

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
LG Electronics Inc.

We have audited the accompanying non-consolidated balance sheets of LG Electronics Inc. (the "Company") as of December 31, 2000 and 1999, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. as of December 31, 2000 and 1999, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 22 to the accompanying financial statements, for the years ended December 31, 2000 and 1999, the Company entered into various transactions with affiliated companies such as LG Electronics U.S.A. Inc., including sales of ₩7,028,871 million and ₩4,725,470 million, respectively, and purchases of ₩1,504,114 million and ₩1,049,335 million, respectively. As of December 31, 2000 and 1999, related accounts receivable approximate ₩806,155 million and ₩372,491 million, respectively, and related accounts payable approximate ₩425,381 million and ₩275,529 million, respectively.

Continued;

As discussed in Note 25 to the accompanying financial statements, LG Information & Communications, Ltd. (“LGIC”), an affiliate, was merged into the Company effective September 1, 2000. In connection with the merger, the Company issued 47,790,404 shares of common stock (issue value : ₩1,347,645 million) to the shareholders of LGIC.

As discussed in Note 15 to the accompanying financial statements, pursuant to the resolution by the board of directors on December 12, 2000, the Company issued ₩542,952 million (32,000,000 shares) of redeemable preferred stock on December 23, 2000.

As discussed in Note 1 to the accompanying financial statements, pursuant to the resolution by the board of directors on November 27, 2000, the Company entered into a LOI (letter of intent) regarding a joint venture of Cathode Ray Tubes (“CRT”) business with Koninklijke Philips Electronics N.V. Currently, detailed matters to establish the joint venture are being negotiated.

Without qualifying our opinion, we draw attention to Note 14 of the accompanying financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The procedures and practices utilized to audit such financial statements may differ from those generally accepted and applied in other countries and jurisdictions. Accordingly, this report and the accompanying financial statements are not intended for use by those who are not informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
February 3, 2001

LG ELECTRONICS INC.
NON-CONSOLIDATED BALANCE SHEETS
As of December 31, 2000 and 1999
(In millions of Korean Won)

	2000	1999
ASSETS		
Current Assets :		
Cash and cash equivalents (Note 5)	₩ 170,829	₩ 85,965
Short-term financial instruments (Note 3)	6,750	11,680
Marketable securities (Note 7)	1,895	-
Trade accounts and notes receivable (Notes 4, 5 and 22)	799,601	480,718
Other accounts receivable (Notes 4 and 5)	164,141	172,728
Inventories (Note 6)	1,191,879	550,447
Prepaid expenses	48,145	66,264
Accrued income (Notes 4 and 5)	191,539	80,971
Advances (Note 4)	158,780	60,838
Other current assets (Note 4)	6,845	24,741
Total current assets	2,740,404	1,534,352
Property, plant and equipment, less accumulated depreciation (Note 8)	3,337,088	2,726,249
Long-term financial instruments (Note 3)	13,091	25,610
Investments (Note 7)	4,210,506	4,119,959
Refundable deposits (Note 5)	167,668	228,432
Long-term trade accounts receivable (Note 4)	4,502	8,556
Long-term other accounts receivable (Note 4)	-	45,439
Long-term prepaid expenses	37,769	28,121
Deferred tax assets, net (Note 19)	159,609	238,289
Long-term loans (Notes 4 and 5)	116,977	31,202
Intangible assets (Note 9)	1,092,512	106,109
Total assets	₩ 11,880,126	₩ 9,092,318

Continued;

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

LG ELECTRONICS INC.
NON-CONSOLIDATED BALANCE SHEETS, Continued
As of December 31, 2000 and 1999
(In millions of Korean Won)

	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities :		
Short-term borrowings (Note 10)	₩ 658,355	₩ 129,781
Current maturities of long-term debt (Note 10)	1,663,716	1,366,092
Trade accounts and notes payable (Notes 5 and 22)	1,390,900	981,343
Other accounts payable (Note 5)	797,178	486,765
Income taxes payable (Note 19)	94,327	547,582
Accrued expenses (Note 5)	310,896	196,406
Withholdings	50,239	40,288
Advances from customers	159,808	96,324
Dividends payable (Note 21)	144,948	127,431
Other current liability (Note 14)	25,644	-
Total current liabilities	5,296,011	3,972,012
Debentures, net of current maturities and discounts (premiums) on debentures (Note 11)	1,848,203	1,399,007
Long-term debt, net of current maturities (Note 11)	543,047	397,983
Long-term other accounts payable (Note 11)	2,287	5,205
Accrued severance benefits, net (Note 13)	181,211	128,730
Other long-term liabilities	1,725	3,051
Total liabilities	7,872,484	5,905,988
Commitments and contingencies (Note 14)		
Shareholders' Equity :		
Capital stock (Note 15)	1,031,068	632,116
Capital surplus :		
Additional paid-in capital (Note 15)	1,985,154	493,508
Gain on merger (Note 16)	29,732	29,732
Revaluation surplus (Note 16)	339,619	339,676
Total capital surplus	2,354,505	862,916
Retained earnings (Note 17) :		
Legal reserve	55,999	41,499
Other reserves	1,618,203	1,399,154
Unappropriated retained earnings carried forward	24	44
Total retained earnings	1,674,226	1,440,697
Capital adjustments (Note 18)	(1,052,157)	250,601
Total shareholders' equity	4,007,642	3,186,330
Total liabilities and shareholders' equity	₩ 11,880,126	₩ 9,092,318

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

LG ELECTRONICS INC.
NON-CONSOLIDATED INCOME STATEMENTS
for the years ended December 31, 2000 and 1999
(In millions of Korean Won except for EPS amounts)

	2000	1999
Sales (Note 22)	₩ 14,835,674	₩ 10,546,099
Cost of sales (Note 22)	11,820,761	8,356,103
Gross profit	3,014,913	2,189,996
Selling and administrative expenses	2,093,828	1,505,984
Operating income	921,085	684,012
Non-operating income :		
Interest income	66,933	87,553
Dividends income	299	27,278
Foreign exchange gains	185,552	228,425
Gain on disposal of property, plant and equipment	2,359	14,431
Gain on disposal of investments (Note 7)	254,910	2,398,007
Gain on valuation of investments	-	40,644
Gain on disposal of intangible assets (Note 7)	-	281,391
Equity in earnings of affiliates, net (Note 7)	287,368	-
Royalty income	56,154	43,114
Other	188,145	102,940
	1,041,720	3,223,783
Non-operating expenses :		
Interest expense	436,870	509,269
Foreign exchange losses	275,389	260,780
Loss from transfer of trade accounts and notes receivable	196,222	106,437
Loss from disposal of property, plant and equipment	24,675	63,500
Loss from disposal of investments	83,865	33,256
Loss from redemption of debentures	664	75,718
Equity in losses of affiliates, net	-	146,371
Donations	6,875	95,846
Other bad debt expenses	53,657	-
Other	156,052	28,713
	1,234,269	1,319,890
Ordinary income	728,536	2,587,905
Extraordinary gains	188	-
Extraordinary losses	-	-
Income before income tax expenses	728,724	2,587,905
Income tax expenses (Note 19)	226,541	582,884
Net income	₩ 502,183	₩ 2,005,021
Ordinary income and earnings per share (Note 20) (in Korean Won)		
- Basic ordinary income per share	₩ 4,430	₩ 18,494
- Basic earnings per share	₩ 4,431	₩ 18,494
- Diluted ordinary income per share	₩ 4,367	₩ 18,258
- Diluted earnings per share	₩ 4,368	₩ 18,258

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

LG ELECTRONICS INC.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2000 and 1999
(In millions of Korean Won)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES :		
Net income	₩ 502,183	₩ 2,005,021
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	524,050	370,763
Amortization of discounts and premiums on debentures	27,234	28,250
Provision for severance benefits	127,087	92,070
Bad debt expense	117,546	74,569
Loss on valuation of investments, net	-	(40,644)
Foreign currency translation losses (gains), net	85,460	(24,089)
Gain on disposal of investments, net	(171,045)	(2,364,752)
Loss on disposal of property, plant and equipment, net	22,317	49,069
Loss on redemption of debentures	664	75,718
Equity in losses (earnings) of affiliates, net	(287,368)	146,371
Gain on disposal of intangible assets	-	(281,392)
Others, net	29,429	(1,953)
Changes in assets and liabilities :		
Decrease (increase) in trade accounts and notes receivable	272,942	(33,953)
Decrease in other accounts receivable	4,116	42,284
Increase in inventories	(265,654)	(107,553)
Decrease (increase) in prepaid expenses	28,654	(1,884)
Decrease (increase) in advances	(90,079)	37,213
Increase in other current assets	(24,598)	(7,534)
Decrease in deferred income tax assets	134,249	15,991
Increase in trade accounts and notes payable	121,455	242,387
Increase in other accounts payable	199,956	113,456
Increase in accrued expenses	54,286	47,153
Increase in advances from customers	58,660	17,841
Increase (decrease) in income taxes payable	(457,980)	533,953
Decrease in withholdings	(7,523)	(24,709)
Payment of severance benefits	(85,046)	(135,293)
Decrease in contribution to national pension fund	6,709	5,947
Other	(2,210)	8,854
Net cash provided by operating activities	₩ 925,494	₩ 883,154

Continued;

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

LG ELECTRONICS INC.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended December 31, 2000 and 1999
(In millions of Korean Won)

	2000	1999
CASH FLOWS FROM INVESTING ACTIVITIES :		
Decrease in short-term financial instruments	₩ 7,152	₩ 162,820
Proceeds from disposal of marketable securities	453	6,640
Proceeds from disposal of investments	576,897	3,124,663
Proceeds from disposal of property, plant and equipment	26,887	67,738
Proceeds from disposal of intangible assets	-	288,000
Decrease in long-term financial instruments	19,796	90,170
Decrease in long-term other accounts receivable	54,766	-
Decrease (increase) in refundable deposits	122,232	(4,560)
Increase in long-term financial instruments	(2,752)	(40,467)
Increase in severance insurance deposits	(6,249)	(86,300)
Acquisition of marketable securities	(7)	(10,371)
Acquisition of investments	(282,127)	(2,216,799)
Acquisition of property, plant and equipment	(755,821)	(422,424)
Acquisition of intangible assets	(98,250)	(36,600)
Decrease (increase) in short and long-term loans	(73,123)	11,921
Increase in cash by merger	178,700	-
Others	2,601	1,297
Net cash provided by (used in) investing activities	(228,845)	935,728
CASH FLOWS FROM FINANCING ACTIVITIES :		
Decrease in short-term borrowings	(677,062)	(377,167)
Increase in debentures	1,100,672	153,758
Increase in long-term debt	296,843	83,493
Payment of current maturities of long-term debt	(1,485,652)	(1,386,056)
Payment of debentures	(20,704)	(299,230)
Payment of long-term debt	-	(16,577)
Payment of dividends	(127,349)	(13,512)
Proceeds from disposal of treasury stock	136,400	-
Acquisition of treasury stock	(377,859)	-
Issuance of redeemable preferred stock	542,952	-
Other	(26)	(5,988)
Net cash used in financing activities	(611,785)	(1,861,279)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,864	(42,397)
CASH AT BEGINNING OF THE YEAR (Note 24)	85,965	128,362
CASH AT END OF THE YEAR (Note 24)	₩ 170,829	₩ 85,965

