

**LG ELECTRONICS INC. AND SUBSIDIARIES**

**AUDIT REPORT ON  
CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 1999**

## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of LG Electronics Inc. ("LGE") and its subsidiaries (collectively the "Company") as of December 31, 1999, and the related consolidated statements of income, capital surplus and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Zenith Electronics Corporation, Dacom Corporation and certain consolidated subsidiaries of LGE, of which total assets and sales represent ₩9,185,253 million as of December 31, 1999 and ₩8,975,419 million for the year then ended, respectively. Additionally, we did not audit the financial statements of LG Capital Co., Ltd., LG-Caltex Oil Corp. and certain affiliated companies, the investments in which are reflected in the consolidated financial statements using the equity method of accounting. The Company's investment in these investees is ₩1,168,035 million as of December 31, 1999, and the Company's share of the net income of these investees is ₩38,701 million for the year then ended. The aforementioned financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Zenith Electronics Corporation, Dacom Corporation, LG Capital Co., Ltd., LG-Caltex Oil Corp. and certain consolidated subsidiaries and equity method investees, is based solely on the reports of the other auditors.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG Electronics Inc. and its subsidiaries as of December 31, 1999, and the consolidated results of their operations, the consolidated changes in their capital surplus and retained earnings and their cash flows for the year then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

Continued ;

As discussed in Note 7 to the accompanying consolidated financial statements, 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. The price is subject to adjustment based on certain factors.

As discussed in Note 7 to the accompanying consolidated financial statements, pursuant to a joint venture agreement with Koninklijke Philips Electronics N.V. ("Philips") dated July 24, 1999, the Company transferred certain of the Company's stock rights in LG. Philips LCD Co., Ltd. (formerly LG LCD Co., Ltd.) to Philips. As a result, the Company reduced its ownership in LG. Philips LCD Co., Ltd. to 50% and recognized a gain on disposal of investment of ₩1,179,939 million.

As discussed in Note 14 to the accompanying consolidated financial statements, 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 and the reorganization plan was approved by the court on November 5, 1999. Under the approved reorganization plan, all outstanding common stock of Zenith was cancelled and the holders of common stock received no distribution. LGE converted US\$ 200 million of US\$ 365 million of Zenith's obligations to LGE into common stock of Zenith which represents 100% of equity in the restructured Zenith. The remaining portion of Zenith's obligations was exchanged for senior secured notes issued by Zenith and an investment in an overseas subsidiary.

Without qualifying our opinion, we draw attention to Note 14 of the accompanying consolidated 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 consolidated 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 standards, procedures and practices used to audit such financial statements are those generally accepted and applied in the Republic of Korea.

Seoul , Korea  
April 21, 2000

LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
As of December 31, 1999  
(In millions of Korean Won)

		1999
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	₩	587,844
Short-term financial instruments (Note 3)		113,631
Marketable securities (Note 4)		310,464
Trade accounts and notes receivable (Notes 5 and 24)		2,167,846
Other accounts receivable (Note 5)		369,116
Short-term loans (Note 5)		103,725
Inventories (Note 6)		1,759,668
Prepaid expenses		142,439
Accrued income (Note 5)		167,989
Advances (Note 5)		164,151
Other current assets		102,138
Total current assets		5,989,011
Property, plant and equipment, less accumulated depreciation (Note 8)		7,397,553
Long-term financial instruments (Note 3)		76,526
Investments (Note 7)		3,493,564
Refundable deposits		392,152
Long-term trade accounts receivable (Note 5)		58,859
Long-term other accounts receivable (Note 5)		52,439
Long-term loans (Note 5)		89,466
Long-term prepaid expenses		44,802
Deferred tax assets, net (Note 19)		266,773
Intangible assets (Note 9)		951,109
Consolidation adjustment, debit		935,639
Other non-current assets		36,936
Total assets	₩	19,784,829

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

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET, Continued  
As of December 31, 1999  
(In millions of Korean Won)

	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities:	
Short-term borrowings (Note 10)	₩ 2,889,983
Current maturities of long-term debt (Note 10)	2,637,236
Trade accounts and notes payable (Note 24)	1,993,243
Other accounts payable	659,088
Accrued expenses	696,067
Advances from customers	222,004
Withholdings	120,961
Income taxes payable (Note 19)	574,321
Dividends payable	132,352
Other current liabilities	191,030
Total current liabilities	10,116,285
Debentures, net of current maturities and discounts (premiums) on debentures and adjustments for conversion rights (Note 11)	2,710,384
Long-term debt, net of current maturities (Note 11)	749,371
Long-term other accounts payable (Note 12)	110,126
Accrued severance benefits, net (Note 13)	246,178
Guarantee deposits withholding	393,196
Deferred tax liabilities, net (Note 19)	50,514
Other long-term liabilities	73,710
Total liabilities	14,449,764
Commitments and contingencies (Note 14)	
Minority interests in consolidated subsidiaries	1,895,723
Shareholders' equity:	
Capital stock (Note 15)	632,116
Capital surplus (Note 16)	1,266,157
Retained earnings (Note 17)	1,358,623
Capital adjustments (Note 18)	118,264
Consolidation adjustment, credit	64,182
Total shareholders' equity	3,439,342
	₩ 19,784,829

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

LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME  
for the year ended December 31, 1999  
(In millions of Korean Won except for EPS amounts)

		1999
Sales (Note 24)	₩	17,857,210
Cost of sales (Note 24)		14,064,899
Gross profit		3,792,311
Selling and administrative expenses		3,428,483
Operating income		363,828
Non-operating income:		
Interest and dividend income		205,669
Foreign exchange gains (Note 14)		323,602
Gain on disposal of investments (Note 7)		2,476,664
Gain on disposal of property, plant and equipment		28,622
Gain on valuation of investments (Note 7)		56,712
Gain on disposal of intangible assets (Note 7)		281,391
Gain on disposal of business divisions (Note 23)		652,653
Royalty income		85,195
Other		117,415
		4,227,923
Non-operating expenses:		
Interest expense		1,077,732
Foreign exchange losses (Note 14)		370,637
Loss from transfer of trade accounts and notes receivable		122,964
Loss from disposal of property, plant and equipment		82,778
Loss from disposal of investments		40,258
Loss from redemption of debentures		87,876
Donations		97,680
Loss from disposal of business divisions (Note 23)		12,650
Other		240,318
		2,132,893

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

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LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME, Continued  
for the year ended December 31, 1999  
(In millions of Korean Won except for EPS amounts)

	1999
Ordinary income	2,458,858
Extraordinary gains (Note 14)	98,871
Extraordinary losses (Note 14)	61,585
Income before income taxes	2,496,144
Income tax expenses (Note 19)	584,567
Income before minority interests, consolidated adjustments and equity in income of affiliates	1,911,577
Minority interests, net	66,951
Amortization of consolidation adjustments, net	(231,284)
Equity in income of affiliates, net	322,298
Net income	<del>₩</del> 2,069,542
Earnings per share (in Won) (Note 20)	
Basic	<del>₩</del> 19,096
Diluted	<del>₩</del> 18,851
Ordinary income per share (in Won) (Note 20)	
Basic	<del>₩</del> 18,825
Diluted	<del>₩</del> 18,584

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

LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CAPITAL SURPLUS  
AND RETAINED EARNINGS  
for the year ended December 31, 1999  
(In millions of Korean Won)

	1999
Consolidated Capital Surplus :	
At beginning of the year	₩ 1,052,196
Cumulative effect of retroactive adoption of the revised accounting standards	(430)
Adjustments for changes in consolidated entities and equity method entities, net	(27,288)
Other	15,804
At beginning of the year, as adjusted	1,040,282
Gain on capital reduction	434,692
Transfer to accumulated deficit	(188,779)
Adjustments for changes in ownership, net	(77,594)
Other	57,556
At end of the year	1,266,157
Consolidated Retained Earnings (Accumulated Deficit) :	
At beginning of the year	(706,571)
Additional provision for severance benefits	(11,907)
Cumulative effect of retroactive adoption of the revised accounting standards	(351,640)
Adjustments for changes in consolidated entities and equity method entities, net	77,790
Other	33,783
At beginning of the year, as adjusted	(958,545)
Net income	2,069,542
Transfer from capital surplus	188,779
Cash dividends paid (Note 21)	(127,378)
Decrease in deficit in excess of minority interests, net	264,500
Adjustments for changes in ownership, net	(70,336)
Other	(7,939)
At end of the year	1,358,623
	₩ 2,624,780

accompanying notes are an integral part of these consolidated financial statements

LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended December 31, 1999  
(In millions of Korean Won)

		1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	₩	2,069,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		663,570
Amortization of intangible assets		656,739
Foreign currency translation gains, net		(26,287)
Amortization of discounts on debentures		68,051
Loss on redemption of debentures		87,876
Gain on exemption of debts		(83,471)
Provision for severance benefits		148,978
Loss on valuation of inventories		5,860
Loss from transfer of trade accounts and notes receivable		122,964
Gain on disposal of investments, net		(2,436,406)
Gain on valuation of investments, net		(50,432)
Loss on disposal of property, plant and equipment, net		54,156
Gain on disposal of intangible assets		(281,391)
Bad debt expenses		150,834
Amortization of consolidation adjustment debit, net		231,284
Minority interests in earnings of consolidated subsidiaries, net		(66,951)
Equity in income of affiliates, net		(322,298)
Gain on disposal of business divisions, net		(640,003)
Changes in operating assets and liabilities:		
Increase in trade accounts and notes receivable		(416,944)
Decrease in other accounts receivable		125,289
Increase in accrued income		(141,513)
Increase in advances		(141,758)
Decrease in prepaid expenses		39,754
Decrease in other current assets		286,881
Increase in inventories		(180,835)
Increase in long-term other accounts receivable		(25,264)
Increase in deferred income tax assets		(71,514)
Increase in trade accounts and notes payable		553,792
Increase in accrued expenses		119,852
Increase in other accounts payable		51,908
Increase in withholdings		20,373
Increase in guarantee deposits withholding		171,078
Increase in income taxes payable		529,490
Decrease in deferred income		(54,668)
Increase in other current liabilities		127,766
Increase in deferred tax liabilities		48,146
Increase in long-term advance from customers		21,763
Severance benefits transferred from affiliates		20,029
Payments of severance benefits		(258,346)
Increase in severance insurance deposits		(353,152)
Other		(202)
Net cash provided by operating activities	₩	824,540

