

The background features the word "DIGITAL" in large, stylized, glowing letters. The letters are primarily yellow and orange, with a blue glow around them. The background is a dark blue/purple gradient with abstract, glowing shapes and lines, suggesting a digital or technological theme.

# LG Electronics Demerger

## LGEI & LGE: Holding Company Structure

November 15, 2001

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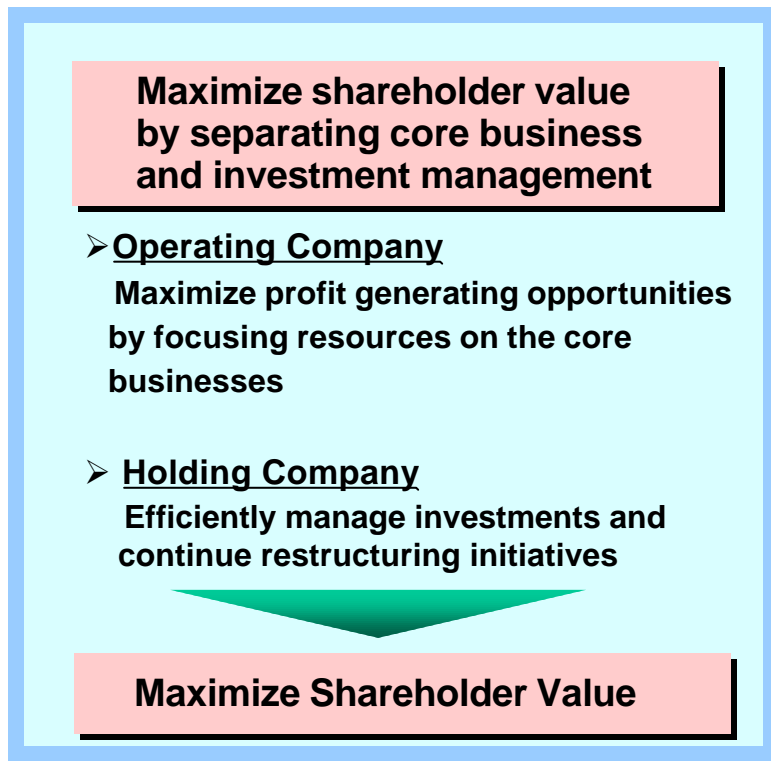
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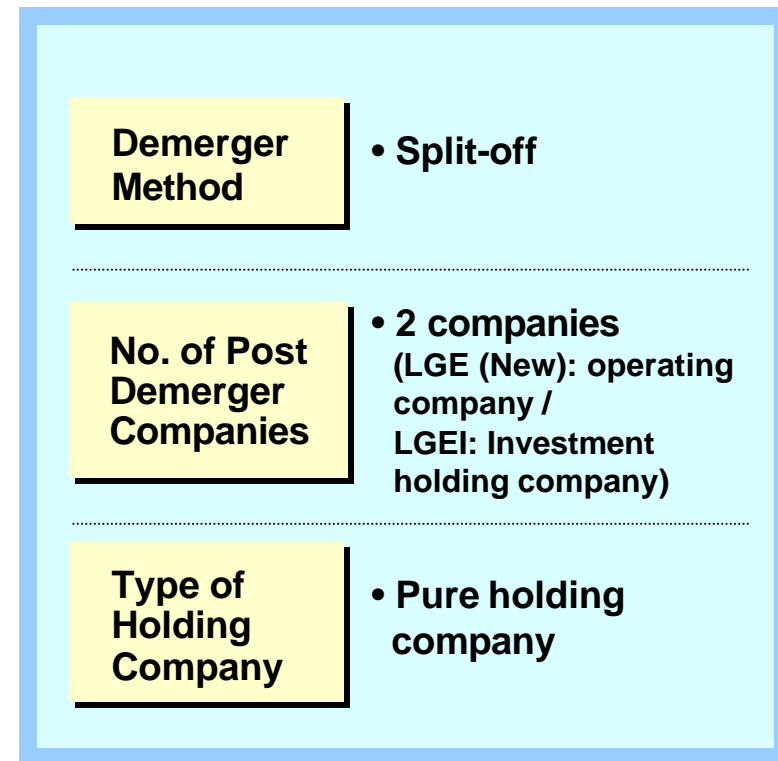
# 1. Objective and Basic Direction

The demerger of LGE into two separately listed companies, a pure operating company and an investment management holding company will resolve the telecom issues and improve corporate governance and transparency.