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

LG ELECTRONICS INC.
NON-CONSOLIDATED STATEMENTS OF
APPROPRIATIONS OF RETAINED EARNINGS
for the years ended December 31, 2000 and 1999
Dates of appropriations : March 9, 2001 and March 17, 2000
(In millions of Korean Won)

	2000	1999
Unappropriated retained earnings before appropriations :		
Unappropriated retained earnings		
carried over from prior year	₩ 44	₩ 33
Additional provision of severance benefits	-	(11,907)
Cumulative effect of retroactive adoption of the revised accounting standards	2,074	(727,055)
Net income for the year	502,183	2,005,021
	504,301	1,266,092
Reversal of other reserves		
Reserve for business rationalization	115,115	-
Reserve for technological development	407,237	11,290
Reserve for export losses	14,000	-
	1,040,653	1,277,382
Appropriations of retained earnings (Note 17) :		
Legal reserve	14,500	12,800
Reserve for business rationalization	70,000	200,000
Reserve for technological development	141,400	937,160
Reserve for redemption of redeemable preferred stock	544,000	-
Loss from disposal of treasury stock	125,868	-
Cash dividends (Note 21)	144,861	127,378
	1,040,629	1,277,338
Unappropriated retained earnings to be carried forward to subsequent year	₩ 24	₩ 44

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

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2000 and 1999

1. The Company:

LG Electronics Inc. (the "Company") was incorporated in 1959 under the Commercial Code of the Republic of Korea to manufacture and sell electronic products. The Company is a member of the LG Group, which comprises affiliated companies under common management direction. In 1970, the Company offered its shares for public ownership. As of December 31, 2000, the Company has outstanding capital stock of ₩1,031,068 million, including non-voting preferred stock of ₩95,478 million and redeemable preferred stock of ₩160,000 million (see Note 15). The Company's common shares are listed on the Korean stock exchange and its depositary receipts ("DRs") are listed on the London and Luxembourg stock exchanges.

The Company entered into a merger agreement with LG Information & Communications, Ltd. ("LGIC"), an affiliate, which was in the business of selling and manufacturing mobile telecommunication systems, mobile phones, electronic switching systems, transmission equipment, network equipment and other related products, on June 8, 2000. The merger was approved at the shareholders' meeting on July 22, 2000. As a result, LGIC was merged into the Company effective September 1, 2000.

Pursuant to the resolution by the board of directors on November 27, 2000, the Company entered into a LOI (letter of intent) regarding a joint venture of Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. ("Philips"). Currently, detailed matters to establish the joint venture are being negotiated.

2. Summary of Significant Accounting Policies:

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

Basis of Financial Statement Presentation -

The accompanying financial statements have been extracted from the Company's Korean language financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Certain supplementary information included in the Korean language statutory financial statements, but not required for a fair presentation of the Company's financial position or results of operations, is not presented in the accompanying financial statements.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Basis of Financial Statement Presentation, Continued -

Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition -

Sales of finished products and merchandise are recognized when delivered. Revenue from installation service contracts is recognized using the percentage-of-completion method.

Marketable Securities and Investments in Debt and Equity Securities -

All marketable securities and investments in equity and debt securities are initially carried at cost determined by the weighted average method, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.

Marketable securities and investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are recorded in current operations for marketable securities and accounted for in the capital adjustment account, a component of shareholders' equity, for investments in marketable equity securities.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Investments in Debt and Equity Securities, Continued -

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over 5 years using the straight-line method, except for investees in the telecommunications industry, which are amortized over 10 years reflecting the industry's longer term of realizing its profit. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Unrealized profit arising from sales by the Company to the equity-method investees is fully eliminated. Unrealized profit arising from sales by the equity-method investees to the Company or sales between equity-method investees is also eliminated.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account.

Allowance for Doubtful Accounts -

The Company provides an allowance for doubtful accounts and notes receivable based on the aggregate estimated collectibility of the accounts and notes receivable.

Inventories -

Inventories are stated at the lower of cost or market, cost being determined using the weighted average method, except for materials in transit which are determined using the specific identification method.

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LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Property, Plant and Equipment -

Property, plant and equipment are recorded at cost except for upward revaluation in accordance with the Korean Asset Revaluation Law. Such revaluation presents land at the prevailing market price and buildings and other production facilities at their depreciated replacement cost, as of the effective date of revaluation. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets.

	Estimated Useful Life (years)
Buildings	20 - 40
Structures	20 - 40
Machinery and equipment	5 - 10
Tools	5
Furniture and fixtures	5
Vehicles	5

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

Interest expense and other similar expenses incurred during the construction period of assets on funds borrowed to finance construction are capitalized. Capitalized financing costs for the year ended December 31, 2000 and 1999 were approximately ~~₩~~20,643 million and ~~₩~~11,982 million, respectively.

Lease Transactions -

Lease agreements that include a bargain purchase option, result in the transfer of ownership at the end of the lease term, have a term longer than 75 percent of the estimated economic life of the leased property, or have a present value of the minimum lease payments at the beginning of the lease term more than 90 percent of the fair value of the leased property are accounted for as capital leases. Leases that do not meet these criteria are accounted for as operating leases, of which the total minimum lease payments are charged to expense over the lease period on a straight-line basis.

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LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Research and Development Costs -

Research costs are expensed as incurred. Development costs directly relating to new technology or new products of which the estimated future benefits are probable are recognized as intangible assets. Amortization of development costs is computed using the straight-line method over five years from the commencement of commercial production of related products. Such costs are subject to continual analysis of recoverability. In the event that such amounts are estimated to be not recoverable, they are written-down or written-off.

Intangible Assets -

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from five to ten years.

Discounts (Premiums) on Debentures -

Discounts (premiums) on debentures are amortized using the effective interest rate method over the repayment period of the debentures. The amortized amount is included in interest expense.

Treasury Debentures -

When treasury debentures are acquired, the face value and any discount or premium is subtracted from the related accounts. The difference between the book value and acquisition cost of the treasury debentures is charged to current operations as a gain or loss on redemption of debentures.

Treasury stock --

Treasury stocks are stated at cost and recorded as capital adjustment in shareholders' equity. Gain on disposal of treasury stock is recorded as capital surplus. Any loss on disposal of treasury stock is offset against prior gains on disposal of treasury stock included in capital surplus. The remaining loss is offset against retained earnings.

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LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Accrued Severance Benefits -

Employees and directors with more than one year of service are entitled to receive a lump-sum severance payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

Contributions made under the National Pension Plan and severance insurance deposits are deducted from accrued severance benefits. Contributed amounts are refunded from the National Pension Plan and the insurance companies to employees on their retirement.

Income Taxes -

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial accounting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to be reversed. Deferred tax assets are recognized to the extent that it is more likely than not that such deferred tax assets will be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred tax assets and liabilities.

Tax credits for investments and development of technology and manpower are accounted for using the flow-through method, whereby they reduce income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized, deferred tax assets, subject to realizability as stated above, are recognized for the carry-forward amount.

Sale of Accounts and Notes Receivables -

The Company sells certain accounts or notes receivable to financial institutions at a discount, and accounts for the transactions as sales of the receivables if the rights and obligations relating to the receivables are substantially transferred to the buyers. The gains and losses from the sales of the receivables are charged to operations as incurred.

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LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

2. Summary of Significant Accounting Policies, Continued:

Foreign Currency Translation -

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date, and resulting translation gains and losses are recognized currently.

The exchange rates used to translate U.S. Dollar denominated monetary assets and liabilities at December 31, 2000 and 1999 are ₩1,259.7 : US\$1 and ₩1,145.4 : US\$1, respectively.

Foreign currency dominated convertible bonds are translated at the historical exchange rates prevailing as of the date of issuance.

Derivative Financial Instruments -

The Company utilizes several derivative financial instruments ("derivatives") such as forward exchanges, swaps and option contracts to reduce its exposure resulting from fluctuations in foreign currency and interest rates. The derivatives are carried at fair market value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations.

Reclassifications --

Certain amounts in the 1999 financial statement have been reclassified to conform to the 2000 presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

3. Restricted Financial Instruments :

As of December 31, 2000 and 1999, short-term financial instruments of ₩3,013 million and ₩5,923 million, respectively, and long-term financial instruments of ₩208 million and ₩6,846 million, respectively, are deposited in connection with maintaining checking accounts, various short-term borrowings and long-term debt, and research and development projects funded by the government. The withdrawal of these financial instruments is restricted (see Notes 10 and 11).

In addition, long-term financial instruments of ₩16,882 million as of December 31, 1999 represent deposits made under group severance insurance plans. The withdrawal of such deposits is restricted to the actual payment of severance benefits (see Note 13).

4. Receivables :

Receivables, including trade accounts and notes receivable, as of December 31, 2000 and 1999 comprise the following (Millions of Won) :

	2000				1999			
	Costs	Allowance for doubtful accounts	Discounts for present value	Carrying value	Costs	Allowance for doubtful accounts	Discounts for present value	Carrying value
Trade accounts and notes receivable	₩896,516	₩94,208	₩2,707	₩799,601	₩521,656	₩38,259	₩ 2,679	₩480,718
Other accounts receivable	185,700	21,559	-	164,141	175,702	2,974	-	172,728
Accrued income	225,637	34,098	-	191,539	81,789	818	-	80,971
Advances	160,225	1,445	-	158,780	62,011	1,173	-	60,838
Other current assets	6,910	65	-	6,845	24,800	59	-	24,741
Long-term trade accounts receivable	4,547	45	-	4,502	8,642	86	-	8,556
Long-term other accounts receivable	-	-	-	-	60,174	602	14,133	45,439
Long-term loans	148,082	31,105	-	116,977	31,517	315	-	31,202
	<u>₩1,627,617</u>	<u>₩182,525</u>	<u>₩2,707</u>	<u>₩1,442,385</u>	<u>₩966,291</u>	<u>₩44,286</u>	<u>₩16,812</u>	<u>₩905,193</u>

Continued;

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

4. Receivables, Continued :

Maturities of certain trade accounts and notes receivable from customers which are suffering financial difficulties and are in process of corporate reorganization under the court are rescheduled and the receivables are discounted to record present value. Future annual maturities of such receivables outstanding as of December 31, 2000 are as follows :

For the year ending December 31,	Millions of Won		
	Amount to be collected	Present value (*)	Discount
2001	₩ 3,407	₩ 2,377	₩ 1,030
2002	2,510	2,094	416
2003	2,980	2,400	580
2004	2,041	1,691	350
2005	2,001	1,670	331
	₩ 12,939	₩ 10,232	₩ 2,707

(*) Weighted average interest rate of long-term debt of the Company for the year ended December 31, 1999 (11.0%) is used to calculate discounted present value.