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

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LG ELECTRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued  
for the year ended December 31, 1999  
(In millions of Korean Won)

	1999
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Acquisition of marketable securities	₩ (1,749,006)
Proceeds from disposal of marketable securities	1,503,349
Decrease in short-term financial instruments	57,854
Increase in short-term loans	(75,068)
Decrease in long- term financial instruments	398,993
Proceeds from disposal of investments	3,558,142
Acquisition of investments	(1,799,164)
Decrease in refundable deposits	89,400
Increase in long- term loans	(80,936)
Decrease in other non-current assets	58,584
Acquisition of property, plant and equipment	(1,280,050)
Proceeds from disposal of property, plant and equipment	170,377
Decrease in intangible assets	284,297
Increase in consolidation adjustment debit, net	(582,017)
Proceeds from disposal of business divisions	1,539,801
Increase in cash due to the changes in consolidated entities	109,665
Other	1,498
Net cash provided by investing activities	₩ 2,205,719
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Decrease in short-term borrowings	(1,267,762)
Payment of current maturities of long-term debt	(1,913,451)
Payment of dividends	(23,025)
Payment of debentures	(490,229)
Issuance of debentures	792,869
Payment of long-term debt	(344,577)
Borrowing of long-term debt	98,771
Decrease in other long-term liabilities	(11,876)
Increase in minority interests	244,040
Increase in foreign subsidiary translation adjustment credit, net	11,169
Net cash used in financing activities	₩ (2,904,071)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	126,188
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 26)</b>	461,656
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 26)</b>	₩ 587,844

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

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended December 31, 1999  
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1. The Consolidated Companies:

The Controlling Company --

LG Electronics Inc. ("LGE"), the controlling company, was incorporated in 1959 under the Commercial Code of the Republic of Korea to manufacture and sell electronic products. LGE is a member of the LG Group, which comprises affiliated companies under common management direction. In 1970, LGE offered its shares for public ownership. As of December 31, 1999, LGE has outstanding capital stock of ₩632,116 million, including non-voting preferred stock of ₩95,478 million. LGE's common shares are listed on the Korean stock exchange and its depository receipts ("DRs") are listed on the London and Luxembourg stock exchanges.

Consolidated Subsidiaries and Equity-Method Investees --

Consolidated subsidiaries and equity-method investees at December 31, 1999 are as follows :

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
<u>Domestic subsidiaries</u>					
LG Precision Co., Ltd.	8,620,800	4,243,800	-	4,243,800	49.23%
LG Hitachi Ltd.	1,280,000	1,257,500	-	1,257,500	98.24%
LG Internet Inc.	5,100,000	3,997,601	-	3,997,601	78.38%
LG Industrial Systems Co., Ltd.	129,625,586	42,147,560	-	42,147,560	32.51%
LG Sports Ltd.	1,200,000	396,000	-	396,000	33.00%
LG Micron Ltd.	4,000,000	1,000,000	590,000	1,590,000	39.75%
LG Department Store Co., Ltd.	35,553,846	17,466,419	666,126	18,132,545	51.00%
LG Mart Co., Ltd.	4,700,000	2,115,002	-	2,115,002	45.00%
Dacom Corporation	23,943,000	6,213,164	1,464,980	7,678,144	32.07%
Dacom International, Inc.	1,600,000	-	1,484,000	1,484,000	92.75%
Dacom Satellite Multimedia System, Inc.	6,000,000	-	5,999,997	5,999,997	100.00%

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LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
<u>Domestic equity-method investees</u>					
LG Philips LCD Co., Ltd.	145,000,000	72,500,000	-	72,500,000	50.00%
LG IBM PC Co., Ltd.	4,860,000	2,381,400	-	2,381,400	49.00%
LG Capital Co., Ltd.	30,000,000	1,850,950	9,567,379	11,418,329	38.06%
LG Information & Communications, Ltd.	30,900,000	8,374,357	-	8,374,357	27.10%
Dacom System Technology, Inc.	6,000,000	-	3,000,000	3,000,000	50.00%
LG Investments Security Inc.	112,373,313	8,323,412	2,981,343	11,304,755	10.06%
LG Construction Co., Ltd.	51,000,000	4,365,676	2,453,699	6,819,375	13.37%
LG International Corp.	68,000,000	1,999,211	-	1,999,211	2.94%
LG Telecom, Ltd.	190,700,000	7,189,827	-	7,189,827	3.77%
LG-Caltex Oil Corp.	26,000,000	798,100	4,103,088	4,901,188	18.85%
LG EDS Systems Inc.	875,380	87,538	-	87,538	10.00%
Kukdong City Gas Inc.	6,000,000	273,420	-	273,420	4.56%
<u>Overseas subsidiaries</u>					
LG Electronics Alabama, Inc. (LGEAI)	265	265	-	265	100.00%
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)(*)	-	-	-	-	100.00%
LG Electronics Antwerp Logistics N.V. (LGEAL)(*)	-	-	-	-	100.00%
LG Electronics Australia PTY, Ltd. (LGEAP)	2,685,000	2,685,000	-	2,685,000	100.00%
LG Electronics Da Amazonia Ltda. (LGEAZ)(*)	-	-	-	-	100.00%
Beijing LG Electronics Component Co., Ltd. (LGEBJ)(*)	-	-	-	-	60.00%
LG Electronics China Co., Ltd. (LGECH)(*)	-	-	-	-	100.00%
LG Electronics Canada, Inc. (LGECI)	42,900	42,900	-	42,900	100.00%
LG Collins Electronics Manila Inc. (LGECEM)	736,561	679,301	-	679,301	92.23%
LG Electronics Deutschland GMBH (LGEDG)(*)	-	-	-	-	100.00%

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LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
PT LG Electronics Display Devices Indonesia (LGEDI)	102,240	102,240	-	102,240	100.00%
LG Electronics Egypt S.A.E. (LGEEG)	120,000	61,200	-	61,200	51.00%
LG Electronics Espana S.A. (LGEES)	53,000	53,000	-	53,000	100.00%
LG Goldstar France S.A.R.L. (LGEFS)	37,050,000	-	37,050,000	37,050,000	100.00%
LG Electronics Gulf FZE (LGEGF)	11	11	-	11	100.00%
LG Electronics HK Limited (LGEHK)	2,852,825	2,852,825	-	2,852,825	100.00%
LG Electronics Huizhou Inc. (LGEHZ)(*)	-	-	-	-	80.00%
LG Electronics India PVT Ltd. (LGEIL)	91,851,537	91,851,537	-	91,851,537	100.00%
PT LG Electronics Indonesia Ltd. (LGEIN)	31,200	31,200	-	31,200	100.00%
LG Electronics Italy S.P.A. (LGEIS)	6,356,000	6,356,000	-	6,356,000	100.00%
LG Electronics Japan Inc. (LGEJP)	1,380,000	1,380,000	-	1,380,000	100.00%
LG Electronics Magyar Kft (LGEMK)(*)	-	-	-	-	100.00%
LG Electronics Mexico S.A. deCV (LGEMS)	19,800	19,500	300	19,800	100.00%
LG MITR Electronics Co., Ltd. (LGMT)	5,076,000	4,453,800	-	4,453,800	87.74%
LG Electronics Mexicali S.A. de. C.V. (LGEMX)	513,626	-	513,626	513,626	100.00%
LG Electronics North of England Ltd. (LGENE)	9,000,000	9,000,000	-	9,000,000	100.00%
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)(*)	-	-	-	-	70.00%
LG Electronics Polska SP.ZO.O (LGEPL)(*)	-	-	-	-	100.00%
Nanjing LG Panda Appliances Co., Ltd. (LGEPN)(*)	-	-	-	-	60.00%
LG Electronics Peru S.A. (LGEPR)	5,296,822	5,296,822	-	5,296,822	100.00%
LG Electronics Panama S.A. (LGEPS)	21,000	21,000	-	21,000	100.00%
LG Electronics Qinhuangdao Inc. (LGEQH)(*)	-	-	-	-	100.00%
LG Electronics S.A. Pty Ltd. (LGESA)	18,500,000	18,500,000	-	18,500,000	100.00%
Shuguang LG Electronics Co., Ltd (LGESG)(*)	-	-	-	-	52.45%

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LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
Shanghai LG Electronics Co., Ltd. (LGESH)(*)	-	-	-	-	70.00%
LG Electronics de Sao Paulo Ltd. (LGESP)(*)	-	-	-	-	100.00%
LG SEL Electronics Vietnam Ltd. (LGESV)(*)	-	-	-	-	55.00%
LG Electronics Shenyang Inc. (LGESY)(*)	-	-	-	-	70.00%
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)(*)	-	-	-	-	80.00%
LG Electronics Thailand Co., Ltd. (LGETH)	2,050,000	1,004,500	1,045,500	2,050,000	100.00%
LG Electronics U.K. Ltd. (LGEUK)	76,000	76,000	-	76,000	100.00%
LG Electronics U.S.A. Inc. (LGEUS)	2,016	2,016	-	2,016	100.00%
LG Electronics Wales Ltd. (LGEWA)	519,000	519,000	-	519,000	100.00%
LG Precision Huizhou Inc. (LGPHZ) (*)	-	-	-	-	100.00%
LG Precision U.S.A. Inc. (LGPUS)	20,000	-	20,000	20,000	100.00%
Zenith Electronics Corporation	1,000	1,000	-	1,000	100.00%
<u>Overseas equity-method investees</u>					
LG Hotline CPT Ltd. (LGEHL)	91,000,000	45,500,000	-	45,500,000	50.00%
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECT)(*)	-	-	-	-	50.00%
PT Video Display Glass Indonesia Co., Ltd. (V.G.I.)	40,000,000	-	14,400,000	14,400,000	36.00%
Thailand Mico	42,000	-	8,400	8,400	20.00%
Compania Minera	13,492,483	-	3,151,596	3,151,596	23.36%
Samhuan Lucky New Material Inc.(*)	-	-	-	-	33.30%

(\*) There are no issued and outstanding shares since the company is not a corporation.

