

LG CHEMICAL LTD.  
BALANCE SHEETS  
December 31, 1998 and 1997

ASSETS	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Current assets:				
Cash and bank deposits (Note 4)	₩ 125,123,270	₩ 212,775,504	\$ 103,596	\$ 176,168
Marketable securities (Note 5)	153,574,647	1,092,438	127,152	904
Trade accounts and notes receivable, net (Notes 6 and 19)	741,011,856	1,058,956,069	613,522	876,764
Other accounts receivable, net (Note 6)	154,184,471	15,100,866	127,657	12,503
Short-term loans (Note 19)	28,169,700	356,221,123	23,323	294,934
Inventories (Note 7)	271,750,135	383,889,826	224,996	317,842
Accrued income	13,940,191	8,841,590	11,542	7,320
Advance payments	2,629,792	3,712,349	2,178	3,074
Prepaid expenses	23,148,212	68,022,497	19,166	56,320
Short-term guarantee deposits	640,417	5,639,388	530	4,669
Other current assets	2,003,414	4,915,326	1,659	4,070
Total current assets	1,516,176,105	2,119,166,976	1,255,321	1,754,568
Property, plant and equipment, net (Note 8)	2,656,771,484	2,875,552,731	2,199,678	2,380,819
Investments securities, net (Note 9)	835,978,267	644,576,339	692,150	533,678
Other investments	69,292,793	46,618,166	57,371	38,597
Noncurrent bank deposits (Note 4)	170,170,245	197,167,015	140,893	163,245
Other long-term accounts receivable, net (Note 6)	-	11,067	-	9
Long-term guarantee deposits	47,762,797	47,461,969	39,545	39,296
Intangible assets	4,278,428	3,118,181	3,542	2,582
Deferred charges (Note 2)	121,035,405	229,335,847	100,211	189,879
Total Assets	₩ 5,421,465,524	₩ 6,163,008,291	\$ 4,488,711	\$ 5,102,673

Continued;

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

LG CHEMICAL LTD.  
BALANCE SHEETS, Continued  
December 31, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Note 10)	₩ 448,494,427	₩ 1,219,431,577	\$ 371,332	\$ 1,009,630
Current maturities of long-term debt (Note 10)	831,098,093	542,039,734	688,109	448,783
Trade accounts and notes payable (Note 19)	207,054,696	254,456,286	171,431	210,678
Other accounts payable	189,740,214	241,345,714	157,096	199,823
Dividend payable	22,277,448	5,092,998	18,445	4,217
Income taxes payable (Note 17)	29,075,724	4,836,987	24,073	4,005
Accrued expenses	124,366,766	115,426,510	102,970	95,567
Other current liabilities	43,331,241	24,651,333	35,875	20,409
Total current liabilities	1,895,438,609	2,407,281,139	1,569,331	1,993,112
Long-term debt, net (Note 11)	1,848,917,676	2,099,325,168	1,530,814	1,738,140
Accrued severance benefits, net	184,228,228	198,983,022	152,532	164,748
Other long-term liabilities	14,750,281	11,798,511	12,213	9,769
Total long-term debt	2,047,896,185	2,310,106,701	1,695,559	1,912,657
Deferred liabilities (Note 2)	137,405	172,462	114	143
Total liabilities	₩ 3,943,472,199	₩ 4,717,560,302	\$ 3,265,004	\$ 3,905,912

Continued;

