>734,835,823</u>	<u>515,033</u>	<u>519,319</u>
Retained earnings (Note 11):				
Legal reserve	25,518,000	25,008,000	18,034	17,673
Other reserves	247,464,106	240,563,409	174,886	170,009
Unappropriated retained earnings carried over to subsequent year	9,418	5,306	7	4
	<u>272,991,524</u>	<u>265,576,715</u>	<u>192,927</u>	<u>187,686</u>
Capital adjustment				
Convertible rights	-	4,522,605	-	3,196
Total shareholders' equity	<u>₩ 1,445,447,989</u>	<u>₩ 1,448,619,353</u>	<u>US\$ 1,021,518</u>	<u>US\$ 1,023,759</u>
	<u>₩ 6,163,008,291</u>	<u>₩ 4,971,874,963</u>	<u>US\$ 4,355,483</u>	<u>US\$ 3,513,693</u>

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LG CHEMICAL LTD.

STATEMENTS OF INCOME

for the years ended December 31, 1997 and 1996

	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Sales (Note 16) :				
Domestic	₩ 2,778,435,016	₩ 2,411,597,860	US\$ 1,963,558	US\$ 1,704,310
Export	1,336,013,251	1,052,692,751	944,179	743,952
	4,114,448,267	3,464,290,611	2,907,737	2,448,262
Cost of sales (Note 16)	2,983,301,156	2,560,833,026	2,108,340	1,809,776
Gross profit	1,131,147,111	903,457,585	799,397	638,486
Selling expenses	585,418,484	506,486,034	413,723	357,941
Administrative expenses	108,689,372	111,331,188	76,812	78,679
Income from operations	437,039,255	285,640,363	308,862	201,866
Nonoperating income :				
Interest	28,733,786	30,968,921	20,306	21,886

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LG CHEMICAL LTD.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

for the years ended December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Unappropriated retained earnings at the end of the year:				
Unappropriated retained earnings carried over from prior year (N ₩	₩ 6,068,874	₩ 8,966	US\$ 4,289	US\$ 6
Net income	6,444,238	3,313,455	4,554	2,342
	<u>12,513,112</u>	<u>3,322,421</u>	<u>8,843</u>	<u>2,348</u>
Transfer from voluntary reserves :				
Reserve for losses from overseas investments	5,237,834	3,989,500	3,702	2,819
Reserve for overseas market development	546,667	476,667	386	337
Reserve for losses from exports	7,800,000	6,700,000	5,512	4,735
Reserve for technological development	32,927,803	7,732,558	23,271	5,465
	<u>59,025,416</u>	<u>22,221,146</u>	<u>41,714</u>	<u>15,704</u>
Appropriations :				
Transfer to legal reserve	510,000	960,000	360	678
Transfer to reserve for business rationalization	1,400,000	5,800,000	989	4,099
Transfer to reserve for improvement of financial structure	645,000	166,000	456	117
Transfer to reserve for losses from overseas investments	25,200,000	4,000,000	17,809	2,827
Transfer to reserve for overseas market development	300,000	100,000	212	71
Transfer to reserve for losses from exports	300,000	1,000,000	212	707
Transfer to reserve for technological development	25,568,000	660,000	18,069	466
Cash dividends, 1% in 1997 and 2% in 1996 for common stock, and 2% in 1997 and and 3% in 1996 for preferred stock	5,092,998	9,529,840	3,600	6,735
	<u>59,015,998</u>	<u>22,215,840</u>	<u>41,707</u>	<u>15,700</u>
Appropriated retained earnings carried over to subsequent year ₩	₩ 9,418	₩ 5,306	US\$ 7	US\$ 4

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

LG CHEMICAL LTD.