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LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

A summary of financial data of major consolidated subsidiaries, prior to eliminating intercompany transactions is as follows :

Condensed Balance Sheet --

As of December 31, 1999 (Millions of Won)						
	LG Precision	Zenith	LGEUS	LGEWA	Others	Total
Current assets	₩ 154,353	₩ 253,954	₩262,541	₩200,385	₩4,068,991	₩ 4,940,224
Investments	80,040	4,681	3,190	152	2,218,702	2,306,765
Property, plant and equipment	202,398	58,273	28,008	298,354	4,084,271	4,671,304
Intangible assets	7	2,607	-	2,397	839,989	845,000
Total assets	436,798	319,515	293,739	501,288	11,211,953	12,763,293
Current liabilities	228,759	313,403	285,041	283,440	5,281,574	6,392,217
Non-current liabilities	50,286	187,459	6,296	138,720	2,242,337	2,625,098
Total liabilities	279,045	500,862	291,337	422,160	7,523,911	9,017,315
Capital stock	43,104	-	1,572	101,812	1,759,512	1,906,000
Capital surplus	56,183	690,678	774	-	1,227,327	1,974,962
Retained earnings (deficit)	61,668	(958,468)	-	(19,783)	100,011	(816,572)
Capital adjustments	(3,202)	86,443	56	(2,901)	601,192	681,588
Total shareholders' equity	157,753	(181,347)	2,402	79,128	3,688,042	3,745,978
Total liabilities and shareholders' equity	₩436,798	₩319,515	₩293,739	₩501,288	₩11,211,953	₩12,763,293

Continued ;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Condensed Income Statement --

	For the year ended December 31, 1999 (Millions of Won)					
	LG Precision	Zenith	LGEUS	LGEWA	Others	Total
Sales	₩522,820	₩991,880	₩795,704	₩525,626	₩ 9,320,723	₩12,156,753
Cost of sales	459,626	894,472	767,386	521,765	7,874,556	10,517,805
Gross profit	63,194	97,408	28,318	3,861	1,446,167	1,638,948
Selling and administrative expenses	30,572	148,514	29,015	16,713	1,772,085	1,996,899
Operating income (loss)	32,622	(51,106)	(697)	(12,852)	(325,918)	(357,951)
Non operating income	42,774	51,670	16,386	34,794	1,067,672	1,213,296
Non operating expenses	35,561	74,402	8,833	25,384	786,812	930,992
Ordinary income (loss)	39,835	(73,838)	6,856	(3,442)	(45,058)	(75,647)
Extraordinary gains	-	83,470	-	-	28,071	111,541
Extraordinary losses	1,081	-	-	-	24,913	25,994
Income tax expenses	7,081	2,431	-	-	35,501	45,013
Net income (loss)	₩ 31,673	₩ 7,201	₩ 6,856	₩ (3,442)	₩ (77,401)	₩ (35,113)

Changes in Consolidated Subsidiaries --

The 1999 consolidated financial statements include the accounts of the newly majority-owned subsidiaries such as LG Industrial Systems Co., Ltd.(\*), LG Sports Ltd.(\*), LG Micron Ltd.(\*), LG Department Store Co., Ltd., LG Mart Co., Ltd., Dacom Corporation, Dacom International, Inc., Dacom Satellite Multimedia System, Inc., LG Electronics Thailand Co., Ltd. ("LGETH"), LG Electronics Almaty Kazak Co., Ltd. ("LGEAK"), LG Electronics Antwerp Logistics N.V. ("LGEAL").

(\*) The company was an equity method investee in 1998.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Changes in Consolidated Subsidiaries, Continued --

A summary of financial data of the newly consolidated subsidiaries, prior to eliminating intercompany transactions is as follows :

Condensed Balance Sheet --

As of December 31, 1999 (Millions of Korean Won)						
	LG Industrial Systems Co.,		Dacom Corporation		LG Mart Co., Ltd.	
	Ltd.	LGETH	Others	Total		
Current assets	₩ 794,136	₩ 326,701	₩ 48,848	₩ 15,334	₩ 320,749	₩1,505,768
Investments	541,458	888,544	637,520	18	47,346	2,114,886
Property, plant and equipment	598,776	1,221,035	868,285	10,477	653,429	3,352,002
Intangible assets	698,623	65,361	1,883	436	16,441	782,744
Total assets	2,632,993	2,501,641	1,556,536	26,265	1,037,965	7,755,400
Current liabilities	1,172,571	673,224	295,239	16,891	617,400	2,775,325
Non-current liabilities	861,321	460,779	600,577	-	140,048	2,062,725
Total liabilities	2,033,892	1,134,003	895,816	16,891	757,448	4,838,050
Capital stock	648,128	119,715	47,000	7,122	249,106	1,071,071
Capital surplus	202,788	722,743	178,262	-	33,525	1,137,318
Retained earnings (deficit)	-	24,423	163,385	3,276	(4,095)	186,989
Capital adjustments	(251,815)	500,757	272,073	(1,024)	1,981	521,972
Total shareholders' equity	599,101	1,367,638	660,720	9,374	280,517	2,917,350
Total liabilities and shareholders' equity	₩2,632,993	₩2,501,641	₩1,556,536	₩ 26,265	₩1,037,965	₩7,755,400

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

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1. The Consolidated Companies, Continued:

Condensed Income Statement --

For the year ended December 31, 1999 (Millions of Korean Won)						
	LG Industrial Systems Co., Ltd.	Dacom corporation(*)	LG Mart Co., Ltd.	LGETH	Others	Total
Sales	₩1,751,133	₩ -	₩ 901,496	₩ 42,411	₩ 864,112	₩3,559,152
Cost of sales	1,465,654	-	704,422	35,856	688,952	2,894,884
Gross profit	285,479	-	197,074	6,555	175,160	664,268
Selling and administrative expenses	847,674	-	146,421	4,800	122,203	1,121,098
Operating income (loss)	(562,195)	-	50,653	1,755	52,957	(456,830)
Non operating income	821,934	-	38,710	1,628	54,777	917,049
Non operating expenses	432,838	-	34,324	1,336	113,857	582,355
Ordinary income (loss)	(173,099)	-	55,039	2,047	(6,123)	(122,136)
Extraordinary gains	-	-	122	-	3,204	3,326
Extraordinary losses	-	-	-	-	36	36
Income tax expenses	1,282	-	16,673	-	1,848	19,803
Net income (loss)	₩ (174,381)	₩ -	₩ 38,488	₩ 2,047	₩ (4,803)	₩ (138,649)

(\*) Income statement of Dacom Corporation is not included in the consolidated income statement as the Company is regarded to have control over Dacom Corporation as of December 31, 1999.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

A summary of financial data of major equity-method investees is as follows :

Condensed Balance Sheet --

As of December 31, 1999 (Millions of Korean Won)				
	LG. Philips LCD Co., Ltd.	LG Capital Co., Ltd.	LG Information & Communications, Ltd.	LGECT
Current assets	₩ 813,607	₩ 619,392	₩ 894,135	₩ 21,088
Investments	64,795	5,973,052	1,473,054	2
Property, plant and equipment	1,894,454	83,050	198,261	38,746
Intangible assets	355,910	26	30,508	5,561
Total assets	3,128,766	6,675,520	2,595,958	65,397
Current liabilities	568,832	4,906,346	1,021,601	30,911
Non-current liabilities	731,653	1,331,644	403,647	144
Total liabilities	1,300,485	6,237,990	1,425,248	31,055
Capital stock	1,450,000	300,000	154,500	47,054
Capital surplus	-	4,445	688,852	-
Retained earnings (deficit)	378,874	132,586	364,436	(15,813)
Capital adjustments	(593)	499	(37,078)	3,101
Total shareholders' equity	1,828,281	437,530	1,170,710	34,342
Total liabilities and shareholders' equity	₩ 3,128,766	₩ 6,675,520	₩ 2,595,958	₩ 65,397

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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1. The Consolidated Companies, Continued:

Condensed Income Statement --

	For the year ended December 31, 1999 (Millions of Korean Won)			
	LG. Philips LCD Co., Ltd.	LG Capital Co., Ltd.	LG Information & Communications, Ltd.	LGECT
Sales	₩ 2,298,723	₩ 1,072,996	₩ 2,768,022	₩ 23,143
Cost of sales	1,378,919	471,368	2,025,206	22,914
Gross Profit	919,804	601,628	742,816	229
Selling and administrative expenses	77,203	478,681	511,005	6,941
Operating income (loss)	842,601	122,947	231,811	(6,712)
Non operating income	97,481	42,777	521,865	123
Non operating expenses	281,394	15,953	336,557	957
Ordinary income (loss)	658,688	149,771	417,119	(7,546)
Extraordinary gains	-	98	-	372
Extraordinary losses	-	-	-	41
Income tax expenses	41,512	47,518	119,327	-
Net income (loss)	₩ 617,176	₩ 102,351	₩ 297,792	₩ (7,215)

In January 1999, LG Semicon Co., Ltd. sold its ownership in LG Energy Co., Ltd. to LG International Corp. As a result, LG International Corp. becomes a controlling company of LG Energy Co., Ltd. In March 1999, LG Precision Co., Ltd., a subsidiary, merged with LG C&D Ltd.

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies:

The significant accounting policies followed by LGE and its subsidiaries (collectively referred to as the "Company") in the preparation of the accompanying consolidated financial statements are summarized as follows:

Basis of Financial Statement Presentation --

The official accounting records of the Company are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea. The statutory consolidated financial statements are prepared in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea. For the convenience of the reader, the accompanying consolidated financial statements have been condensed, restructured and translated into English from the statutory Korean language financial statements, with certain expanded descriptions. Certain supplementary information included in the statutory financial statements, not required for a fair presentation of the Company's financial position or results of operations, is not presented in the accompanying consolidated financial statements.