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

LG CHEMICAL LTD.  
BALANCE SHEETS, Continued  
December 31, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY, Continued</b>				
Commitments and contingencies (Note 12)				
Shareholders' equity :				
Capital stock, ₩5,000 par value; authorized 193,000,000 shares				
Common stock, issued and outstanding, 75,613,734 shares in 1998 and 1997 ₩	378,068,670	₩ 378,068,670	\$ 313,023	\$ 313,023
Preferred stock, issued and outstanding, 13,123,108 shares in 1998 and 1997	65,615,540	65,615,540	54,326	54,326
	<u>443,684,210</u>	<u>443,684,210</u>	<u>367,349</u>	<u>367,349</u>
Capital surplus :				
Paid-in capital in excess of par value	345,340,676	345,340,676	285,925	285,925
Gain on business combination	21,859,338	21,859,338	18,098	18,098
Asset revaluation surplus (Note 8)	361,572,241	361,572,241	299,365	299,365
	<u>728,772,255</u>	<u>728,772,255</u>	<u>603,388</u>	<u>603,388</u>
Retained earnings (Note 13):				
Legal reserve	27,748,000	25,518,000	22,974	21,128
Other reserves	276,622,875	247,464,106	229,030	204,888
Unappropriated retained earnings carried over to subsequent year	5,723	9,418	5	8
	<u>304,376,598</u>	<u>272,991,524</u>	<u>252,009</u>	<u>226,024</u>
Capital adjustment :				
Consideration for conversion rights	34,676,428	-	28,710	-
Treasury stock (Note 14)	(32,830,964)	-	(27,182)	-
Loss on valuation of investments in equity securities	(685,202)	-	(567)	-
	<u>1,160,262</u>	<u>-</u>	<u>961</u>	<u>-</u>
Total shareholders' equity	<u>1,477,993,325</u>	<u>1,445,447,989</u>	<u>1,223,707</u>	<u>1,196,761</u>
Total liabilities and shareholders' equity ₩	<u><u>5,421,465,524</u></u>	<u><u>₩ 6,163,008,291</u></u>	<u><u>\$ 4,488,711</u></u>	<u><u>\$ 5,102,673</u></u>

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

LG CHEMICAL LTD.  
STATEMENTS OF INCOME  
for the years ended December 31, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Sales (Note 19) :				
Domestic	₩ 2,518,659,573	₩ 2,778,435,016	\$ 2,085,328	\$ 2,300,410
Export	1,798,005,204	1,336,013,251	1,488,661	1,106,154
	<u>4,316,664,777</u>	<u>4,114,448,267</u>	<u>3,573,989</u>	<u>3,406,564</u>
Cost of sales (Note 15 and 19)	3,073,676,181	2,983,301,156	2,544,855	2,470,029
Gross profit	1,242,988,596	1,131,147,111	1,029,134	936,535
Selling expenses (Note 15)	619,811,650	585,418,484	513,174	484,698
Administrative expenses	95,691,621	108,689,372	79,228	89,990
Income from operations	<u>527,485,325</u>	<u>437,039,255</u>	<u>436,732</u>	<u>361,847</u>
Nonoperating expenses (income)				
Interest expenses, net	394,154,654	283,126,403	326,341	234,415
Amortization of deferred charges	73,902,991	74,463,574	61,188	61,652
Foreign exchange loss, net	49,773,305	47,796,481	41,210	39,573
Dividend income	(5,768,056)	(5,639,650)	(4,776)	(4,669)
Gain on disposal of investment, net	(12,395,520)	(2,487,692)	(10,263)	(2,060)
Loss(Gain) on disposal of property, plant and equipment, net	(9,189,228)	4,815,381	(7,608)	3,987
Others, net	(4,287,482)	10,169,586	(3,550)	8,420
	<u>486,190,664</u>	<u>412,244,083</u>	<u>402,542</u>	<u>341,318</u>
Ordinary income	41,294,661	24,795,172	34,190	20,529
Extraordinary loss (gain)				
Loss on disposal of property, plant and equipment, net	16,630,367	-	13,769	-
Loss on disposal of investment	7,489,004	-	6,200	-
Loss on prior period error correction	-	9,230,200	-	7,642
Other extraordinary gain, net (Note 23)	(78,645,044)	(737,744)	(65,114)	(611)
	<u>(54,525,673)</u>	<u>8,492,456</u>	<u>(45,145)</u>	<u>7,031</u>
Income before income taxes	95,820,335	16,302,716	79,335	13,498
Income taxes (Note 17)	42,219,895	9,858,478	34,956	8,162
Net income	<u>₩ 53,600,440</u>	<u>₩ 6,444,238</u>	<u>\$ 44,379</u>	<u>\$ 5,336</u>
Earnings per share (Note 18)				
(In Won and U.S. Dollar)	<u>₩ 676</u>	<u>₩ 68</u>	<u>\$ 0.56</u>	<u>\$ 0.06</u>
Ordinary income per share (Note 18)				
(In Won and U.S. Dollar)	<u>₩ 261</u>	<u>₩ 184</u>	<u>\$ 0.22</u>	<u>\$ 0.15</u>