As of December 31, 2000, the outstanding balance of notes receivable, sold at discount to financial institution with recourse, from Hyundai Electronics Industries Co., Ltd. in relation to the Company's share transfer of LG Semicon Co., Ltd. in 1999 is ₩550,024 million.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

5. Assets and Liabilities Denominated in Foreign Currencies:

As of December 31, 2000 and 1999, monetary assets and liabilities denominated in foreign currencies, other than those disclosed in Notes 10 and 11, are as follows:

	2000		1999	
	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)
Cash and cash equivalents	USD 69	₩ 86,723	USD 39	₩ 45,004
	JPY 439	4,833	JPY 287	3,220
	ESP 168	1,195	ESP 180	1,247
	AUD 2	1,456	AUD 2	1,473
	GBP 1	1,624	GBP 2	3,157
	ITL 1,447	887	ITL 1,891	1,123
	Others	20,780	Others	13,951
		<u>117,498</u>		<u>69,175</u>
Trade accounts receivable	USD 235	296,564	USD 198	227,067
	DEM 6	3,386	DEM 10	6,066
	JPY 259	2,854	JPY 71	799
	HKD 118	19,082	HKD 40	5,853
	Others	12,488	Others	7,057
		<u>334,374</u>		<u>246,842</u>
Accrued income	USD 55	69,788	USD 29	33,017
	GBP 1	1,830	Others	47
		<u>71,618</u>		<u>33,064</u>
Other accounts receivable	USD 1	210	USD 3	2,893
	ITL 436	267	ITL 436	259
	FRF 10	1,812	FRF 7	1,261
	Others	3	Others	48
		<u>2,292</u>		<u>4,461</u>
Refundable deposits	JPY 26	289	JPY 26	294
	USD 1	1,755	USD 2	1,799
		<u>2,044</u>		<u>2,093</u>
Long-term loan	USD 85	₩ 107,069	₩	-

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

5. Assets and Liabilities Denominated in Foreign Currencies, Continued :

	2000		1999	
	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)
Trade accounts payable	USD 445	₩ 561,083	USD 342	₩ 391,569
	JPY 9,280	102,231	JPY 8,975	100,682
	DEM 4	2,507	DEM 2	1,183
	ITL 416	255	ITL 1,076	639
	EUR 1	1,032		
	Others	16	Others	14
		<u>667,124</u>		<u>494,087</u>
Other accounts payable	USD 114	144,205	USD 67	77,103
	DEM 38	23,050	DEM 7	3,855
	ESP 293	2,091	FFR 44	7,714
	JPY 863	9,507	ESP 167	1,153
	Others	11,736	JPY 199	2,235
			Others	6,112
		<u>190,589</u>		<u>98,172</u>
Accrued expenses	USD 33	41,684	USD 11	12,695
	AUD 8	5,902		
	DEM 1	638	DEM 2	1,069
	Others	1,145	Others	143
		<u>₩ 49,369</u>		<u>₩ 13,907</u>

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

6. Inventories:

Inventories as of December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Merchandise	₩ 33,517	₩ 15,582
Finished products	474,415	251,799
Work in process	172,231	85,983
Raw materials	406,664	122,099
Parts and supplies	105,052	74,984
	₩ 1,191,879	₩ 550,447

At December 31, 2000 and 1999, inventories are insured against fire and other casualty losses up to approximately ₩652,806 million and ₩501,787 million, respectively.

In addition, at December 31, 2000, inventories and property, plant and equipment are collectively insured against fire and other casualty losses up to approximately ₩872,563.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments :

Marketable securities as of December 31, 2000 consist of government and municipal bonds which are due within one year.

Investments as of December 31, 2000 and 1999 are as follows :

	Percentage of Ownership(%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG Construction Co., Ltd.	8.56	₩ 35,148	₩ 61,091	₩ 61,091	₩ 35,148	₩ 70,244	₩ 70,244
LG Micron Ltd.	17.24	5,000	29,040	29,040	5,000	35,375	35,375
LG Department Store Co., Ltd.	57.70	72,706	46,933	46,933	66,012	44,179	44,179
LG International Corp.	2.94	20,253	18,527	18,527	20,253	18,074	18,074
LG Sports Ltd.	39.25	2,204	1,949	1,949	1,896	1,715	1,715
LG Innotek Co., Ltd. (formerly, LG Precision Co., Ltd.)	53.41	31,135	79,062	79,062	24,592	72,571	72,571
LG Cable Ltd.	5.96	29,313	52,724	52,724	-	-	-
LG Capital Co., Ltd.	6.17	24,651	54,810	54,810	18,482	29,085	29,085
LG Investments Security Inc.	7.15	262,432	170,177	170,177	233,833	194,359	194,359
LG Hitachi Ltd.	49.00	6,060	7,275	7,275	12,150	18,487	18,487
LG-Caltex Oil Corp.	3.07	50,004	102,350	102,350	50,004	95,314	95,314
LG-EDS Systems Inc.	10.00	360	6,469	6,469	360	4,605	4,605
LG. Philips LCD Co., Ltd.	50.00	726,169	759,815	759,815	726,169	692,782	692,782
LG Internet Inc.	-	-	-	-	29,988	8,170	8,170
LG Information & Communications Co., Ltd.	-	-	-	-	352,013	413,402	413,402
Kukdong City Gas Inc.	-	-	-	-	17,088	12,823	12,823
Hitachi/LG Data Storage Inc. (*2)	49.00	7,684	7,684	7,684			
Dacom Corporation (*3)	49.06	1,299,943	991,139	991,139	746,669	787,312	787,312
Goldstar Electronics Tailand Co., Ltd. (G.S.T.) (*2)	49.00	36	36	36	36	36	36
LG Electronics Almaty Kazak Co., Ltd. (LGEAK) (*3)	100.00	3,746	3,584	3,584	3,746	3,965	3,965
LG Electronics Antwerp Logistics N.V. (LGEAL) (*3)	100.00	967	315	315	967	115	115
LG Electronics Australia PTY, Ltd. (LGEAP) (*1)	100.00	1,558	-	-	1,558	-	-
LG Electronics Argentina S.A. (LGEAR) (*2)	100.00	1,111	1,111	1,111	-	-	-
Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT) (*3)	50.00	14,718	7,874	7,874	9,764	9,764	9,764

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG Electronics da Amazonia Ltda. (LGEAZ)	100.00	₩ 34,663	₩ 18,773	₩ 18,773	₩ 34,663	₩ 15,941	₩ 15,941
Beijing LG Electronics Components Co., Ltd. (LGEBJ)	58.33	4,269	7,205	7,205	2,025	2,248	2,248
LG Electronics Columbia, Ltda. (LGEGB) (*2)	60.00	3,330	3,330	3,330	-	-	-
LG Electronics (China) Co., Ltd. (LGECH) (*3)	100.00	37,614	49,923	49,923	37,614	38,146	38,146
LG Electronics Canada, Inc. (LGECI) (*3)	100.00	13,779	13,470	13,470	13,780	11,032	11,032
LG Collins Electronics Manila Inc. (LGECEM) (*3)	92.25	20,302	8,235	8,235	20,302	9,226	9,226
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECHT) (*3)	50.00	22,953	21,153	21,153	22,953	29,388	29,388
LG Electronics Deutschland GMBH (LGEDG)	100.00	26,938	14,652	14,652	26,938	686	686
PT LG Electronics Display Devices Indonesia (LGEDID)	100.00	79,543	133,099	133,099	79,543	115,692	115,692
LG Electronics Design Tech, Ltd. (LGEDT) (*2)	100.00	1,002	1,002	1,002	1,002	1,002	1,002
LG Electronics Egypt S.A.E (LGEEG) (*3)	51.00	1,577	2,825	2,825	1,577	3,109	3,109
LG Electronics Espana S.A. (LGEES) (*1)	100.00	3,374	-	-	3,374	1,292	1,292
LG Electronics Gulf FZE (LGEGF) (*3)	100.00	2,489	1,803	1,803	2,489	2,966	2,966
LG Electronics HK Limited (LGEHK) (*3)	100.00	4,316	748	748	4,316	246	246
LG Hotline CPT Ltd. (LGEHL) (*1)	50.00	₩ 10,561	₩ -	₩ -	₩ 10,561	₩ -	₩ -
LG Electronics (Huizhou) Inc. (LGEHZ) (*3)	45.00	1,277	6,037	6,037	1,277	2,704	2,704
LG Electronics India PVT Ltd. (LGEIL) (*3)	100.00	32,076	49,776	49,776	32,076	42,426	42,426
PT LG Electronics Indonesia (LGEIN) (*3)	100.00	29,431	11,058	11,058	29,431	9,850	9,850
LG Electronics Italy S.P.A. (LGEIS)	100.00	14,136	5,712	5,712	3,106	-	-
LG Electronics Japan Inc. (LGEJP) (*3)	100.00	12,978	885	885	12,978	-	-
LG Electronics Mlawa SP.Zo.O.(LGEMA) (*3)	100.00	7,066	5,323	5,323	7,066	7,066	7,066
LG Electronics Morocco S.A.R.L (LGEMC)(*2)	85.00	2,774	2,774	2,774	-	-	-
LG Electronics Middle East Co., Ltd. (LGEME) (*3)	100.00	462	440	440	462	462	462