As permitted by the revised financial accounting standards generally accepted in the Republic of Korea, the Company has presented its consolidated financial statements for the year ended December 31, 1999 only.

Such financial statements are not intended to present the financial position and 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.

Use of Estimates --

The preparation of financial statements in conformity with generally accepted accounting principles 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 might differ from those estimates.

Principles of Consolidation --

The fiscal year of the consolidated subsidiaries are the same as that of the controlling company. Differences in accounting policy between the controlling company and consolidated subsidiaries are adjusted.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
-----

2. Summary of Significant Accounting Policies, Continued:

Principles of Consolidation, Continued --

The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30 % of its issued share capital is held by the other company and that company is the largest shareholder. Investments in 20 % to 50% owned affiliated companies or investment in affiliated companies over which the Company exerts significant control or influence are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share of undistributed earnings or losses of these companies.

All significant intercompany transactions and balances with consolidated subsidiaries have been eliminated in consolidation.

The Company records differences between the investment account and corresponding capital accounts of subsidiaries as a consolidation adjustment, which is amortized over five years using the straight-line method. Differences between the investment account and corresponding capital accounts for equity-method investee companies at the date of acquisition of the investment are amortized over five years using the straight-line method.

Unrealized profit included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated. Unrealized profit arising from sales by the controlling company to consolidated subsidiaries or equity-method investees is fully eliminated and charged to equity of the controlling company. Unrealized profit, arising from sales by the consolidated subsidiaries or equity-method investees to the controlling company or sales between consolidated subsidiaries or equity-method investees, is eliminated based on ownership ratio.

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries included in minority interest are in excess of minority interest, the deficit in excess of minority interest is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in equity of the controlling company.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies, Continued:

Revenue Recognition --

Revenues from goods are recognized principally based upon the delivery of goods to customers. Revenue from services is recognized according to the percentage-of-completion method .

Marketable Securities and Investments --

All 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.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

For investments accounted for using equity method accounting, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments, capital surplus or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

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.

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). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
-----

2. Summary of Significant Accounting Policies, Continued:

Marketable Securities and Investments, Continued --

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. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded 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 inventory in transit which is determined using the specific identification method.

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 estimated useful lives of the assets. During 1999, Company changed the estimated useful lives for property, plant and equipment. As a result of this change, depreciation for the year ended December 31, 1999 is approximately ~~₩~~14,126 million less than which would have been reported under the previous estimated useful lives.

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 interest costs for the year ended December 31, 1999 are ~~₩~~49,031 million.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies, Continued:

Intangible Assets --

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over five years for goodwill and over the estimated useful lives for other intangible assets.

The excess of price paid over acquired company's net book value is recorded as goodwill. The contingent liabilities of the acquired company as of the acquisition date, but fixed within the year of acquisition, are accounted for as an adjustment of goodwill.

Research and Development Cost --

Research costs are expensed when incurred. Development costs directly relating to new technology on 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 or use of related products. Such costs are subject to continual analysis of recoverability. In the event that such amounts are estimated not to be recovering they are written-down or written-off. Pursuant to the provision of the revised financial accounting standards, all of deferred research cost of ₩429,884 million carried over from the previous year is amortized and deducted from beginning retained earnings.

Derivative Financial Instruments --

The Company utilizes several derivative financial instruments such as forward exchange, swap and option contracts to reduce its exposure resulting from fluctuations in foreign currency and interest rates. The instruments are valued at fair market value. For derivative financial instruments used to hedge risk arising from underlying transactions or commitments, gains or losses on valuation of the instruments are charged to current operations when incurred. For derivative financial instruments used to hedge potential risk on anticipated future transactions, gains or losses on valuation of the instruments are recorded as an adjustment to capital when incurred.

Discounts (premium) on Debentures --

Discounts (premium) 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.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies, Continued:

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.

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 (US\$ 1:₩1,145.40), and resulting translation gains and losses are recognized currently. Foreign currency denominated convertible bonds are translated at the historical exchange rates prevailing as of the date of issuance.

Translation of Foreign Currency Statements --

Foreign currency financial statements of consolidated subsidiaries are translated into Korean Won using the basic exchange rates in effect at the balance sheet date for assets and liabilities, and annual average exchange rates (US\$ 1:₩1,189.50) for income and expenses. Any resulting translation gain or loss is included in shareholders' equity.

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 LGE and domestic subsidiaries, 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.

Pursuant to the revised Financial Accounting Standards generally accepted in the Republic of Korea effective January 1, 1999, underaccrued severance benefits of ₩11,907 million as of December 31, 1998 were deducted from retained earnings as of January 1, 1999.

The contributions to national pension fund made under the National Pension Plan and the severance insurance deposit are deducted from accrued severance benefits. Contributed amounts are refunded from the National Pension Plan and the insurance companies to employees on their retirement.

Overseas subsidiaries accrue employees' retirement benefits according to the local regulations in which they operate.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies, Continued:

Long-Term Accounts Receivable and Payable --

Long-term accounts receivable or payable arising from long-term contracts are recorded at the net present value of future cash flows, calculated using the effective interest rate at the time of the contract execution. The difference between the nominal value and the present value of these accounts receivable or payable is amortized over the contract period using the effective interest rate method. Resulting amortization is recognized as interest income or expense.

Lease Transactions --

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

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Instead, the related lease rentals are charged to expense as incurred.

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 including tax credits 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.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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2. Summary of Significant Accounting Policies, Continued:

Sale of Accounts and Notes Receivable -

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.

Significant Changes in Financial Accounting Standards in Korea --

The Company adopted the revised Financial Accounting Standards in the Republic of Korea effective January 1, 1999. Pursuant to the provision of the revised financial accounting standards, the Company recognized deferred income taxes and charged research costs to expense. The cumulative effect on assets and liabilities arising in accordance with adoption of revised standards was added to or deducted from beginning retained earnings or capital adjustments pursuant to the revised accounting standards.

As a result of cumulative effects of retroactive adoption of the revised Financial Accounting Standards, retained earnings as of January 1, 1999 was decreased by ₩351,640 million, net income for the year ended December 31, 1999 and capital adjustments as of December 31, 1999 were increased by ₩177,685 million and ₩71,568 million, respectively.

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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3. Restricted Financial Instruments :

As of December 31, 1999, short-term financial instruments of ₩95,905 million and long-term financial instruments of ₩7,068 million 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 ₩ 64,404 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. Marketable Securities :

Marketable securities at December 31, 1999 comprise the following:

	Millions of Won
	1999
<u>Equity securities</u>	₩ 150
<u>Debt securities</u>	
Bonds issued by government	4,516
Beneficiary certificates	305,773
Other	25
	310,314
	₩ 310,464

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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5. Receivables :

Receivables, including trade accounts and notes receivable, as of December 31, 1999 are as follows:

	Millions of Won			
	Costs	Allowance for	Present value	
		doubtful	discount	Carrying value
	accounts			
Trade accounts and notes receivable	₩ 2,382,125	₩ 210,469	₩ 3,810	₩ 2,167,846
Short-term loans	116,727	13,002	-	103,725
Other accounts receivable	376,718	7,602	-	369,116
Accrued income	170,811	2,822	-	167,989
Advances	165,947	1,796	-	164,151
Long-term trade accounts receivable	59,179	320	-	58,859
Long-term loans	89,812	346	-	89,466
Long-term other accounts receivable	68,519	654	15,426	52,439
	₩ 3,429,838	₩ 237,011	₩ 19,236	₩ 3,173,591

Maturities of certain trade accounts and notes receivable from customers which suffer financial difficulties and are in process of corporate reorganization under the court are rescheduled and the receivables are discounted to record at present value. Future annual maturities of such receivables outstanding as of December 31, 1999 are as follows :

For the year ending December 31,	Millions of Won		
	Amount to be collected	Present value (*)	Discount
2000	₩ 3,206	₩ 2,973	₩ 233
2001	2,359	2,220	139
2002	2,512	2,125	387
2003	2,913	2,207	706
2004	2,029	1,479	550
2005 and thereafter	6,710	4,915	1,795
	₩ 19,729	₩ 15,919	₩ 3,810

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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5. Receivables, Continued:

Future annual maturities of long-term other accounts receivable as of December 31, 1999, in relation to the Company's share transfer of LG Semicon Co., Ltd. and other, are as follows :

For the year ending December 31,	Millions of Won		
	Amount to be collected	Present value (*)	Discount
2001	₩ 3,318	₩ 2,672	₩ 646
2002	65,201	50,421	14,780
	₩ 68,519	₩ 53,093	₩ 15,426

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

6. Inventories:

Inventories as of December 31, 1999 comprise the following:

	Millions of Won
	1999
Merchandise	₩ 315,054
Finished products	533,497
Semi-finished products and work in process	246,354
Raw materials and supplies	319,374
Materials in transit	343,026
Other	2,363
	₩ 1,759,668

At December 31, 1999, inventories are insured against fire and other casualty losses up to approximately ₩ 1,853,908 million.