## Objective

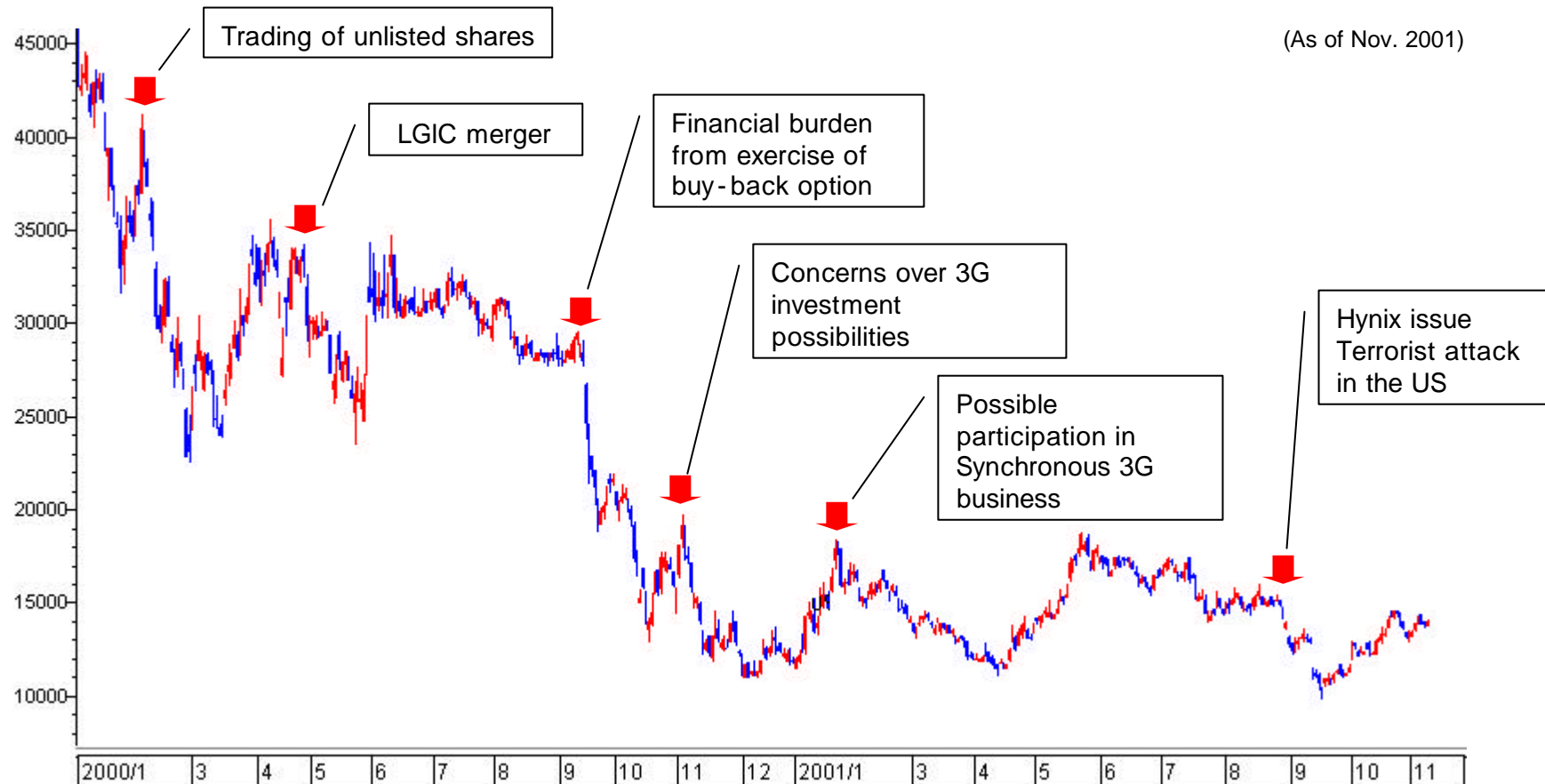


## Basic Direction



## (LGE share price trends)

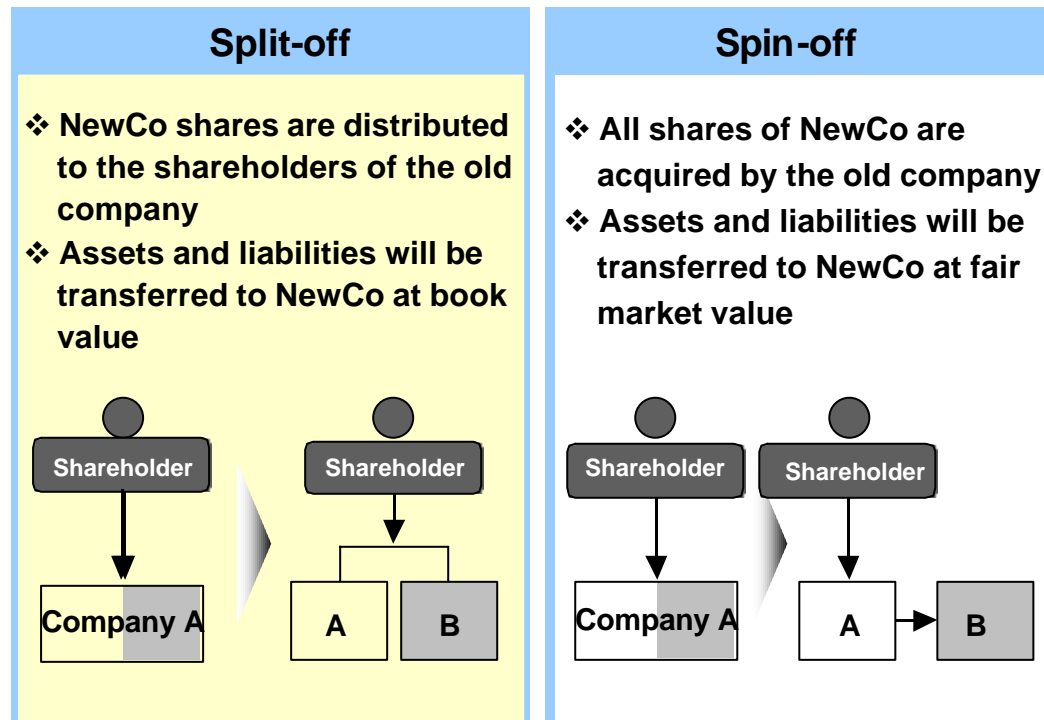
**LGE has global leadership in the electronics and telecom hardware business, but its share price does not correctly reflect its true intrinsic value.**



## 2. Demerger Method

When compared to Spin-off, Split-off not only has a relatively simpler process, but is also the most appropriate method to maximize shareholder value.