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG-MECA Electronics Haiphong, Inc. (LGEMH) (*3)	70.00	₩ 1,690	₩ 1,598	₩ 1,598	₩ 1,690	₩ 1,690	₩ 1,690
LG Electronics Magyar Kft. (LGEMK) (*3)	100.00	5,575	6,680	6,680	5,575	5,136	5,136
LG Electronics (M) SDN. BHD (LGEML) (*2)	100.00	11	11	11	-	-	-
LG Electronics Monterrey Mexico S.A de C.V. (LGEMM) (*2)	100.00	8,906	8,906	8,906	-	-	-
LG Electronics Mexico S.A.de C.V. (LGEMS)	98.48	1,936	2,859	2,859	1,936	8,764	8,764
LG MITR Electronics Co., Ltd. (LGEMT) (*3)	87.74	15,925	4,590	4,590	15,925	3,531	3,531
LG Electronics North of England Ltd. (LGENE) (*3)	100.00	11,229	12,060	12,060	11,229	10,555	10,555
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) (*3)	70.00	14,571	6,654	6,654	14,571	6,861	6,861
LG Electronics Polska SP.Zo.O. (LGEPL) (*3)	100.00	4,117	5,167	5,167	4,117	3,798	3,798
Nanjing LG Panda Appliances Co., Ltd. (LGEPN) (*3)	40.00	3,737	6,467	6,467	3,737	3,980	3,980
LG Electronics Peru S.A. (LGEPR) (*1)	100.00	1,879	-	-	1,879	-	-
LG Electronics Panama S.A. (LGEPS)	100.00	2,333	4,077	4,077	2,333	3,571	3,571
LG Electronics (Qinhuangdao) Co., Ltd. (LGEQH) (*3)	80.00	3,284	4,788	4,788	3,284	3,392	3,392
Triveni (formerly, LGERCA) (*2)	100.00	899	899	899	899	899	899
LG Electronics Russia Inc. (LGERI) (*2)	95.00	391	391	391	391	391	391
LG Electronics S.A. Pty Ltd. (LGESA) (*3)	100.00	3,382	270	270	3,382	3,722	3,722
LG Electronics Service Europe Netherland B.V. (LGESE) (*1)	100.00	3,978	-	-	3,978	3,978	3,978
Shuguang LG Electronics Co., Ltd. (LGESG) (*3)	42.55	81,105	73,618	73,618	56,511	75,682	75,682
Shanghai LG Electronics Co., Ltd. (LGESH) (*3)	50.00	3,021	4,585	4,585	3,021	3,571	3,571
LG Electronics Da Saopaulo Ltda (LGESP)	100.00	28,481	15,503	15,503	28,481	14,628	14,628
LG SEL Electronics Vietnam Ltd. (LGESV) (*3)	55.00	1,711	4,150	4,150	1,711	4,092	4,092
LG Electronics Sweden AB (LGESW) (*2)	100.00	5,668	5,658	5,658	2,319	2,319	2,319

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG Electronics (Shenyang) Inc. (LGESY) (*3)	57.50	₩ 12,822	₩ 14,673	₩ 14,673	₩ 5,795	₩ 3,684	₩ 3,684
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	70.00	42,948	76,619	76,619	42,948	49,953	49,953
LG Electronics Thailand Co., Ltd. (LGETH) (*3)	49.00	3,407	7,263	7,263	3,407	4,444	4,444
LG Philips LCD Taiwan Co., Ltd. (LGPLT) (formerly, LGETW) (*4)	-	-	-	-	4,281	4,281	4,281
LG Electronics United Kingdom Ltd. (LGEUK) (*1)	100.00	10,486	-	-	10,486	1,359	1,359
LG Electronics Ukraine Co., Ltd. (LGEUR) (*2)	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics U.S.A., Inc. (LGEUS)	100.00	37,985	25,236	25,236	15,673	-	-
LG Electronics Wales Ltd. (LGEWA)	100.00	101,813	67,313	67,313	101,812	77,249	77,249
LG Soft India PVT, LTD (LGS I) (*2)	88.00	2,920	2,920	2,920	2,920	2,920	2,920
Zenith Electronics Corporation (Zenith) (*1)	100.00	236,860	-	-	236,860	-	-
LG TOPS (*2)	40.00	1,799	1,799	1,799	-	-	-
Escort Communication Ltd. (*2)	100.00	6,400	6,400	6,400	-	-	-
NeoPoint, Inc. (*5)	16.67	1,604	-	-	-	-	-
Electromagnetica Goldstar S.R.L (*2)	50.00	508	508	508			
LG Telecom Corp. (*2)	75.00	369	369	369			
Vietnam SLD TEL (*2)	44.00	250	250	250			
Others (*3)	-	820,828	689,015	689,015	618,698	526,272	526,272
Investments applying the equity method of accounting		₩4,447,977	₩3,822,525	₩3,822,525	₩3,914,151	₩3,637,622	₩3,637,622

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<u><Marketable equity securities></u>							
Hyundai Electronics Industries Co., Ltd.	0.38	₩ 24,298	₩ 7,569	₩ 7,569	₩ 28,221	₩ 52,634	₩ 52,634
Korea stock market stabilization fund	2.41	20,841	10,977	10,977	23,235	22,806	22,806
P.D.I	-	-	-	-	336	1,258	1,258
Hanaro Telecom Inc.	4.66	147,547	25,591	25,591	117,428	117,900	117,900
Vodavi Technology Inc.	18.71	2,928	1,184	1,184	-	-	-
		<u>195,614</u>	<u>45,321</u>	<u>45,321</u>	<u>169,220</u>	<u>194,598</u>	<u>194,598</u>
<u>< Non-marketable equity securities ></u>							
<u>Domestic Companies</u>							
Media Valley Inc.	1.81	300	187	300	300	310	300
Nara Mold & Die Co., Ltd.	19.90	812	2,648	812	597	1,220	597
Lotis Co., Ltd.	14.01	1,900	1,060	1,900	1,900	1,900	1,900
LG OTIS Elevator Co., Ltd.	19.90	89,550	87,890	89,550	89,550	89,550	89,550
Dreamwiz	10.00	11,111	1,513	11,111	-	-	-
Korea Information Certificate Authority	10.00	1,852	1,841	1,852	-	-	-
STIC	94.00	28,200	28,829	28,200	-	-	-
Shinsegi Telecom	1.64	4,514	4,514	4,514	-	-	-
IT Telecom	19.03	456	456	456	-	-	-
Airlinktek	10.00	589	589	589	-	-	-
QMTel	9.53	1,200	1,200	1,200	-	-	-
Msoltech	10.00	635	635	635	-	-	-
Other		3,354	4,042	3,354	557	719	557
		<u>148,431</u>	<u>137,927</u>	<u>148,431</u>	<u>99,397</u>	<u>94,885</u>	<u>99,397</u>
<u>Overseas Companies</u>							
TAISTAR	11.85	760	990	760	760	995	760
GEMFIRE	4.41	1,835	170	1,835	1,835	191	1,835
Nakhodka FEZ							
Telecommunication Co., Ltd.	5.00	129	129	129	-	-	-
NICE Telecom	15.00	105	105	105	-	-	-
Erlang Technology	8.40	1,129	1,129	1,129	-	-	-
Mainstreet Networks(*5)	5.45	-	-	-	1,468	-	1,468
iTV Corporation (*5)	13.08	-	-	-	1,957	-	1,957
PocketScience (*5)	4.42	-	-	-	473	-	473
Nextwave (*5)	3.47	-	-	-	-	-	-
		<u>148,431</u>	<u>137,927</u>	<u>148,431</u>	<u>99,397</u>	<u>94,885</u>	<u>99,397</u>
<u><Debt securities></u>							
Bonds issued by government		30,034	21,843	21,843	58,015	45,668	45,668
Senior secured note issued by Zenith		135,195	148,686	148,686	147,519	142,674	142,674
ABS subordinated bond		13,700	13,700	13,700	-	-	-
Corporate bond (*6)		10,000	10,000	10,000	-	-	-
		<u>188,929</u>	<u>194,229</u>	<u>194,229</u>	<u>205,534</u>	<u>188,342</u>	<u>188,342</u>
		<u>532,974</u>	<u>377,477</u>	<u>387,981</u>	<u>474,151</u>	<u>477,825</u>	<u>482,337</u>
		<u>₩4,980,951</u>	<u>₩4,200,002</u>	<u>₩4,210,506</u>	<u>₩4,388,302</u>	<u>₩4,115,447</u>	<u>₩4,119,959</u>

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

- (*1) The equity method of accounting has been suspended due to accumulated losses.
- (*2) Investments in small sized subsidiaries and affiliates whose total assets at the previous year-end are less than ₩7,000 million are stated at cost in accordance with financial accounting standards generally accepted in the Republic of Korea.
- (*3) The equity method of accounting is applied based on most recent unaudited financial statements of subsidiaries and affiliates.
- (*4) The Company sold its shares of LG. Philips LCD Taiwan Co., Ltd. (LGPLT) to LG. Philips LCD Co., Ltd. on May 31, 2000.
- (*5) Acquisition cost was written off due to negative net book value of the investment as of December 31, 2000.
- (*6) This corporation bond was issued by LG Investment and Securities Inc., an affiliate.

Reconciliation of acquisition cost of investments in subsidiaries and affiliates accounted for using the equity method to their carrying value as of December 31, 2000 is as follows :

	Millions of Won			Total
	Capital adjustment	Retained earnings	Net income	
Acquisition Cost				₩4,447,977
Adjustment :				
Change in accounting standards	₩ (89,425)	₩ 31,668	₩ -	(57,757)
Capital surplus and capital adjustments	12,894	-	-	12,894
Prior years' net loss	-	(499,567)	-	(499,567)
Current year's net income	-	-	358,236	358,236
Elimination of unrealized profit	-	-	(70,868)	(70,868)
Dividends income	-	(311,673)	-	(311,673)
Sub total				3,879,242
Disposal of investment securities				(56,717)
Carrying Value				₩3,822,525

At December 31, 2000 and 1999, except for the Korea stock market stabilization fund, of which the differences between the market value and the acquisition cost are charged to current operations, the differences between the market value and the acquisition cost of the investments in marketable equity securities are accounted for as capital adjustments.

Pursuant to a share transfer agreement dated May 20, 1999, the Company transferred 61,512,076 shares of LG Semicon Co., Ltd. to Hyundai Electronics Industries Co., Ltd. in exchange for ₩1,726,208 million and recognized a gain on disposal of investment of ₩1,102,930 million for the year ended December 31, 1999. Pursuant to the agreement, the Company recognized a loss from price adjustment of ₩59,600 million for the year ended December 31, 2000.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

7. Investments, Continued:

Pursuant to a joint venture agreement with Koninklijke Philips Electronics N.V. ("Philips") in July 1999, the Company transferred certain of the Company's stock rights in LG.Philips LCD Co., Ltd. to Philips. As a result, the Company reduced its ownership of LG.Philips LCD Co., Ltd. to 50% and recognized a gain on disposal of investment of ~~₩~~247,800 million and ~~₩~~1,179,939 million for the years ended December 31, 2000 and 1999, respectively.