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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7. Investments:

Investments in affiliates and other investments as of December 31, 1999 are as follows:

Investments in affiliates --

	Percentage of Ownership (%) at December 31, 1999	Millions of Won		
		Acquisition Cost	Market or Net Asset Value	Carrying Value
<Equity method>				
<u>Domestic affiliates</u>				
LG Construction Co., Ltd.	13.37	₩ 63,732	₩ 105,442	₩ 105,442
LG International Corp.	2.94	20,253	18,454	18,454
LG Information & Communications, Ltd.	27.10	352,013	404,069	404,069
LG Investments Security Inc.	10.06	304,142	238,018	238,018
LG Capital Co., Ltd.	38.06	149,156	189,237	189,237
LG Telecom, Ltd.	3.77	41,705	18,239	18,239
LG-Caltex Oil Corp.	18.85	111,231	572,983	572,983
LG-EDS system Inc.	10.00	360	4,663	4,663
LG. Philips LCD Co., Ltd.	50.00	726,169	735,501	735,501
LG IBM PC Co., Ltd.	49.00	11,907	8,679	8,679
Kukdong City Gas Inc.	4.56	17,088	12,937	12,937
Dacom System Technology, Inc.	50.00	14,990	15,470	15,470
<u>Overseas affiliates</u>				
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECT)	50.00	22,953	17,045	17,045
LG Hotline CPT Ltd. (LGEHL) (*1)	50.00	10,561	-	-
Compania Minera	23.36	4,552	256	256
Samhuan Lucky New Material Inc.	33.30	2,002	1,798	1,798
Thailand Miecoco	20.00	260	2,094	2,094
PT Video Display Glass Indonesia Co., Ltd. (V.G.I.)	36.00	12,156	8,092	8,092
		₩ 1,865,230	₩ 2,352,977	₩ 2,352,977

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

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7. Investments, Continued:

Investments in affiliates, Continued:

	Percentage of Ownership (%) at December 31,1999	Millions of Won		
		Acquisition Cost	Market or Net Asset Value	Carrying Value
<Cost method>				
<u>Domestic affiliates</u>				
ROKEOTEL	45.00	1,272	426	1,272
Simmani Inc.	83.75	2,700	2,858	2,700
Other	-	1,825	1,474	1,825
<u>Overseas affiliates</u>				
Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT) (*2)	50.00	9,764	9,764	9,764
LG Electronics Design Tech, Ltd. (LGEDT) (*2)	100.00	1,002	1,002	1,002
LG Electronics Mlawa SP.Zo.O. (LGEMA) (*2)	100.00	7,066	7,066	7,066
LG-MECA Electronics Haiphong, Inc. (LGEMH) (*2)	70.00	1,690	1,690	1,690
LG Electronics Service Europe Netherlands B.V. (LGESE) (*2)	100.00	3,978	3,978	3,978
LG Electronics Sweden AB (LGESW) (*2)	100.00	2,319	2,319	2,319
LG Electronics Taiwan Co., Ltd. (*2)	100.00	4,281	4,281	4,281
LG Electronics Ukraine Co., Ltd. (LGEUR) (*2)	100.00	1,041	1,041	1,041
LG Soft India PVT, LTD (LGSII) (*2)	88.00	2,920	2,920	2,920
Dalian LG Industrial Systems Co., Ltd. (*3)	70.00	6,460	8,011	6,690
LG Industrial Systems USA, Inc. (*3)	100.00	9,832	747	387
LG Industrial Systems America Inc. (*3)	100.00	12,669	12,061	12,294
Taiwan Goldstar Industrial Systems Co., Ltd. (*3)	100.00	1,186	489	1,186
LG Industrial Systems DE Colombia S.A. (*3)	90.00	2,856	1,303	2,856
LG Vina Industrial Systems Co., Ltd. (*3)	55.00	1,224	1,507	1,224
Other	-	5,268	7,081	7,044
		79,353	70,018	71,539
Total		₩ 1,944,583	₩ 2,422,995	₩ 2,424,516

(\*1) The equity method of accounting has been suspended due to accumulated losses.

(\*2) 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) These investments will be disposed to LG-OTIS Elevator Company according to the business transfer agreement on November 3, 1999.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

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7. Investments, Continued:

Other investments --

	Percentage of Ownership (%) at December 31,1999	Millions of Won		
		Acquisition Cost	Market or Net Asset Value	Carrying Value
<Marketable equity securities>				
Hyundai Electronics Industries Co., Ltd.	0.44	₩ 28,221	₩ 52,634	₩ 52,634
Korea stock market stabilization fund	2.36	26,769	26,322	26,322
Hanaro Telecom Inc.	10.73	253,779	506,079	506,079
Hansol M.Com (see Note 14)	2.73	26,893	193,492	193,492
Daum Communications Corp.	3.86	157	89,514	89,514
Treasury Stock Fund	-	26,539	15,821	15,821
Other	-	336	1,258	1,258
		<u>362,694</u>	<u>885,120</u>	<u>885,120</u>
<Non-marketable equity securities>				
<u>Domestic Companies</u>				
Lotis Co., Ltd.	14.00	1,900	1,900	1,900
LG-OTIS Elevator Company	19.90	89,550	89,550	89,550
Korea Defense Industry Association	-	1,370	1,370	1,370
KICA (Korea Information Certification Authority)	10.00	2,000	2,000	2,000
Airmedia	-	1,068	119	119
Ilshin&Dacom Investment Partnership	-	1,000	1,000	1,000
Carrier-LG (Limited)	-	4,500	4,500	4,500
Other	-	7,899	8,276	7,899
<u>Overseas Companies</u>				
GEMFIRE	4.41	1,835	191	1,835
Mainstreet Networks (formerly, eT Communications)	5.45	1,468	-	1,468
iTV Corporation	13.08	1,957	-	1,957
APV Technology Partners	-	1,494	3,112	1,494
Other	-	3,777	2,634	2,870
		<u>119,818</u>	<u>114,652</u>	<u>117,962</u>
<Debt securities>				
Bonds issued by government		73,458	61,111	61,111
Other		4,855	4,855	4,855
		<u>78,313</u>	<u>65,966</u>	<u>65,966</u>
Other investments total		<u>560,825</u>	<u>1,065,738</u>	<u>1,069,048</u>
Total		<u>₩ 2,505,408</u>	<u>₩ 3,488,733</u>	<u>₩ 3,493,564</u>

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

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7. Investments, Continued:

Reconciliation of acquisition cost of investments in affiliates accounted for using the equity method to their carrying value is as follows :

	Millions of Won				Total
	Capital Surplus	Capital adjustment	Retained earnings	Net income	
Acquisition Cost					₩1,865,230
Adjustment :					
Capital surplus	₩ 202,443	₩ -	₩ -	₩ -	202,443
Capital adjustments	-	65,959	-	-	65,959
Prior year' s net income	-	-	50,729	-	50,729
Current year's net income	-	-	-	478,675	478,675
Elimination of unrealized profit	-	-	(139,150)	(156,377)	(295,527)
Dividends income	-	-	(14,532)	-	(14,532)
Carrying Value					₩2,352,977

At December 31, 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, investments in marketable equity securities, of which the differences between the market value and the acquisition cost are accounted for as capital adjustments, are as follows:

	Millions of Won		
	Acquisition Cost	Market Value	Capital Adjustment
P.D.I	₩ 336	₩ 1,258	₩ 922
Hyundai Electronics Industries Co., Ltd.	28,221	52,634	24,413
Hanaro Telecom Inc.	117,428	117,900	472
	₩ 145,985	₩ 171,792	₩ 25,807

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 (present value of ₩1,596,704 million) and recognized a gain on disposal of investment of ₩1,102,930 million. The price is subject to adjustment based on certain factors.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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7. Investments, Continued:

Pursuant to a joint venture agreement with Koninklijke Philips Electronics N.V. ("Philips") dated July 24, 1999, the Company transferred certain of the Company's stock rights in LG. Philips LCD CO., Ltd. (formerly, LG LCD Co., Ltd.) to Philips. As a result, the Company reduced its ownership in LG. Philips LCD Co., Ltd. to 50% and recognized a gain on disposal of investment of ₩1,179,939 million.

In 1999, the Company transferred its own patents in relation to the Thin Film Transistor Liquid Crystal Display ("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.

According to financial accounting standards generally accepted in Korea, the unrealized gain on valuation of investment in Dacom Corporation, a subsidiary, of approximately ₩40,644 million previously accounted for as capital adjustment was credited to operations in 1999.

8. Property, Plant and Equipment:

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

	Millions of Won
Buildings	₩ 2,769,918
Structures	249,215
Machinery and equipment	3,731,304
Vehicles	49,454
Other	1,779,938
	8,579,829
Accumulated depreciation	(3,000,681)
	5,579,148
Land	1,480,696
Construction in progress	337,709
	₩ 7,397,553

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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8. Property, Plant and Equipment, Continued:

As of December 31, 1999, the value of the Company's land, as determined by the local government in Korea for property tax assessment purpose, approximates ₩1,230,521 million.

As of December 31, 1999, property, plant and equipment other than land and certain construction in progress, are insured against fire and other casualty losses up to approximately ₩10,343,997 million.

A substantial portion of property, plant and equipment as of December 31, 1999 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately ₩1,275,175 million (see Notes 10 and 11).

9. Intangible Assets:

Intangible assets at December 31, 1999 comprise the following:

	Millions of Won	
	1999	
Development costs	₩	150,858
Goodwill		665,811
Organization costs		9,634
Industrial property rights		19,196
Others		105,610
	₩	951,109

Goodwill of ₩664,086 million is incurred by the merger with LG Metals Co., Ltd. by LG Industrial Systems Co., Ltd., a subsidiary (see Note 22).

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

	Millions of Won	
Capitalized as intangible assets	₩	97,052
Expensed		248,221
	₩	345,273

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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10. Short-Term Borrowings:

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

	Annual Interest Rates (%) as of December 31, 1999	In Millions
<u>Bank overdrafts</u>	11.5 – 13.0	<del>₩</del> 18,867
<u>Won currency loans :</u>		
General term loans	7.0 – 12.0	137,001
Loans from insurance companies	8.5 – 9.4	29,500
Notes discounted and commercial papers	6.9 – 9.7	721,290
		887,791
<u>Foreign currency loans</u>		
Bank loans	3.2 – 8.9	826,150
Trade notes receivable discounted	LIBOR+0.5~1.0	1,157,175
		1,983,325
		(US\$1,732)
		<del>₩</del> 2,889,983

See Notes 3 and 8 for collateral arrangements for these borrowings. Repayment of certain borrowings has been guaranteed by affiliated companies of the LG Group (see Note 14).