### Split-off vs. Spin-off



### Why Split-off?

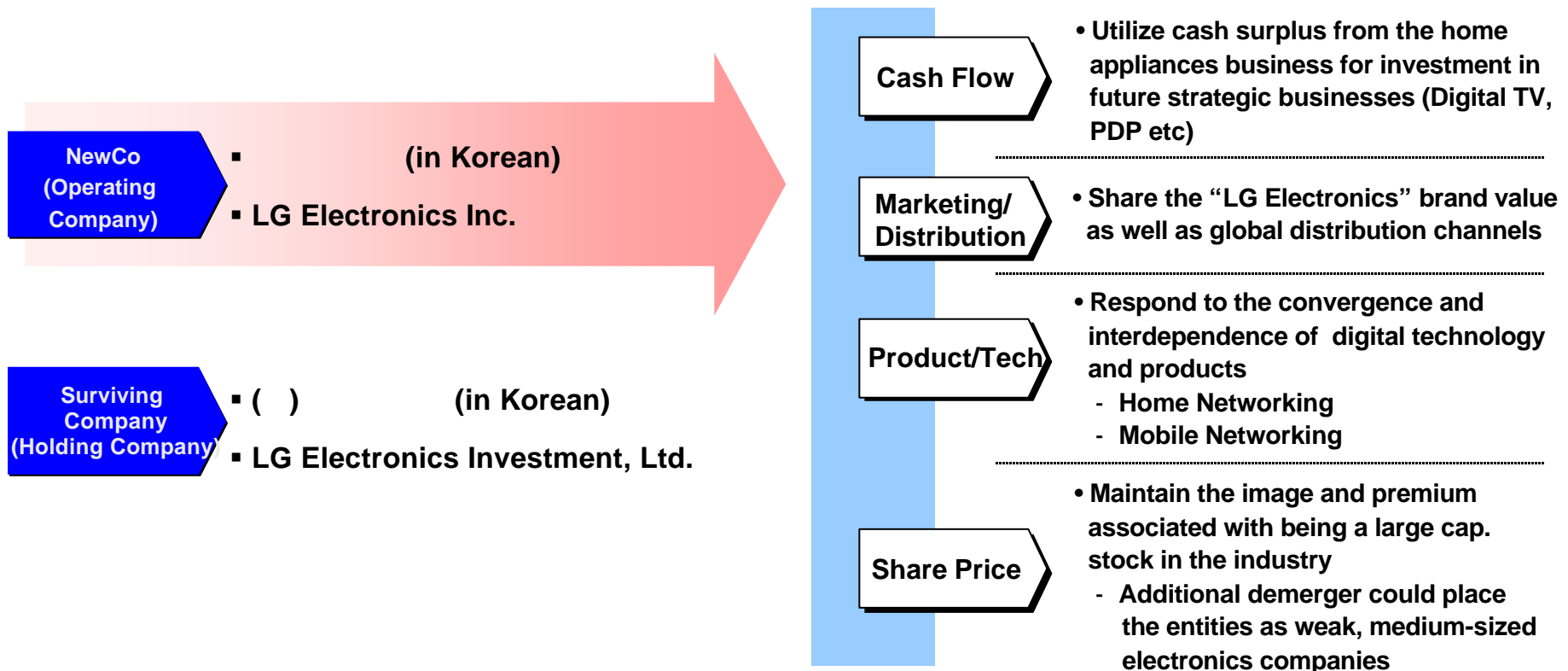
- In a split-off, NewCo shares are allocated to shareholders of the old company according to the equity split ratio, so there is no preferential treatment
- Shareholders in the old company can maximize shareholder value when the share prices in the operating company increase
- The process is less complicated
  - Split-off: Transfer at book value
  - Spin-off: Transfer at fair market value (asset revaluation required)