In 1999, the Company transferred its own patents in relation to Thin Film Transistor Liquid Crystal Displays ("TFT-LCD") to LG.Philips LCD Co., Ltd. in exchange for ~~₩~~288,000 million and recognized a gain on disposal of intangible assets amounting to ~~₩~~281,391 million. According to the equity method of accounting, unrealized profit of approximately ~~₩~~253,252 million, net of realized profit, arising from the sales of the patents by the Company to LG. Philips LCD Co., Ltd., an equity-method investee, is fully eliminated and charged to investment in LG. Philips LCD Co., Ltd.

Senior secured note issued by Zenith outstanding at December 31, 2000 and 1999, was converted from the Company's receivables from Zenith according to the reorganization plan of Zenith approved by the court in the United States of America on November 5, 1999 (see Note 14). The note's terms and conditions are as follows :

Interest : Effective August 1, 2000, terms were changed from LIBOR+6.5% on a quarterly basis to LIBOR+3.0% on an annual basis

Maturity of principal : November 1, 2009

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

8. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2000 and 1999 comprise the following :

	Millions of Won	
	2000	1999
Buildings	₩ 1,095,616	₩ 1,000,223
Structures	107,578	94,673
Machinery and equipment	1,282,603	985,193
Tools	776,989	697,789
Furniture and fixtures	484,019	405,810
Vehicles	27,099	24,777
	3,773,904	3,208,465
Accumulated depreciation	(1,500,218)	(1,270,871)
	2,273,686	1,937,594
Land	794,384	702,810
Construction in progress	218,694	77,973
Machinery in transit	50,324	7,872
	₩ 3,337,088	₩ 2,726,249

As of December 31, 2000 and 1999, the value of the Company's land, as determined by the local government in Korea for property tax assessment purpose, approximates ₩655,189 million and ₩581,759 million, respectively.

As of December 31, 2000 and 1999, property, plant and equipment, other than land and certain construction in progress, are insured against fire and other casualty losses up to approximately ₩3,871,698 million and ₩4,009,987 million, respectively. See Note 6 for additional insurance policies for property, plant and equipment.

A substantial portion of property, plant and equipment as of December 31, 2000 and 1999 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately ₩649,139 million and ₩583,009 million, respectively (see Notes 10 and 11).

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

9. Intangible Assets :

Intangible assets as of December 31, 2000 and 1999 comprise the following :

	Millions of Won	
	2000	1999
Goodwill	₩ 375,170	₩ -
Development costs	120,557	82,938
Industrial property rights	558,702	15,979
Other	38,083	7,192
	₩ 1,092,512	₩ 106,109

Details of research and development costs incurred for the years ended December 31, 2000 and 1999 are as follows :

	Millions of Won	
	2000	1999
Capitalized	₩ 76,836	₩ 74,271
Expensed	295,776	179,697
	₩ 372,612	₩ 253,968

As a result of the merger with LG Information & Communications, Ltd., the Company recognized goodwill of ₩393,820 million and acquired industrial property rights of ₩578,788 million. Related amortization expenses of goodwill and industrial property rights approximate ₩21,275 million and ₩38,180 million, respectively, for the year ended December 31, 2000 (Note 25).

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

10. Short-Term Borrowings:

Short-term borrowings as of December 31, 2000 and 1999 comprise the following :

	Annual Interest Rates (%) as of December 31, 2000	In Millions	
		2000	1999
<u>Bank overdrafts</u>	10.5 - 11.5	₩ 430	₩ 16,957
<u>Won currency loans :</u>			
General term loans	7.5 - 8.25	171,500	81,500
Notes discounted	7.05 - 7.86	357,100	-
Loans from insurance companies	-	-	20,000
		<u>528,600</u>	<u>101,500</u>
<u>Foreign currency loans</u>	LIBOR+1-1.5	11,849 [US\$ 9]	11,324 [US\$ 1] [¥ 897]
<u>Trade loans</u>	1.48 - 9.3	117,476 [US\$ 91] [¥ 250]	-
		<u>₩ 658,355</u>	<u>₩ 129,781</u>

See Notes 3 and 8 for collateral arrangements for these borrowings.

Current maturities of long-term debt as of December 31, 2000 and 1999 comprise the following :

	Millions of Won	
	2000	1999
Debentures	₩ 1,410,500	₩ 1,154,450
Discount on debentures, net	(11,263)	(6,158)
Long-term debt	261,197	217,800
Long-term other accounts payable	3,282	-
	<u>₩ 1,663,716</u>	<u>₩ 1,366,092</u>

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

11. Long-Term Debt :

Long-term debt as of December 31, 2000 and 1999 comprises the following:

	Annual interest rate (%) at December 31, 2000	In millions	
		2000	1999
<u>Debentures</u>			
Public, guaranteed payable through 2001	22.0 - 25.0	₩ 55,500	₩ 787,100
Private, non-guaranteed payable through 2004	7.25 - 16.5	460,000	311,000
Public, non-guaranteed payable through 2003	7.0 - 12.0	2,410,000	1,320,000
Floating rate notes in foreign currency, payable through 2002 (*1)	LIBOR+1.2-1.4	278,394 (US\$ 221)	83,350 (HK\$ 550 US\$ 2)
		3,203,894	2,501,450
<u>Convertible Bonds</u>			
Foreign currency, issued in 1991 (*2)	-	- (US\$ -)	40 (US\$ -)
Foreign currency, issued in 1996 (*3)	1.25	33,096 (US\$ 40)	33,096 (US\$ 40)
Won currency, issued in 1998	1.00	-	100,000
		33,096	133,136
<u>Exchangeable Bonds</u> (*4)			
Foreign currency, issued in 1997	0.25	66,623 (US\$ 75)	66,623 (US\$ 75)
		3,303,613	2,701,209
Less : treasury debentures		(17,171)	(117,171)
current maturities		(1,410,500)	(1,154,450)
discount on debentures		(28,045)	(38,170)
premium on debentures		306	7,589
		₩ 1,848,203	₩ 1,399,007

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

11. Long-Term Debt, Continued:

	Annual Interest Rate (%) at December 31, 2000	In Millions	
		2000	1999
<u>Won currency loans</u>			
Kookmin Bank	5.0 – 10.0	₩ 94,728	₩ 4,439
Korea Development Bank	5.5 – 9.95	196,659	91,266
Housing and Commercial Bank	3.0	843	853
Hana Bank	5.5 – 8.0	2,694	920
Hanvit Bank	8.08	30,000	30,000
Korea Technology Banking Corporation	6.0 – 7.5	15,061	6,104
Korea Development Capital Corporation	7.0	1,280	-
Korea Network Research Association	7.0	467	-
		341,732	133,582
<u>Foreign currency loans</u>			
Korea Development Bank	Libor + 0.5 – 1.95	94,753	45,816
	Libor + 2.95	10,565	12,022
Korea Exchange Bank	Libor + 0.45	188,955	171,810
Kookmin Bank	Libor + 2.5	896	1,987
	Libor + 0.75	79	-
Hanvit Bank	Libor + 0.4 – 2.5	11,111	66,386
Korea First Bank	Libor + 1.5	15,080	10,205
Export-Import Bank of Korea	Libor + 0.625-1.175	7,115	4,503
Chohung Bank	Libor + 0.6	34,012	-
	-	-	96,848
Development Bank of Singapore	Libor + 1.6	12,507	-
NOVASCOTIA	Libor + 1.5	26,626	-
Banque Paribas	Libor + 0.7	8,257	9,384
Societe General	Libor + 0.6	18,443	21,561
Sumitomo Bank	Libor + 0.65	11,389	14,903
Bank One	Libor + 2.5	4,206	11,472
	Libor + 1.4	5,039	-
Citi Bank	-	-	13,678
Bank of Tokyo-Mitsubishi	Libor + 0.74	13,479	1,626
		462,512	482,201
		(US\$ 367)	(US\$ 415)
		(¥ -)	(¥ 646)
		804,244	615,783
Less : current maturities		(261,197)	(217,800)
		₩ 543,047	₩ 397,983

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

11. Long-Term Debt, Continued:

In relation to guaranteed debentures, the Company pays guarantee fees of 0.1% ~ 0.5% per annum.

Treasury debentures of ₩17,171 million held by the Company as of December 31, 2000 are a portion of exchangeable bonds, and Won currency convertible bond of ₩100,000 million was cancelled in 2000.

(*1) In 2000, the Company issued U.S. dollar denominated floating rate notes aggregating US\$221 million, which are due in 2002.

(*2) In 2000, the foreign currency convertible bond issued in 1991 has been redeemed earlier than its maturity.

(*3) In 1996, the Company issued foreign currency denominated convertible bonds aggregating US\$40 million, bearing interest at 1.25% per annum. The bonds are convertible into common stock through October 2006, unless previously redeemed, at a specified conversion price, subject to adjustment based on the occurrence of certain events as provided for in the offering agreement. The adjusted conversion price as of December 31, 2000 is ₩22,174 per share. The fixed rate of exchange applicable to the exercise of the conversion rights is ₩827.40 per US\$1.00. The bonds will mature on November 26, 2006 at par value, unless previously converted or redeemed. Any bondholder may redeem all or some of the bonds held on November 26, 2001 at 133.20% of the principal amount of such bonds, together with interest accrued to the date of redemption.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

11. Long-Term Debt, Continued:

(*4) In 1997, the Company issued foreign currency denominated exchangeable bonds totaling US\$ 75 million bearing interest at 0.25% per annum. The bonds are exchangeable into common stock of Hyundai Electronics Industries Co., Ltd. ("Hyundai Electronics," formerly "LG Semicon Co., Ltd.") through November 2007, unless previously redeemed. Each bond can be exchanged for 250 shares of Hyundai Electronics common stock with a par value of ₩5,000. The exchange price was initially determined to be ₩35,430 per share based on a fixed exchange rate for U.S. dollars of US\$1.00 = ₩888.30. The terms and conditions of the exchangeable bonds are as follows :

- Basic exchange price for each share of Hyundai Electronics common stock :
US\$ 39.88 (₩35,430 / ₩888.30)
- Payment of interest : At the end of each year
- Final redemption :
Unless previously redeemed, purchased or exchanged, the bonds will be redeemed on December 31, 2007 at their principal amount, plus accrued interest.
- Redemption at the option of the Company :
The Company may redeem any or all of the bonds at their principal amount, plus accrued interest. However, no such redemption can be made before July 9, 2002, unless the closing price (converted into U.S. dollars at the prevailing exchange rate) for each of the 30 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which the notice of redemption is published, has been at least 135% of the exchange price in effect on each such trading day converted into U.S. Dollars at a fixed exchange rate of US\$1.00 : ₩888.30.
- Redemption at the option of the bondholders :
The bondholders may require the Company to redeem any or all (in multiples of US\$ 10,000) of the bonds held by such holders on July 8, 2002 at 133.67% of the principal amount of such bonds, plus accrued interest.
- Exchange by bondholder
Each bond is exchangeable for a pro rata share of the exchange property until November 30, 2007. The exchange property initially comprised 1,880,397 common shares of Hyundai Electronics, calculated by dividing the aggregate principal amount (converted into Won at a fixed exchange rate of US\$1.00 : ₩888.30) by the exchange price, but is subject to change as a result of any adjustment to the exchange price or an offer made for the common shares.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

11. Long-Term Debt, Continued:

In July 1996, relating to construction of the Bundang research center, the Company entered into a land purchase agreement with Korea Land Corporation under which the Company has acquired certain land and is obligated to pay the contracted amount on an installment basis through 2001. As of December 31, 2000 and 1999, the Company has outstanding long-term other accounts payable for the agreement amounting to ₩2,287 million and ₩5,205 million, respectively.