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

	Millions of Won
Debentures	<del>₩</del> 2,227,450
Discount on debentures	(25,152)
Long-term debt	411,453
Long-term other accounts payable	23,485
	<del>₩</del> 2,637,236

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

-----

11. Long-Term Debt:

Long-term debt at December 31, 1999 comprises the following:

	Annual Interest Rate (%) at December 31, 1999	In Millions
<u>Won currency loans</u>		
Korea Development Bank	5.5 – 10.1	₩ 166,901
Kookmin Bank	5.0 – 12.95	24,911
Korea Technology Banking Corporation	6.5 – 8.5	9,377
Hana Bank	7 - 7.5	29,071
Hanvit Bank	8.5	74,390
Shinhan Bank	7.5	4,858
Yonhap Capital Co. Ltd.	5.5	1,870
Korea Informatics Telesis Inc.	8.5 – 12.9	20,673
KDB Capital Co. Ltd.	5.5	2,500
Other	3.0 – 9.5	2,039
		336,590
<u>Foreign currency loans</u>		
Korea First Bank	LIBOR+0.625 - 0.95	16,417
Korea Development Bank	8.9	12,022
Korea Development Bank	LIBOR+0.5	102,008
Hanvit Bank	LIBOR+0.4 - 1.15	68,396
Chohung Bank	LIBOR+0.4 - 0.875	97,395
Korea Exchange Bank	LIBOR+0.4 - 1.25	192,077
Kookmin Bank	LIBOR+1.25 - 1.4	12,686
Export-Import Bank of Korea	LIBOR+0.625	4,503
Hana Bank	LIBOR+0.7 - 1.4	3,008
KorAm Bank	9.0	2,137
Korea Resources Corporation	5.0	3,528
Korea Informatics Telesis Inc.	LIBOR+0.5	282
Sanwa Bank Limited	LIBOR+0.85	3,605
Bank of Tokyo-Mitsubishi	LIBOR+0.75 – 0.8	12,434
Citi Bank	LIBOR+0.85 – 0.9	21,522
Banque Paribas	LIBOR+0.7	9,384
Societe General	LIBOR+0.6	21,905
Sumitomo Bank	LIBOR+0.65	14,903
Bank One	LIBOR+2.5	11,472
Other overseas banks		214,550
		824,234
		USD 577 JPY 646 CNY 917 GBP 8 IDR 981
		1,160,824
	Less current maturities	(411,453)
		₩ 749,371

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999

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11. Long-Term Debt, Continued:

	Annual Interest Rate (%) at December 31, 1999	In Millions
<u>Debentures</u>		
Guaranteed, payable through 2001	7.0 – 25.0	₩ 2,320,200
Non-guaranteed, payable through 2004	8.1 – 21.4	491,000
General, payable through 2002	6.0 – 12.0	1,925,000
Floating rate notes in foreign currency, payable through 2000	LIBOR+0.25-0.60	150,920
		( HK\$ 550 )
		( CNY 100 )
		( US\$ 50 )
Zenith senior secured notes, payable through 2009 (*1)	8.19	57,270
		(US\$ 50)
		4,944,390
<u>Convertible Bonds</u> (*2)		
Foreign currency, issued in 1991	3.25	40
		(US\$ - )
Foreign currency, issued in 1996	1.25	33,096
		(US\$ 40)
Won currency, issued in 1998	1.00	100,000
Foreign currency, issued in 1997	0.25	31,920
		(US\$ 35)
		165,056
<u>Exchangeable Bonds</u> (*3)		
Foreign currency, issued in 1997	0.25	66,623
		(US\$ 75)
		5,176,069
Less treasury debentures		(117,171)
current maturities		(2,227,450)
discount on debentures		(115,626)
premium on debentures		7,589
adjustments for conversion rights		(13,027)
		₩ 2,710,384

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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11. Long-Term Debt, Continued:

In relation to guaranteed debentures, the Company pays guarantee fees of 0.1% ~ 2.0% per annum.

Treasury debentures of ₩117,171 million held by the Company as of December 31, 1999 comprise Won currency convertible bonds and a portion of exchangeable bonds.

(\*1) As a result of Zenith's prepackaged plan of reorganization, Zenith's US\$103.5 million of 6.25% subordinated debentures due 2011 and related accrued interest were exchanged for ₩57,270 million (US\$ 50.0 million) of 8.19% senior debentures maturing in November 2009, whose fair value was ₩44,785 million (US\$ 39.1 million). The difference between par value and fair value of senior debentures, ₩12,485 million (US\$ 10.9 million), was treated as discount on debentures.

(\*2) In 1991, LGE issued foreign currency denominated convertible bonds aggregating US\$ 70 million, bearing interest at 3.25% per annum. The bonds are convertible into non-voting preferred stock through November 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, 1999 is ₩16,343 per share. The fixed rate of exchange applicable to the exercise of the conversion rights is ₩726.50 per US\$ 1.00. The bonds will mature on December 31, 2006 at par value, unless previously converted or redeemed. Any bondholder may redeem all or some of the bonds held on June 24, 1999 at 144.926% of the principal amount of such bonds, together with interest accrued to date of redemption.

In 1996, LGE 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, 1999 is ₩22,174 per share. The fixed rate of exchange applicable to the exercise of the conversion rights is ₩827.4 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 date of redemption.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
-----

11. Long-Term Debt, Continued:

In 1998, LGE issued Won currency convertible bonds aggregating ₩100,000 million, bearing interest at 1.0% per annum. The bonds are convertible into common stock through November 2001, 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, 1999 is ₩20,555 per share. The bonds will mature on December 31, 2001 at 112.5% of the principal amount, unless previously converted or redeemed.

In 1997, LG Industrial Systems Co., Ltd., a subsidiary, issued foreign currency denominated convertible bonds aggregating US\$ 35 million, bearing interest at 0.25 % per annum. The bonds are convertible into common stock through November 2007, 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, 1999 is ₩10,967 per share. The fixed rate of exchange applicable to the exercise of the conversion rights is ₩912 per US\$1.00. The bonds will mature on December 31, 2007 at par value, unless previously converted or redeemed. Any bondholder may redeem all or some of the bonds held on September 23, 2002 at 139.624% of the principal amount of such bonds, together with interest accrued to date of redemption. The bonds may be redeemed at the option of the Company, in whole or in part, on or at any time after September 23, 1998 at their principal amount together with guaranteed return and interest accrued to date of redemption, provided that the bonds may not be so redeemed on or before September 23, 2002 unless the closing market price of common share has been at least 140 percent of the conversion price then in effect for each of 30 consecutive trading days.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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11. Long-Term Debt, Continued:

(\*3) In 1997, LGE 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. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
-----

11. Long-Term Debt, Continued:

See Notes 3 and 8 for the related collateral arrangements for the Company's long-term debt. In addition, the repayment of a portion of long-term debt is guaranteed by affiliated companies of the LG Group (see Note 14).

The maturities of long-term debt outstanding at December 31, 1999 are as follows:

For the year ending December 31,	Millions of Won		Total
	Long-term Debt	Debentures and Convertible bonds (*)	
2001	354,992	1,787,100	2,142,092
2002	240,590	842,570	1,083,160
2003	60,464	-	60,464
2004	30,251	30,000	60,251
2005 and thereafter	63,074	171,778	234,852
	<u>749,371</u>	<u>2,831,448</u>	<u>3,580,819</u>

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

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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12. Leases:

The Company has acquired certain machinery and equipment under capital lease agreements. At December 31, 1999 the acquisition cost of machinery under capital leases is ₩ 148,163 million, and related depreciation expenses recognized in 1999 is ₩ 23,629 million.

As of December 31, 1999, future minimum lease payments under capital leases which are recorded as long-term other accounts payable are as follows:

For the year ending December 31,	Millions of Won
2000	₩ 32,480
2001	32,685
2002	26,799
2003	27,490
2004 and thereafter	35,588
Total minimum lease payments	155,042
Less : interest portion	(30,585)
current portion	(23,485)
Long-term capital lease obligations	₩ 100,972

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

As of December 31, 1999, future lease payments under operating lease agreements are as follows:

For the year ending December 31,	Millions of Won
2000	₩ 64,769
2001	39,419
2002	9,702
2003	366
2004 and thereafter	226
	₩ 114,482

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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13. Accrued Severance Benefits:

Accrued severance benefits at December 31, 1999 are as follows:

	Millions of Won
Beginning balance	₩ 533,320
Severance payments	(258,346)
Transfer-in from affiliated companies	20,029
Increase by merger	27,862
Decrease by business transfer	(25,404)
Increase by changes in consolidated entities	197,790
Provisions	148,978
Additional provisions	11,907
	656,136
Contribution to National Pension Fund	(62,803)
Severance insurance deposits	(347,155)
	₩ 246,178

The severance benefits are funded approximately 62.7 % at December 31, 1999, 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 (see Note 3) and the amounts funded under employees severance insurance plans (severance insurance deposits) are presented as deduction from accrued severance benefits.

All employees of Zenith in the U.S.A are eligible to participate in noncontributory defined contribution retirement plans after completing one full year of service. Based upon the employees' contribution plans, Zenith has recognized ₩ 4,494 million (US\$ 3.8 million) as retirement plan expenses in 1999.

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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14. Commitments and Contingencies:

At December 31, 1999, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness. In addition, the Company has received guarantees approximating ₩ 2,173,837 million from various banks for the repayment of certain debentures of the Company.

At December 31, 1999, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩ 496,300 million.

At December 31, 1999, the outstanding balance of trade accounts and notes receivable discounted with recourse are ₩ 1,076,039 million.

At December 31, 1999, Zenith, a subsidiary, entered into a three-year US\$150 million exit financing facility with a bank group which Citicorp North America was the agent.

At December 31, 1999, the Company was a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

At December 31, 1999, the Company was contingently liable for guarantees approximating ₩ 237,776 million on indebtedness of certain affiliated companies.