STATEMENTS OF CASH FLOWS

for the years ended December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Cash flows from operating activities :				
Net Income	₩ 6,444,238	₩ 3,313,455	US\$ 4,554	US\$ 2,342
Expenses not involving cash outflows :				
Depreciation and amortization	415,840,177	274,576,164	293,880	194,047
Provision for severance benefits	42,384,935	40,608,827	29,954	28,699
Foreign exchange loss	57,944,919	22,232,297	40,950	15,712
Loss on valuation of marketable se	1,565,651	-	1,106	-
Amortization of discounts,etc	17,102,624	12,542,523	12,087	8,864
Loss on disposal of property,plant and equipment	6,692,537	5,301,219	4,730	3,746
Others	5,440,413	944,569	3,845	667
	<u>546,971,256</u>	<u>356,205,599</u>	<u>386,552</u>	<u>251,735</u>
Income not involving cash inflows :				
Amortization of present value adjus	39,774	565,261	28	399
Gain on disposal of investment	2,487,692	181,781	1,758	129
Gain on disposal of marketable sec	-	3,208,066		2,267
Foreign exchange gain	36,690,433	1,672,787	25,930	1,182
Gain on disposal of property,plant and equipment	1,877,157	1,140,668	1,326	806
Payment of accrued severance ben	35,381,221	14,306,390	25,004	10,111
Others	8,689	198,010	6	140
	<u>76,484,966</u>	<u>21,272,963</u>	<u>54,052</u>	<u>15,034</u>
Changes in operating assets and liabilities resulting from operation (Note 18) :				
Trade accounts and notes receivab	-229,492,568	-90,056,638	-162,186	-63,644
Short term loans	-338,000	-	-239	-
Other accounts receivable	5,070,711	11,117,339	3,584	7,857
Accrued income	487,616	-3,026,528	345	-2,139
Inventories	-38,335,786	-7,891,884	-27,092	-5,577
Advance payments	5,195	-1,054,032	4	-745
Prepaid expenses	-42,403,102	-9,355,112	-29,967	-6,611
Short-term guarantee deposits	-3,698,813	2,835,604	-2,614	2,004
Other current assets	3,393,853	-7,183,711	2,398	-5,077
Trade accounts and notes payable	60,718,163	18,361,022	42,910	12,976
Other accounts payable	-17,247,319	18,580,816	-12,189	13,131
Accrued expenses	16,320,917	15,169,488	11,534	10,720
Income taxes payable	4,638,368	-14,226,421	3,278	-10,054
National pension fund	-3,308,140	-3,900,659	-2,338	-2,757
Other liabilities	6,588,304	-40,228,461	4,656	-28,430
	<u>-237,600,601</u>	<u>-110,859,177</u>	<u>-167,916</u>	<u>-78,346</u>
	<u>₩ 239,329,927</u>	<u>₩ 227,386,914</u>	<u>US\$ 169,138</u>	<u>US\$ 160,697</u>

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

LG CHEMICAL LTD.

STATEMENTS OF CASH FLOWS, Continued
for the years ended December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Cash flows from investing activities :				
Cash inflows from investing activities :				
Disposal of marketable securities	₩ 94,545,172	₩ 38,578,997	US\$ 66,816	US\$ 27,264
Decrease in noncurrent bank deposits	17,404,815	24,884,127	12,300	17,586
Disposal of investments securities	4,012,529	9,448,720	2,836	6,678
Decrease in other investment	7,911,186	5,920,568	5,591	4,184
Decrease in long-term guarantee	8,919,242	7,203,773	6,303	5,091
Disposal of property, plant and equipment	6,300,040	5,301,553	4,452	3,747
Others	98,530	512,162	70	362
	<u>139,191,514</u>	<u>91,849,900</u>	<u>98,368</u>	<u>64,912</u>
Cash outflows from investing activities :				
Acquisition of marketable securities	93,662,644	35,314,356	66,193	24,957
Acquisition of investments securities	129,230,617	45,607,422	91,329	32,231
Increase in noncurrent bank deposits	69,225,518	45,172,969	48,923	31,924
Increase in long-term guarantee	15,522,217	23,530,688	10,970	16,629
Increase in other investments as	11,719,564	5,919,722	8,282	4,184
Acquisition of property, plant and equipment	448,166,234	802,999,447	316,725	567,491
Increase in intangible assets	2,868,637	-	2,027	-
Increase in deferred charges	37,711,497	32,456,260	26,651	22,938
Payment of special surcharge tax	-	226,711	-	160
Payment of asset revaluation tax	-	5,146,456	-	3,637
	<u>808,106,928</u>	<u>996,374,031</u>	<u>571,100</u>	<u>704,151</u>
	<u>₩ -668,915,414</u>	<u>₩ -904,524,131</u>	<u>US\$ -472,732</u>	<u>US\$ -639,239</u>

Continued;

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

LG CHEMICAL LTD.

STATEMENTS OF CASH FLOWS, Continued
for the years ended December 31, 1997 and 1996

	Thousands of			
	Korean Won		U.S.Dollars	
	1997	1996	1997	1996
Cash flows from financing activities :				
Cash inflows from financing activities :				
Increase in short-term borrowings	₩ 201,754,877	₩ 218,195,693	US\$ 142,583	US\$ 154,202
Increase in long-term debt	952,205,766	1,001,156,302	672,937	707,531
	<u>1,153,960,643</u>	<u>1,219,351,995</u>	<u>815,520</u>	<u>861,733</u>
Payment of current maturities and long-term debt	333,330,568	544,225,386	235,570	384,612
Increase in deferred charges	1,811,651	2,195,224	1,280	1,551
	<u>335,142,219</u>	<u>546,420,610</u>	<u>236,850</u>	<u>386,163</u>
	<u>818,818,424</u>	<u>672,931,385</u>	<u>578,670</u>	<u>475,570</u>
Net increase (decrease) in cash and cash equivalents	<u>389,232,937</u>	<u>-4,205,832</u>	<u>275,076</u>	<u>-2,972</u>
Cash and cash equivalents at beginning of the year (Note 22)	<u>179,425,690</u>	<u>183,631,522</u>	<u>126,803</u>	<u>129,775</u>
Cash and cash equivalents at end of the year (Note 22)	<u>₩ 568,658,627</u>	<u>₩ 179,425,690</u>	<u>US\$ 401,879</u>	<u>US\$ 126,803</u>

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