See Notes 3 and 8 for the related collateral arrangements for the Company's long-term debt.

The maturities of long-term debt outstanding as of December 31, 2000 are as follows:

For the year ending December 31,	Millions of Won		
	Debentures and Convertible bonds (*)	Long-term debt	Total
2002	₩1,203,394	₩ 415,267	₩1,618,661
2003	510,000	59,761	569,761
2004	80,000	33,218	113,218
2005	-	23,168	23,168
2006 and thereafter	82,547	11,633	94,180
	₩1,875,941	₩ 543,047	₩2,418,988

(*) No early redemption of bonds or debentures is assumed.

12. Leases:

The Company has entered into various lease agreements for the rental of certain machinery and equipment. The Company accounts for these leases as operating leases under which lease payment are charged to expense as incurred.

As of December 31, 2000, future lease payments under operating lease agreements are as follows :

For the year ending December 31,	Millions of Won
2001	₩ 31,687
2002	6,085
2003	2,450
2004	260
	₩ 40,482

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

12. Leases, Continued:

The Company acquired certain machinery and equipment under capital lease agreements. At December 31, 2000, the acquisition cost of machinery and equipment under capital leases was ₩ 695 million and related depreciation expense recognized in 2000 was ₩ 69 million.

As of December 31, 2000, future minimum lease payments under capital lease obligations, are as follows :

Year ending December 31,	Millions of Won
2001	₩ 1,857

13. Accrued Severance Benefits:

Accrued severance benefits as of December 31, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Beginning balance	₩ 434,842	₩ 456,071
Severance payments	(85,046)	(135,293)
Transfer-in by merger	66,263	-
Transfer-in from affiliated companies	238	8,854
Provisions	128,943	99,300
Additional provisions	-	11,907
Conversion to severance insurance deposit	5,997	(5,997)
	551,237	434,842
Contribution to National Pension Fund	(39,196)	(40,277)
Severance insurance deposits	(330,830)	(265,835)
	₩ 181,211	₩ 128,730

At December 31, 2000 the severance benefits are funded approximately 60% through employees severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies. The amounts funded under employees severance insurance plans (severance insurance deposits) is presented as deduction from accrued severance benefits.

At December 31, 1999 the severance benefits are funded approximately 65% through group severance insurance plans and employees severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies. The amounts funded under group severance insurance plans are recorded as long-term financial instruments (Note 3) and the amounts funded under employees severance insurance plans (severance insurance deposits) are presented as deduction from accrued severance benefits.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies:

At December 31, 2000, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

At December 31, 2000, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩375,000 million.

At December 31, 2000, the outstanding balance of domestic trade notes receivable and export trade accounts receivable sold at discount to various financial institutions with recourse is ₩3,825,833 million.

At December 31, 2000, the Company has entered into factoring agreements with LG Capital Co., Ltd. and Shinhan Bank. In relation to the agreements, at December 31, 2000, the outstanding balance of factored accounts receivable is ₩ 114,416 million.

At December 31, 2000, the Company was a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

At December 31, 2000, the Company has entered into sales contracts with several companies, which comprise approximately ₩ 65,226 million of sales to LG Telecom, Ltd., ₩ 8,364 million of sales to Korea Telecom, ₩ 41,773 million of sales to SK Telecom Co., and ₩ 67,278 million of sales to Hanaro Telecom, Inc., and others.

Continued;

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies, Continued :

At December 31, 2000 and 1999, the Company was contingently liable for guarantees approximating ₩1,594,887 million and 1,492,126 million, respectively, on indebtedness of its subsidiaries and affiliates as follows :

	Millions of Won	
	2000	1999
<u>Domestic companies</u>		
LG Telecom, Ltd.	₩ 125,970	₩ 114,540
Other	26,465	31,738
	152,435	146,278
<u>Overseas companies</u>		
LG Electronics Wales Ltd.	252,225	264,759
PT LG Electronics Display Device Indonesia	130,829	127,630
LG Electronics Alabama Inc.	205,331	166,083
LG Electronics U.S.A., Inc.	144,865	116,831
LG Electronics North of England Ltd.	40,847	80,873
Shuguang LG Electronics Co., Ltd.	78,605	74,577
Other	589,750	515,095
	1,442,452	1,345,848
Total	₩ 1,594,887	₩ 1,492,126

At December 31, 2000 and 1999, the Company has received guarantees approximating ₩58,767 million and ₩874,078 million, respectively, from various banks for the repayment of certain debentures of the Company.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies, Continued :

On December 21, 2000, the Company entered into a treasury stock sales and call option contract with Credit Suisse First Boston International ("CSFB"). The terms and conditions of the contract are as follows :

(1) Treasury stock sales

- Trade date: December 21, 2000
- Number of shares: 11,000,000 shares of common stock
- Total sales amount: ~~₩~~136,400 million (US\$ 112 million)
- Sales price: the closing trade price on the trade date per share (~~₩~~12,400 per share)
- Price adjustment:
Sales price will be adjusted to the weighted average trade price during the initial valuation period determined based on CSFB' s executions.
- Initial valuation period:
period from the trade date through the date ending on the earlier of (a) four month plus five business days following trade date; or (b) the business day on which CSFB completes its execution

(2) Call option contract

- Call option buyer : the Company
- Call option seller: CSFB
- Effective date : the last day of the initial valuation period
- Termination date: 3 years and 6 months after effective date
- Initial share price : the weighted average trade price of shares during the initial valuation period
- Call option contract amounts: initial share price multiplied by number of shares (11 million shares)
- Call option premium: 17.34% of call option contract amounts
- Exercise of call options:
Call option buyer has the right to exercise the call options on the expiry date, which is the fifth business day immediately preceding the termination date. On the termination date, the call options exercised shall be cash settled and the call option seller shall pay an amount per the call options exercised equal to: Max(final share price minus initial share price, 0), subject to a maximum of 30.0% of initial share price.
- Final share price :
equal to the arithmetic average of the seven interim share prices, calculated based on the closing trade prices during the period from 36 months following the effective date through the expiry date.

At December 31, 2000, the call option contract is not reflected in the accompanying financial statements because the contract is not effective and initial share price has not been determined yet

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies, Continued :

In order to reduce the impact of changes in exchange rates on future cash flows, the Company enters into foreign currency forward contracts. As of December 31, 2000, the Company has outstanding forward contracts for selling US dollars amounting to US\$ 181 million (contract rates : ₩1,124.0 : US\$ 1~₩1,131.5 : US\$ 1, contract due dates : January through December 2001) and an unrealized loss of ₩ 21,936 million was charged to operations for the year ended December 31, 2000.

In order to reduce the impact of changes in interest rates, the Company enters into interest rate swap contracts and an unrealized loss of ₩1,091 million was recorded as a capital adjustment. A summary of the terms of outstanding interest rate swap contracts at December 31, 2000 is as follows (see Note 18) :

	Amount (In millions)	Buying rate (%)	Selling rate (%)	Contract due date
Korea Exchange Bank	US\$ 50	5.45% (*)	6M LIBOR	June 5, 2001
ABN AMRO Bank	US\$ 70	7.35%	6M LIBOR	June 14, 2002

(*) If 6 month LIBOR is over 6.25%, the rate deducting 0.1% point from 6 month LIBOR would be applied.

In order to reduce the impact of changes in exchange rates on future cash flows, the Company enters into foreign currency interest rate swap contracts to convert long-term debt denominated in US Dollars to Hong Kong Dollars. An unrealized gain of ₩1,896 million was credited to operations for the year ended December 31, 2000. A summary of the terms of outstanding currency interest rate swap contracts at December 31, 2000 is as follows :

	Amount (In millions)	Exchange rate	Buying rate	Selling rate	Contract due date
Citi Bank	US\$40.0	HK\$7.765:US\$1	5.35%	7%	August 30, 2001
Deutsche Bank	US\$40.0	HK\$7.765:US\$1	5.34%	7%	August 30, 2001
CSFB	US\$45.5	HK\$7.765:US\$1	5.35%	7%	August 30, 2001

In order to reduce the impact of changes in exchange rates, the Company enters into foreign currency option contracts. An unrealized loss of ₩1,434 million was charged to operations for the year ended December 31, 2000. A summary of the terms of outstanding currency option contracts at December 31, 2000 and 1999 is as follows :

	Option Type	Amount (In millions)	Exercising price	Contract due date
Standard Chartered Bank	Put	US\$ 20.0	₩ 1,100.00	May 17, 2001
	Call	US\$ 20.0	₩ 1,211.00	May 17, 2001
Fleet Boston Financial	Put	US\$1.792	EUR 0.8960	March 6, 2001
	Call	US\$0.896	EUR 0.8960	March 6, 2001

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies, Continued :

As a result of the above derivatives contracts, a gain of ₩10,563 million and a loss of ₩20,338 million were realized for the year ended December 31, 2000.

At December 14, 2000, the Company has entered into a leasehold deposits sales agreement with LG Shinhan Securitization L.L.C. ("SPC") to securitize the leasehold deposits owned by the Company. The Company has sold leasehold deposits whose book value is ₩133,854 million to the SPC for ₩120,400 million. The Company has also provided the SPC with a long-term loan of ₩3,300 million as of December 31, 2000. The Company provides management services related to the leasehold deposits owned by the SPC and receives a service fee from the SPC. The holders of the bonds issued by the SPC based on the leasehold deposits have rights to request the Company to purchase the bonds under certain adverse conditions within two years after the date upon which the bond sales are completed.