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

LG CHEMICAL LTD.  
STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS  
for the years ended December 31, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Unappropriated retained earnings at the end of the year:				
Unappropriated retained earnings carried over from prior year	₩ 9,418	₩ 6,068,874	\$ 7	\$ 5,024
Net income	53,600,440	6,444,238	44,379	5,336
	<u>53,609,858</u>	<u>12,513,112</u>	<u>44,386</u>	<u>10,360</u>
Transfer from other reserves :	55,314,231	46,512,303	45,798	38,510
	<u>108,924,089</u>	<u>59,025,415</u>	<u>90,184</u>	<u>48,870</u>
Appropriations :				
Transfer to legal reserve	2,230,000	510,000	1,846	422
Transfer to other reserves	84,473,000	53,413,000	69,940	44,224
Cash dividends (Note 18)	22,215,366	5,092,997	18,393	4,216
Common stock				
5% in 1998 and 1% in 1997	(18,278,434)	(3,780,686)	(15,134)	(3,130)
Preferred stock				
6% in 1998 and 2% in 1997	(3,936,932)	(1,312,311)	(3,259)	(1,086)
	<u>108,918,366</u>	<u>59,015,997</u>	<u>90,179</u>	<u>48,862</u>
Appropriated retained earnings carried over to subsequent year	<u>₩ 5,723</u>	<u>₩ 9,418</u>	<u>\$ 5</u>	<u>\$ 8</u>