In order to reduce the impact of changes in exchange rates on future cash flows, LGE enters into foreign currency forward contracts. As of December 31, 1999, LGE has outstanding forward contracts for selling US Dollars amounting to US\$ 130 million (contract rates : ₩1,134.1 : US\$ 1~₩1,187.6: US\$ 1, contract due dates : January through November 2000) and an unrealized gain of ₩ 1,490 million was credited to operations for the year ended December 31, 1999.

In order to reduce the impact of changes in interest rates, LGE enters into interest rate swap contracts and an unrealized gain of ₩171 million was recorded as a capital adjustment. A summary of the terms of outstanding interest rate swap contracts at December 31, 1999 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	2001.6. 5
Korea Exchange Bank	US\$ 40	5.9%	6M LIBOR	2000.8.24
Bankers Trust Company	US\$ 40	5.9%	6M LIBOR	2000.8.24
Citi Bank	US\$ 20	5.91%	6M LIBOR	2000.8.24

(\*) If 6 month LIBOR is over 6.25%, the rate deducting 0.34 or 0.35% point from 6 month LIBOR would be applied.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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14. Commitments and Contingencies, Continued :

In order to reduce the impact of changes in exchange rates on future cash flows, LGE enters into foreign currency interest rate swap contracts to convert long-term debt denominated in US Dollars to Hong Kong Dollars. An unrealized loss of ~~₩~~3,051 million was charged to operations for the year ended December 31, 1999. A summary of the terms of outstanding currency interest rate swap contracts at December 31, 1999 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%	2001.8.30
Deutsche Bank	US\$40.0	HK\$7.765:US\$1	5.34%	7%	2001.8.30
CSFB	US\$45.5	HK\$7.765:US\$1	5.35%	7%	2001.8.30

In order to reduce the impact of changes in exchange rates on future cash flows, LGE enters into foreign currency option contracts. An unrealized gain of ~~₩~~1,111 million was credited to operations for the year ended December 31, 1999. A summary of the terms of outstanding currency option contracts at December 31, 1999 is as follows :

	Option Type	Amount (In millions)	Exercising price	Contract due date
Citi Bank	Put	US\$ 21.5	<del>₩</del> 1,145.00	2000.3.31
	Call	US\$ 43.0	1,145.00	2000.3.31
Citi Bank	Put	US\$ 50.0	1,150.00	2000.5.16
	Call	US\$ 50.0	1,182.50	2000.5.16

As a result of the above derivatives contracts, a gain of ~~₩~~28,825 million and a loss of ~~₩~~61,720 million were realized for the year ended December 31, 1999.

In order to stabilize raw material and inventory costs, LG Industrial Systems Co., Ltd., a subsidiary, entered into future contracts for commodities, such as electrolytic copper. An unrealized gain on valuation of the above unsettled future contracts amounting to ~~₩~~ 425 million was credited to current operations for the year ended December 31, 1999.

LGE is named as the defendant or the plaintiff in various legal actions arising from the normal course of business. The aggregate amounts of claims as the defendant brought against and the plaintiff brought by LGE are approximately ~~₩~~21,271 million in 5 cases and ~~₩~~14,226 million in 9 cases, respectively, as of December 31, 1999. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate losses on the Company's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying financial statements.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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14. Commitments and Contingencies, Continued :

During 1998, LG Hitachi Ltd. ("LG Hitachi"), a subsidiary, filed a lawsuit against a securities company, an employer of the accomplice of an employee of LG Hitachi who was involved in embezzlement of LG Hitachi's funds, for reimbursement of loss LG Hitachi suffered. Currently, the lawsuit is in progress and the ultimate outcome of the case cannot be determined. Accordingly, no adjustment is reflected in the accompanying consolidated financial statements for the outcome of this uncertainty. At December 31, 1999, LG Hitachi recorded accounts receivable of ₩11,526 million in connection with the case.

In August 1998, Dacom Corporation ("Dacom"), a subsidiary, made a commitment to sell 4,280,800 shares out of its holdings in Hansol M.com (formerly Hansol PCS) to an executive officer of Hansol M.com at ₩8,000 per share no later than June 30, 1999. In July 1999, the executive officer of Hansol M.com filed a lawsuit pleading for the fulfillment of this commitment by Dacom. Dacom asserts unfairness of the plaintiff's request considering the background and the legal validity of Dacom's commitment. Both parties' pleadings are in progress, therefore, the result of this lawsuit cannot be foreseen. As of December 31, 1999, Dacom recorded ₩166,599 million as gain on valuation of these investments in capital adjustment account, but the capital adjustment was eliminated in the accompanying financial statements (See Note 7).

Dacom's executive officer committed fraud several times by providing Dacom's bank deposits to the financial institutions as collateral for the third parties' bank borrowings. Dacom's bank deposits amounting to ₩24,000 million provided as collateral as of December 31, 1999, have been offset against the above mentioned unauthorized extension of collateral in January and February 2000 by the financial institutions concerned. Dacom is considering appropriate legal action for the return of its bank deposits and the prosecutors' investigation of this matter is in progress. Based on the opinion of the Company's legal counsel and Interpretation 31-74 of the financial accounting standards, Dacom estimated and recognized ₩16,800 million of extraordinary loss in 1999 to cover this loss contingency.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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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 on August 23, 1999, and the reorganization plan was approved by the court on November 5, 1999. Under the approved reorganization plan, all outstanding common stock of Zenith was cancelled and the holders of common stock received no distribution and LGE converted US\$ 200 million of US\$ 365 million of Zenith's obligations to LGE into common stock of Zenith which represents 100% of equity in the restructured Zenith. The remaining portion of Zenith's obligations was exchanged for senior secured notes issued by Zenith and an investment in an overseas subsidiary.

As a result of Zenith's prepackaged plan of reorganization, Zenith's \$103.5 million of 6.25% subordinated debentures due 2011 and related accrued interest were exchanged for \$39.1 million (par value of \$50 million) of 8.19% senior debentures maturing in November 2009. As a result, an extraordinary gain of approximately US\$ 70.2 million (~~₩~~83,471 million) was recognized during 1999.

Pursuant to the reorganization plan, Zenith intends to become a sales, distribution, and technology company by discontinuing substantially all of its manufacturing operations, outsourcing substantially all components and products, selling certain assets and focusing on the development of its technologies, patent rights, parts and service operations and accessory business. As a result, Zenith recorded a ~~₩~~ 23,195 million (US\$ 19.5 million) charges, primarily related to costs associated with consulting legal fee, severance costs and plant closure costs.

Under the approved reorganization plan, all Zeniths' stock options granted to its employees and LGE was cancelled. In relation to the cancellation, the Company recognized an extraordinary loss of ~~₩~~48,262 million.

During 1999, fire took place in the warehouse of LG Electronics Italy S.P.A.(LGEIS), a subsidiary. In relation to the fire, ~~₩~~6,859 million, net of expected insurance coverage amounting to approximately ~~₩~~ 12,670 million, was recorded as an extraordinary loss.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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14. Commitments and Contingencies, Continued :

In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions, a reduction in the availability of credit, increased interest rates, increased inflation, negative fluctuations in currency exchange rates, increased numbers of bankruptcies, increased unemployment and labor unrest. Such conditions had a significant adverse effect on the operations of the Company and other companies in Korea and in the Asia Pacific region.

Recently, economic conditions in the Republic of Korea have improved as evidenced by an increased trade surplus, increases in foreign exchange reserves, record levels of foreign investment and economic growth, lower inflation and interest rates and stabilized foreign exchange rates. Notwithstanding the current recovery, significant uncertainties still exist related to the economy in Korea and 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. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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15. Capital Stock :

At December 31, 1999, capital stock is as follows;

	Number of issuance (shares)	Par value	Millions of Won
Common	107,327,666	₩5,000	₩ 536,638
Preferred	19,095,547	5,000	95,478
	126,423,213		₩ 632,116

At December 31, 1999, the number of shares authorized are 500,000,000 shares.

At December 31, 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.

16. Capital Surplus :

At December 31 , 1999, capital surplus is as follows;

	Millions of Won
LGE' s Capital surplus	
Capital Reserve	₩ 523,240
Revaluation Surplus	339,676
	862,916
LGE' s share of subsidiaries' capital surplus	377,049
LGE' s share of equity	
method investees' capital surplus	26,192
	₩ 1,266,157

LGE 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, 1999, the revaluation increment of ₩339,676 million, net of tax, transfer to capital stock and offset against deferred foreign currency translation losses, is credited to revaluation surplus.

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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17. Retained Earnings :

Retained earnings at December 31,1999 are as follows;

	Millions of Won
LGE' s retained earnings	
Legal reserve (*1)	₩ 41,499
Reserve for business rationalization (*2)	326,180
Reserve for improvement of financial structure (*3)	84,458
Reserve for technological development (*4)	974,516
Reserve for export loss (*4)	14,000
Unappropriated retained earnings carried over to subsequent year	44
	1,440,697
 LGE' s share of subsidiaries' retained earnings	 (173,535)
 LGE' s share of equity method investees' retained earnings	 91,461
	₩ 1,358,623

(\*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. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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17. Retained Earnings, Continued :

(\*3) In accordance with 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 Corporate Income Tax Law of Korea, 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.