At December 31, 2000, the Company is named as the defendant in legal actions which were brought against the Company by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of domestic claims as the defendant and the plaintiff are approximately ₩7,269 million in 10 cases and ₩18,891 million in 28 cases, respectively, as of December 31, 2000. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying financial statements.

At December 31, 2000, the Company has a loan of ₩30,725 million (US\$ 24 million), due from NextWave Telecom, Inc. ("NextWave") in the United States of America. NextWave is a development stage enterprise which has been awarded PCS licenses from the Federal Communication Commission (FCC) in the United States of America. In 1998, NextWave filed a lawsuit against the FCC for reduction of its license fees and other issues. At the same time, it also filed for debt restructuring under Chapter 11 of the Bankruptcy Code of the United States of America. NextWave lost the suit in 2000 and the collectibility of the loan is uncertain, therefore, as of December 31, 2000, the Company provided a reserve for the entire amount of the loan (₩30,725 million).

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

14. Commitments and Contingencies, Continued :

Zenith Electronics Corporation ("Zenith"), a subsidiary, has experienced significant financial difficulties resulting from continuous losses. Zenith filed a pre-packaged plan of reorganization under Chapter 11 of the Bankruptcy Code of the United States of America in August 1999. The reorganization plan was approved by the court in November 1999. As a result of the reorganization plan, the Company owns 100% of equity in the restructured Zenith and has ₩148,686 million (US\$ 118 million) of senior secured notes issued by Zenith (see Note 7) and ₩75,582 million (US\$ 60 million) of loans to Zenith as of December 31, 2000.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above. In addition, the Company has investments in, and receivables from affiliates in Thailand, Indonesia and other Asia Pacific countries. The Company also has outstanding guarantees on the debt obligations of these affiliates. These affiliates have been affected, and may continue to be affected, by the unstable economic situation in the Asia Pacific region.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

15. Capital Stock :

As of December 31, 2000 and 1999, capital stock is as follows :

	2000			1999		
	Number of issuance (shares)	Par value	Millions of Won	Number of issuance (shares)	Par value	Millions of Won
Common stock	155,118,070	₩ 5,000	₩ 775,590	107,327,666	₩ 5,000	₩ 536,638
Preferred stock(*1)	19,095,547	5,000	95,478	19,095,547	5,000	95,478
Redeemable preferred stock(*2)	32,000,000	5,000	160,000	-	-	-
	<u>206,213,617</u>		<u>₩1,031,068</u>	<u>126,423,213</u>		<u>₩ 632,116</u>

As of December 31, 2000 and 1999, the number of shares authorized is 500,000,000 shares.

Summary of changes in capital and capital surplus in 2000 is as follows (In millions of Won) :

Date of Issuance	Type	The number of shares	Par value	Capital in excess of par value(*)	Cash received(*)
September 1, 2000	Common stock issued in merger of LGIC	47,790,404	₩ 238,952	₩ 1,108,693	₩ 1,347,645
December 23, 2000	Redeemable preferred stock issued	32,000,000	160,000	382,952	542,952
			<u>₩ 398,952</u>	<u>₩ 1,491,645</u>	<u>₩ 1,890,597</u>

(*) Paid-in capital in excess of par value and cash received are net of new stock issuance costs.

(*1) As of December 31, 2000 and 1999, 19,095,547 shares of non-voting preferred stock are issued and outstanding. The preferred shareholders have no voting rights and are entitled to non-participating and non-cumulative preferred dividends at a rate of one percentage point over those for common stock. This preferred dividend rate is not applicable to stock dividends.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

15. Capital Stock, Continued :

(*2) Pursuant to the resolution by the board of directors on December 12, 2000, the Company issued convertible redeemable preferred stock ("RPS") on December 23, 2000.

The terms and conditions of the RPS are as follows :

- Date of issuance : December 23, 2000
- Number of shares issued : 32,000,000 shares
- Per-share issue price : ₩17,000 per share (par value : ₩5,000)
- The shareholders of RPS are entitled to cumulative and non-participating preferred dividends subordinate to other preferred stocks at a fixed dividend rate of 7.5% of the per-share issue price per annum, and are not entitled to stock dividends or stock rights.
- Redemption:
The Company may redeem RPS during the period from the next date following the first annual shareholders' meeting after the issuance date through one month after the annual shareholders' meeting for the fiscal year of 2003.
- The shareholders of the RPS have no voting rights, except for the period from the next shareholders' meeting following the shareholders' meeting in which dividends at a rate less than 7.5% of the per-share issue price are declared through the other shareholders' meeting in which dividends at 7.5% of the per-share issue price are declared.
- The RPS will be redeemable at the per-share issue price from retained earnings available for dividends.
- The shareholders of the RPSs shall have the right, at their discretion, to convert all or any portion of the RPSs into common shares of the Company (par value ₩5,000) at any time after December 23, 2001. The conversion price is ₩17,000 per share at the issuance date and will be adjusted to the relevant market price as of every 23rd of March, June, September, and December in case the market price is lower than conversion price.

16. Capital Surplus:

In cases where the net assets of the combined enterprises exceed the consideration paid, the Company records the excess amount as a gain on merger.

The Company revalued a substantial portion of its property, plant and equipment, effective January 1, 1981 and 1993, and October 1, 1998, in accordance with the Korean Asset Revaluation Law and obtained relevant governmental approval. As of December 31, 2000 and 1999, the revaluation increments of ₩339,619 million and ₩339,676 million, respectively, net of tax, transfer to capital stock and offset against deferred foreign currency translation losses, are credited to revaluation surplus.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

17. Retained Earnings :

Retained earnings as of December 31, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
<u>Legal reserve (*1)</u>	<u>₩ 55,999</u>	<u>₩ 41,499</u>
<u>Other reserves</u>		
Reserve for business rationalization(*2)	281,065	326,180
Reserve for improvement of financial structure (*3)	84,458	84,458
Reserve for technological development (*4)	708,680	974,516
Reserve for export loss (*4)	-	14,000
Reserve for redemption of redeemable preferred stock	544,000	-
	1,618,203	1,399,154
Unappropriated retained earnings carried forward to subsequent year	24	44
	₩ 1,674,226	₩ 1,440,697

(*1) The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through appropriate resolution by the Company's shareholders.

(*2) Pursuant to the Tax Exemption and Reduction 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 is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through appropriate resolution by the Company's shareholders.

Continued;

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

17. Retained Earnings, Continued :

(*3) In accordance with the regulations regarding securities' issuance and disclosure (formerly, the provisions of the Financial Control Regulation for publicly listed companies), the Company is required to appropriate, as a reserve for improvement of financial structure, a portion of retained earnings equal to a minimum of 10% of its annual income plus at least 50% of the net gain from the disposal of property, plant and equipment after deducting related taxes, until equity equals 30% of total assets. This reserve is not available for dividends, but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

(*4) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to appropriate retained earnings as a reserve for technological development and export loss. These reserves are not available for dividends until used for the specified purposes or reversed.

18. Capital Adjustments:

As of December 31, 2000 and 1999, capital adjustments are as follows:

	Millions of Won	
	2000	1999
Treasury stock	₩ (875,604)	₩ -
Gain (Loss) on valuation of investment securities	(175,462)	250,430
Gain (Loss) on valuation of derivative financial instruments (Note 14)	(1,091)	171
	₩ (1,052,157)	₩ 250,601

In 2000, the Company purchased its own stocks amounting to 40,835,200 shares of common stock and 1,508,876 shares of preferred stock mainly in relation to specified money trust agreements and the stock repurchase request option executed by shareholders who objected to the merger with LGIC. As of December 31, 2000, the Company retains treasury stocks amounting to 29,729,300 shares of common stock and 1,508,876 shares of preferred stock. The Company has intention to sell the treasury stock in the future.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

19. Income Taxes:

Income tax expenses for the years ended December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Current income taxes	₩ 196,960	₩ 566,892
Deferred income taxes	29,581	15,992
	₩ 226,541	₩ 582,884

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%. The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company :

	Millions of Won	
	2000	1999
Income before taxes	₩ 728,724	₩ 2,587,905
Statutory tax rate	30.8%	30.8%
Expected taxes at statutory rate	224,447	797,075
Permanent differences	33,267	(134,777)
Tax exemption and tax credits	(31,173)	(79,414)
Actual taxes	₩ 226,541	₩ 582,884
Effective tax rate	31.1%	22.5%

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

19. Income Taxes, Continued :

Components of deferred taxes as of December 31, 2000 and 1999 are as follows :

	Millions of Won			
	December 31, 1999	Increases	Decreases	December 31, 2000
<u>Deferred tax assets</u>				
Deferred foreign exchange loss, net	₩ 22,411	₩ -	₩ 12,252	₩ 10,159
Losses from sales of receivables	33,130	36,845	24,406	45,569
The equity method of accounting	175,658	80,037	85,603	170,092
Bad debt expenses	24,682	53,190	10,700	67,172
Other	28,635	7,956	15,204	21,387
Deferred tax assets	284,516	178,028	148,165	314,379
<u>Deferred tax liabilities</u>				
Amortization of intangible assets	(18,299)	(18,911)	(4,575)	(32,635)
Gain on valuation of investments	(11,097)	(1,421)	-	(12,518)
Custom duty drawback	(8,198)	(4,644)	(8,198)	(4,644)
Reserve for technological development	(1,868)	(97,205)	(760)	(98,313)
Other	(6,765)	(6,872)	(6,977)	(6,660)
Deferred tax liabilities	(46,227)	(129,053)	(20,510)	(154,770)
Net deferred tax assets	₩ 238,289	₩ 48,975	₩ 127,655	₩ 159,609

The Company periodically assesses its ability to recover deferred tax assets. In the event of significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the asset to its estimated net realizable value.

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

20. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted average number of common shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2000 and 1999 are calculated as follows:

<u>Basic earnings per share</u>	<u>Millions of Won (except for EPS data)</u>	
	<u>2000</u>	<u>1999</u>
Net income as reported on the statements of income	₩ 502,183	₩ 2,005,021
Less : Preferred stock dividends	(19,472)	(20,050)
Net income allocated to common stock	482,711	1,984,971
Weighted average number of common shares outstanding	108,942,560	107,327,666
Basic earnings per share	<u>₩ 4,431</u>	<u>₩ 18,494</u>

Basic ordinary income per share for the year ended December 31, 2000 is ₩4,430, and basic ordinary income per share for the year ended December 31, 1999 is the same as basic earnings per share, because there were no extraordinary gains or losses.