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LG CHEMICAL LTD.  
STATEMENTS OF CASH FLOWS  
for the years ended December 31, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Cash flows from operating activities :				
Net Income	₩ 53,600,440	₩ 6,444,238	\$ 44,379	\$ 5,336
Expenses not involving cash outflows :				
Depreciation and amortization	392,334,049	415,840,177	324,834	344,296
Provision for severance benefits	32,575,538	42,384,935	26,971	35,093
Foreign exchange loss	9,615,913	57,944,919	7,961	47,975
Amortization of discounts, etc	25,307,374	17,102,624	20,953	14,160
Loss on disposal of property, plant and equipment	21,522,082	6,692,537	17,819	5,541
Others	40,655,442	19,982,011	33,661	16,544
	<u>522,010,398</u>	<u>559,947,203</u>	<u>432,199</u>	<u>463,609</u>
Income not involving cash inflows :				
Gain on disposal of investment	13,230,228	2,487,692	10,954	2,060
Other extraordinary income	78,645,044	-	65,114	-
Foreign exchange gain	11,032,265	36,690,433	9,134	30,378
Gain on disposal of property, plant and equipment	14,080,943	1,877,157	11,658	1,554
Payment of accrued severance benefits	41,827,225	35,381,221	34,631	29,294
Others	5,198,487	48,463	4,305	40
	<u>164,014,192</u>	<u>76,484,966</u>	<u>135,796</u>	<u>63,326</u>
Changes in assets and liabilities				
Trade accounts and notes receivable	268,586,540	(241,967,433)	222,377	(200,337)
Other accounts receivable	(8,720,785)	4,569,630	(7,220)	3,783
Accrued income	(5,098,646)	487,616	(4,221)	404
Inventories	113,283,400	(38,335,786)	93,793	(31,740)
Advance payments	1,082,557	5,195	896	4
Prepaid expenses	47,272,877	(42,403,102)	39,140	(35,108)
Other current assets	2,911,913	3,393,853	2,411	2,810
Trade accounts and notes payable	(46,371,182)	60,718,163	(38,393)	50,272
Other accounts payable	(50,141,002)	(17,247,319)	(41,514)	(14,280)
Accrued expenses	9,308,615	16,320,917	7,707	13,513
Income taxes payable	24,238,737	4,638,367	20,068	3,840
Other current liabilities	133,709	12,810,004	110	10,606
	<u>356,486,733</u>	<u>(237,009,895)</u>	<u>295,154</u>	<u>(196,233)</u>
Total	<u>₩ 768,083,379</u>	<u>₩ 252,896,580</u>	<u>\$ 635,936</u>	<u>\$ 209,386</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, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Cash flows from investing activities :				
Cash inflows from investing activities :				
Disposal of marketable securities	₩ 35,468,489	₩ 94,545,172	\$ 29,366	\$ 78,279
Disposal of short-term loans	338,000	-	280	-
Decrease in short-term guarantee depos	4,998,970	-	4,139	-
Decrease in noncurrent bank deposits	52,566,096	17,404,815	43,522	14,410
Disposal of investments securities	276,110,324	4,012,529	228,606	3,322
Decrease in other investment	10,219,109	7,911,186	8,461	6,550
Decrease in long-term guarantee deposi	16,729,361	8,919,242	13,851	7,385
Disposal of property, plant and equipment	53,302,142	6,300,040	44,132	5,216
	<u>449,732,491</u>	<u>139,092,984</u>	<u>372,357</u>	<u>115,162</u>
Cash outflows from investing activities :				
Acquisition of marketable securities	187,956,102	93,662,644	155,619	77,548
Increase of short-term loans	22,717,700	338,000	18,809	280
Increase of short-term guarantee depos	-	3,698,813	-	3,062
Acquisition of investments securities	463,290,937	129,230,617	383,582	106,997
Increase in non-current bank deposits	25,569,327	69,225,518	21,170	57,315
Increase in long-term guarantee deposit:	17,160,065	15,522,217	14,208	12,852
Increase in other investments	16,032,387	11,621,035	13,274	9,622
Acquisition of property, plant and equipment	299,315,658	448,166,234	247,819	371,060
Increase in intangible assets	2,027,735	2,868,637	1,679	2,375
Increase in deferred charges	35,455,586	37,711,497	29,356	31,223
	<u>1,069,525,497</u>	<u>812,045,212</u>	<u>885,516</u>	<u>672,334</u>
Total	<u>₩ (619,793,006)</u>	<u>₩ (672,952,228)</u>	<u>\$ (513,159)</u>	<u>\$ (557,172)</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, 1998 and 1997

	Thousands of			
	Korean Won		U.S. Dollars	
	1998	1997	1998	1997
Cash flows from financing activities :				
Cash inflows from financing activities :				
Increase in short-term borrowings	₩ -	₩ 201,754,877	\$ -	\$ 167,043
Increase in long-term debt	1,828,864,319	952,205,766	1,514,211	788,381
	<u>1,828,864,319</u>	<u>1,153,960,643</u>	<u>1,514,211</u>	<u>955,424</u>
Cash outflows from financing activities :				
Payment of current maturities and long-term debt	1,700,389,808	333,330,568	1,407,841	275,982
Payment of dividend payable	5,030,916	9,529,840	4,165	7,890
Increase in deferred charges	1,595,000	1,811,651	1,320	1,500
Payment of short-term borrowing	770,843,361	-	638,221	-
Increase in treasury stock	32,830,964	-	27,182	-
	<u>2,510,690,049</u>	<u>344,672,059</u>	<u>2,078,729</u>	<u>285,372</u>
Total	<u>(681,825,730)</u>	<u>809,288,584</u>	<u>(564,518)</u>	<u>670,052</u>
Cash inflow from disposition of Carbon black division	100,000,000	-	82,795	-
Net increase (decrease) in cash and cash equivalents	<u>(433,535,357)</u>	<u>389,232,937</u>	<u>(358,946)</u>	<u>322,266</u>
Cash and cash equivalents at beginning of the year (Note 25)	<u>568,658,627</u>	<u>179,425,690</u>	<u>470,822</u>	<u>148,556</u>
Cash and cash equivalents at end of the year (Note 25)	<u>₩ 135,123,270</u>	<u>₩ 568,658,627</u>	<u>\$ 111,876</u>	<u>\$ 470,822</u>

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