Deficit in excess of minority interest charged to the equity of the Company are as follows:

	As of December 31, 1998	Increase	Decrease	As of December 31, 1999
Zenith	₩ 264,500	₩ -	₩ 264,500	₩ -

18. Capital Adjustments:

At December 31, 1999 capital adjustments are as follows;

	Millions of Won
Loss on valuation of investment securities	₩ (38,821)
Gain on valuation of derivative financial instruments	276
Discounts on stock issuance	(519)
Loss on sale of treasury stock	(2,539)
Consideration for conversion rights	15,602
Overseas operations translation credit	181,358
Overseas operations translation debt	(37,093)
	₩ 118,264

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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19. Income Taxes:

Income tax expense for the year ended December 31, 1999 comprise the following:

	Millions of Won
Current income taxes	₩ 607,935
Deferred income taxes	(23,368)
	₩ 584,567

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

	Millions of Won	
	Deferred income tax assets (liabilities)	
	December 31,1999	January 1,1999
Deferred foreign exchange gain	₩ 35,911	₩ 77,355
Deferred foreign exchange loss	(12,403)	(22,172)
Losses from sales of receivables	33,130	-
Accrued income	(4,571)	(9,716)
Bad debt expenses	59,258	31,702
Reserve for technology development	(8,783)	(13,431)
Development costs	(27,431)	(14,737)
Marketable securities	1,972	30,716
Investments in equity-method investees	112,099	65,865
Tax credits carried-forward	4,525	38,151
Increase by the changes in consolidated entities	6,137	-
Other	16,415	3,021
	₩ 216,259	₩ 186,754

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. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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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 year ended December 31, 1999 is calculated as follows:

	Millions of Won (except for EPS data)
<u>Basic earnings per share</u>	
Net income as reported on the statement of income	₩ 2,069,542
Less : Preferred stock dividends	(20,050)
Net income allocated to common stock	2,049,492
Weighted average number of common shares outstanding	107,327,666
Basic earnings per share	₩ 19,096

Basic ordinary income per share for the year ended December 31, 1999 is calculated as follows:

	Millions of Won (except for EPS data)
<u>Basic ordinary income per share</u>	
Net income allocated to common stock	₩ 2,049,492
Less : extraordinary gains	(37,285)
Add: income tax (*)	8,212
Ordinary income allocated to common stock	2,020,419
Weighted average number of common shares outstanding	107,327,666
Basic ordinary income per share	₩ 18,825

(\*) It is computed based on effective tax rate.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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-----

20. Earnings Per Share, Continued :

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, 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, assuming conversion into common shares at January 1, 1999.

Diluted earnings per share for the year ended December 31, 1999 is calculated as follows:

	Millions of Won (except for EPS data)
Net income allocated to common stock	₩ 2,049,492
Add : interest expenses on convertible bonds, net of tax	1,906
Diluted net income allocated to common stock	2,051,398
Weighted average number of common shares and diluted securities outstanding	108,820,224
Diluted earnings per share	₩ 18,851

Diluted ordinary income per share for the year ended December 31, 1999 is calculated as follows:

	Millions of Won (except for EPS data)
Diluted net income allocated to common stock	₩ 2,051,398
Less : extraordinary gains	(37,285)
Add: income tax (*)	8,212
Diluted ordinary income allocated to common stock	2,022,325
Weighted average number of common shares and diluted securities outstanding	108,820,224
Diluted ordinary income per share	₩ 18,584

(\*) It is computed based on effective tax rate

The diluted securities outstanding for the year ended December 31, 1999 are as follows :

- Diluted security : Foreign currency denominated convertible bonds, issued in 1996
- Issue price : ₩33,096 million (US\$ 40 million)
- Conversion period : December 26, 1996 through October 26, 2006
- Number of common stocks to be issued : 1,492,558 shares
- Conversion price : ₩22,174 per share

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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21. Dividends :

LGE' s unappropriated retained earnings available for dividends for 1999 are as follows :

	Millions of Won
Unappropriated retained earnings before appropriations	₩ 1,266,092
Reversal of voluntary reserves	11,290
Appropriations of legal reserve and reserve for business rationalization	(212,800)
	1,064,582
Appropriations of voluntary reserves	(937,160)
Unappropriated retained earnings available for dividends after appropriations	127,422
Dividends	₩ 127,378

Details of dividends for the year ended December 31, 1999 are as follows :

Dividends --

	Common shares	Preferred shares
Number of shares	107,327,666	19,095,547
Par value	₩ 5,000	₩ 5,000
Dividend ratio	20%	21%
Total dividends	₩ 107,327,666,000	₩ 20,050,324,350

Dividend Payout Ratio --

Total dividends to be paid out (A)	₩ 127,377,990,350
Net income of LGE (B)	2,005,021,086,932
Dividend payout ratio ((A)/(B))	6.35%

Dividend Yield Ratio --

	Common shares	Preferred shares
Dividend per share (A)	₩ 1,000	₩ 1,050
Market price of LGE as of December 31, 1999 (B)	₩ 47,000	₩ 25,060
Dividend Yield Ratio ((A)/(B))	2.13%	4.19%

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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22. Business Combination :

LG Industrial Systems Co., Ltd. ("LGIS"), a subsidiary, entered into a merger agreement with LG Metals Co., Ltd. ("LG Metals") on December 11, 1998. Under the terms of the agreement, LGIS acquired all of the issued and outstanding shares of LG Metals on April 1, 1999 with the approval of LGIS' s shareholders.

In accordance with the merger agreement, LGIS exchanged 0.7729 shares of its common stock for each share of LG Metals.

LGIS acquired the assets and assumed the liabilities of LG Metals at its book value as of March 31, 1999.

As a result of the merger, goodwill on the business combination was recognized as follows:

	Millions of Won
Total assets acquired	₩ 1,377,360
Total liabilities assumed	2,169,006
Net assets	(791,646)
Less : Common stock issued in the combination	(46,374)
Goodwill on business combination	₩ 838,020

Changes in goodwill from the merger date to December 31, 1999 are as follows:

	Millions of Won
Goodwill on business combination	₩ 838,020
Amortization and other adjustments, net	(173,934)
Goodwill as of December 31, 1999	₩ 664,086

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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23. Disposal of Business Divisions :

LG Industrial Systems Co., Ltd. ("LGIS"), a subsidiary, disposed its Copper Smelting & Refining Division to LG Nikko Copper Inc. at ₩674,011 million on August 31, 1999.

LGIS also disposed its Building Facilities Division to LG-OTIS Elevator Company at ₩810,821 million on December 28, 1999. As of the audit report date, LG-OTIS Elevator Company is performing a verification process on the related assets and liabilities. The disposal amount, related assets and liabilities will be settled according to the verification result.

In additions, LGIS disposed its Vending Machine Division to Carrier-LG (Limited) at ₩55,500 million on November 30, 1999.

For aforementioned disposal of business divisions, transferred assets, liabilities and related gain (loss) are summarized as follows:

	Millions of Won			
	Copper Smelting & Refining Division	Building Facilities Division	Vending Machine Division	Total
Current assets	₩ 295,902	₩ 239,879	₩ 23,019	₩ 558,800
Fixed assets	489,902	280,490	60,510	830,902
	785,804	520,369	83,529	1,389,702
Current liabilities	299,990	84,574	13,754	398,318
Noncurrent liabilities	78,261	11,169	1,625	91,055
	378,251	95,743	15,379	489,373
Net Assets	₩ 407,553	₩ 424,626	₩ 68,150	₩ 900,329
Gain (loss) on disposal	₩ 266,458	₩ 386,195	₩ (12,650)	₩ 640,003

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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24. Transactions with Related Parties:

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies during 1999 and the related account balances at December 31, 1999 are summarized as follows

Transactions between LGE and its consolidated subsidiaries --

	<u>Millions of Won</u>
Receivables	₩ 1,462,141
Payables	140,961
Sales and other income	3,590,131
Purchases and other expenses	395,793
Guarantees	1,341,654

Transactions between consolidated subsidiaries -

	<u>Millions of Won</u>
Receivables and payables	₩ 383,478
Sales, purchases and others	1,193,259
Guarantees	69,510

Transactions between the Company and equity-method investees-

	<u>Millions of Won</u>
Receivables and payables	₩ 370,916
Sales, purchases and others	1,380,784
Guarantees	199,671

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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25. Segment Information:

LGE has organized three reportable business divisions: Display division, Home appliances division and Multimedia division. Additionally, LGE 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

Financial Data of LGE by Business Division (Millions of Won)

	Total	Business Division			Supporting Division
		Multimedia	Home Appliances	Display	
. Sales					
External Sales	₩10,546,099	₩2,952,759	₩3,032,259	₩4,205,273	₩355,808
Inter-division Sales	1,459,978	43,754	994,172	377,902	44,150
	<u>12,006,077</u>	<u>2,996,513</u>	<u>4,026,431</u>	<u>4,583,175</u>	<u>399,958</u>
. Ordinary Income (Loss)	<u>684,012</u>	<u>216,419</u>	<u>525,231</u>	<u>522,974</u>	<u>(580,612)</u>
. Fixed Assets					
Tangible and Intangible assets	2,832,358	415,288	796,847	766,147	854,076
Depreciation	<u>370,763</u>	<u>58,081</u>	<u>82,535</u>	<u>152,963</u>	<u>77,184</u>

Financial data of LGE by Geographic Area (Million of Won)

	Total	Domestic	North America	Central & South America	Europe	Central Asia	Asia	Pacific	Others
Sales	₩12,006,077	₩ 4,163,891	₩ 2,407,551	₩ 376,425	₩ 1,364,540	₩ 423,478	₩ 2,917,293	₩ 149,002	₩ 203,897

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the year ended December 31, 1999  
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26. 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.

Pursuant to the provision of the revised Financial Accounting Standards, the Company amended the beginning balance of the cash and cash equivalents on the statement of cash flows as of January 1, 1999. As a result of retroactive adoption of the revised standards, the beginning balance of cash and cash equivalents on the statement of cash flows as of January 1, 1999 was decreased by ₩131,178 Million.

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

	<u>Millions of Won</u>
Transfer to property, plant and equipment from construction in progress	₩ 590,354
Reclassify current maturities of debenture	1,521,232
Reclassify current maturities of long-term debt	296,359
Increase in assets by changes in consolidated subsidiaries	4,320,910
Increase in liabilities by changes in consolidated subsidiaries	2,386,663
Increase in assets by merger	1,377,360
Increase in liabilities by merger	2,169,006

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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27. Subsequent Events:

LGE acquired communication terminal business from LG Information & Communications, Ltd. for ~~₩~~70,619 million on January 1, 2000.

At December 28, 1999, LG Industrial Systems Co., Ltd. provided shareholders, who did not agree to dispose the building facility division, with stock repurchase demand right in accordance with related laws and regulations in the Republic of Korea. At February 15, 2000, the Company purchased 28,738,093 shares of treasury stock at ~~₩~~5,487 per share as a result of exercising such right.