Diluted earnings per share is computed by dividing diluted net income, which is adjusted to add back the after-tax amount of interest expenses on any convertible debt and dividends on any convertible preferred stock, by the weighted average number of common shares and diluted securities outstanding during the year. Diluted ordinary income per share is computed by dividing diluted ordinary income allocated to common stock, which is diluted net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted average number of common shares and diluted securities outstanding during the year.

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

20. Earnings Per Share, Continued;

Diluted earnings per share for the years ended December 31, 2000 and 1999 are calculated as follows:

	Millions of Won (except for EPS data)	
	2000	1999
	<u>₩</u>	<u>₩</u>
Net income allocated to common stock	482,711	1,984,971
Add : Interest expenses on convertible bonds, net of tax	2,070	1,906
Redeemable preferred stock dividends	1,006	-
	<u>485,787</u>	<u>1,986,877</u>
Weighted average number of common shares and diluted securities outstanding	<u>111,224,159</u>	<u>108,820,224</u>
Diluted earnings per share and ordinary income per share	<u><u>₩ 4,368</u></u>	<u><u>₩ 18,258</u></u>

Diluted ordinary income per share for the year ended December 31, 2000 is ~~₩~~4,367, and diluted ordinary income per share for the year ended December 31, 1999 is the same as diluted earnings per share, because there were no extraordinary gains or losses.

The diluted securities outstanding for the years ended December 31, 2000 and 1999 are as follows :

<u>Diluted security</u>	<u>Issue price</u>	<u>Conversion period</u>	<u>Number of common stocks to be issued</u>	<u>Conversion price</u>
Foreign currency denominated convertible bonds, issued in 1996	₩ 33,096 million (US\$ 40 million)	December 26, 1996 through October 26, 2006	1,492,558 shares	₩ 22,174 per share
Convertible redeemable preferred stock, issued in 2000	₩ 544,000 million	From December 23, 2001	32,000,000 shares	₩ 17,000 per share

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

21. Dividends:

Details of dividends for the years ended December 31, 2000 and 1999 are as follows :

Dividends

	Millions of Won					
	2000			1999		
	Dividend Ratio (%)	Dividends amount		Dividend Ratio (%)	Dividends amount	
Common shares	20.0%	₩	125,389	20%	₩	107,328
Preferred shares	21.0%		18,466	21%		20,050
Redeemable preferred stock	25.5%		1,006	-		-
		₩	144,861		₩	127,378

Dividend Payout Ratio

	Millions of Won			
	2000		1999	
Total dividends (A)	₩	144,861	₩	127,378
Net income (B)		502,183		2,005,021
Dividend payout ratio ((A)/(B))		28.85%		6.35%

Dividend Yield Ratio

	In Won			
	2000		1999	
	Common shares	Preferred shares	Common shares	Preferred shares
Dividend per share (A)	₩ 1,000	₩ 1,050	₩ 1,000	₩ 1,050
Market price as of balance sheet date (B)	₩ 11,950	₩ 6,310	₩ 47,000	₩ 25,060
Dividend yield ratio ((A)/(B))	8.37%	16.64%	2.13%	4.19%

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

22. Transactions with Related Parties:

Significant transactions entered into in the ordinary course of business with related parties for the years ended December 31, 2000 and 1999 and the related account balances outstanding at December 31, 2000 and 1999 are summarized as follows.

	Millions of Won			
	Sales	Purchases	Receivables	Payables
LG Electronics U.S.A., Inc.	₩ 711,847	₩ 7,654	₩ 3,900	₩ 9,674
LG Electronics Alabama, Inc.	427,811	16,308	16,741	7,195
LG Goldstar France S.A.R.L.	243,772	298	4,098	5,128
PT LG Electronics Display Devices Indonesia	111,146	37,667	26,085	462
Zenith Electronics Corporation	46,264	6	246,043	-
Other	5,488,031	1,442,181	509,288	402,922
2000 Total	₩7,028,871	₩1,504,114	₩806,155	₩425,381
1999 Total	₩4,725,470	₩1,049,335	₩372,491	₩275,529

23. Segment Information:

The Company has organized four reportable business divisions: display division, home appliances division, multimedia division and information & communications division. Additionally, the Company has a centralized supporting division to provide general and administrative, marketing and sales and research and development services to each business division.

Main products each business division manufactures and sells are as follows :

Display division :	TV, CPT/CDT, monitor, DY, FBT, electron gun, magnetron and PDP
Home appliances division :	refrigerator, washing machine, air conditioner, microwave oven and vacuum cleaner
Multimedia division :	VCR, PC, computer, CD-ROM and audio
Information & communications division :	mobile telecommunication systems, mobile phones, electronic switching systems, transmission equipment, network equipment

Continued;

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

23. Segment Information, Continued;

Financial Data by Business Division (Millions of Won)

	Business Division					
	Total	Multimedia	Home appliance	Display	Information & communications	Supporting division
. Sales						
External sales	₩14,835,674	₩4,453,202	₩3,881,806	₩4,580,250	₩1,075,726	₩ 844,690
Inter-division sales	279,463	37,634	13,125	127,245	6,429	95,030
	<u>15,115,137</u>	<u>4,490,836</u>	<u>3,894,931</u>	<u>4,707,495</u>	<u>1,082,155</u>	<u>939,720</u>
. Operating income (loss)	<u>921,085</u>	<u>260,459</u>	<u>481,029</u>	<u>340,630</u>	<u>(75,923)</u>	<u>(85,110)</u>
. Fixed assets						
Property, plant & equipment	3,337,088	450,877	782,751	946,522	348,518	808,420
Intangible assets	1,092,512	6,140	5,395	55,617	563,871	461,489
Total	<u>4,429,600</u>	<u>457,017</u>	<u>788,146</u>	<u>1,002,139</u>	<u>912,389</u>	<u>1,269,909</u>
Depreciation	<u>₩ 524,050</u>	<u>₩ 67,967</u>	<u>₩ 109,822</u>	<u>₩ 175,194</u>	<u>₩ 61,429</u>	<u>₩ 109,638</u>

Financial Data by Geographic Area (Million of Won)

	Total	Domestic	Central &					
			North America	South America	Europe & CIS	Central Asia	Asia	Oceania
External sales	₩14,835,674	₩4,881,185	₩2,662,159	₩472,826	₩1,931,543	₩779,659	₩3,922,189	₩186,113
Inter-division sales	279,463	279,463	-	-	-	-	-	-
Sales	<u>₩15,115,137</u>	<u>₩5,160,648</u>	<u>₩2,662,159</u>	<u>₩472,826</u>	<u>₩1,931,543</u>	<u>₩779,659</u>	<u>₩3,922,189</u>	<u>₩186,112</u>

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

24. Supplemental Cash Flow Information :

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

Significant transactions not affecting cash flows for the year ended December 31, 2000 and 1999 are as follows :

	Millions of Won	
	2000	1999
Transfer to property, plant and equipment from construction in progress	₩ 75,196	₩ 35,735
Transfer to machinery and equipment from machinery in transit	86,596	79,602
Additional provision of severance benefits	-	11,907
Reclassify current maturities of debenture	1,275,736	1,154,450
Reclassify current maturities of long-term debt	223,923	217,800
Retroactive adoption of the revised standards on prior year's research cost	-	425,582
Retroactive adoption of the revised standards on deferred income tax	-	254,280
Retroactive adoption of the revised standards on sales of receivables	-	34,734
Changes in retained earnings and capital adjustments by equity method of accounting on investments	304,103	251,797
Transfer to investments from receivables from Zenith	-	433,119
Increase in assets by merger of LGIC	3,060,233	-
Increase in liabilities by merger of LGIC	2,534,043	-

LG ELECTRONICS INC.
 NOTES TO FINANCIAL STATEMENTS, Continued;
 for the years ended December 31, 2000 and 1999

25. Merger :

Effective September 1, 2000, the Company merged LG Information & Communications, Ltd., ("LGIC"), an affiliate, in accordance with a merger agreement with LGIC on June 8, 2000 and subsequent approval by shareholders on July 22, 2000.

LGIC was incorporated to manufacture and sell electronic switching systems, transmission equipment, network equipment, mobile telecommunication systems, and mobile phones.

The Company owned 8,374,357 shares of LGIC (27.10%) at the time of merger but the Company cancelled those shares without issuing common stock.

In connection with the merger, the Company issued 47,790,404 shares of common stock (₩1,347,645 million) exchanging 2.1216 shares of its common stock for each share of LGIC. The Company acquired the assets and assumed the liabilities of LGIC at their fair value as of September 1, 2000. As a result of the merger, the Company recognized goodwill of ₩393,820 million.

Changes in goodwill are as follows :

	Millions of Won
Goodwill at the merger	₩ 393,820
Amortization	(21,275)
Goodwill as of December 31, 2000	₩ 372,545

Condensed balance sheets of LGIC as of August 31, 2000 and December 31, 1999 and the related statements of income are as follows (Millions of Won) :

Condensed balance sheets -

	As of August 31, 2000	As of December 31, 1999
Current assets	₩ 1,221,105	₩ 894,135
Investment	1,571,884	1,473,054
Property, plant and equipment	228,085	198,261
Intangible assets	36,176	30,508
Total assets	₩ 3,057,250	₩ 2,595,958
Current liabilities	₩ 1,910,295	₩ 1,021,601
Non-current liabilities	623,748	403,647
Total liabilities	2,534,043	1,425,248
Shareholders' equity	523,207	1,170,710
Total liabilities and shareholders' equity	₩ 3,057,250	₩ 2,595,958

Continued :

LG ELECTRONICS INC.
NOTES TO FINANCIAL STATEMENTS, Continued;
for the years ended December 31, 2000 and 1999

25. Merger, Continued :

Condensed income statements -

	For the eight-month period ended August 31, 2000	For the year ended December 31, 1999
Sales	₩ 2,006,376	₩ 2,768,022
Cost of sales	1,436,022	2,025,206
Gross profit	570,354	742,816
Selling and administrative expenses	327,183	511,005
Operating income	243,171	231,811
Non-operating income (expenses)	(57,801)	185,308
Income before income taxes	185,370	417,119
Income taxes	59,671	119,327
Net income	₩ 125,699	₩ 297,792

26. Subsequent Events:

Through a resolution by the board of directors on January 19, 2001, the Company has determined to grant employees a certain portion of its treasury stock to encourage successful corporate restructuring.