### 3. Post Demerger Companies

A single operating entity is the most optimal structure to achieve LGE's long-term goals as we believe it will result in significant synergies

#### Post Demerger Companies

#### Rationale for a Single Operating Company

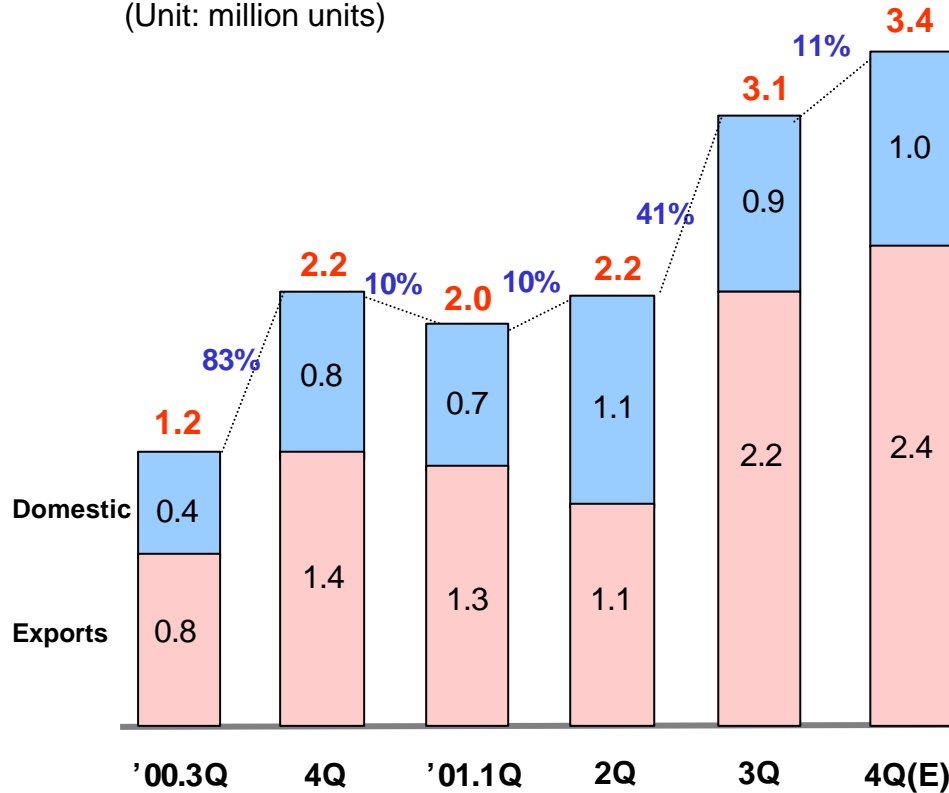


*(Synergy generated through the LGIC merger)*

**We believe synergies from merger with LGIC into a single operating entity, resulted in the significant growth in CDMA handset sales, particularly in export market.**

CDMA Handset Sales Trends

(Unit: million units)



**A dramatic increase in CDMA handset sales**

- Achieved a 53% year-on-year growth in 3Q 2001
- Established distribution channels and a service network using experience in the overseas business and existing overseas networks
- Lead the domestic Internet handset market by utilizing existing multimedia technology for electronic products

**Significant increase in profitability**

- Increase prices through product development and better designs
- Improvement in productivity and quality (6 sigma)
- Cutting costs by procurements of core parts

**The successful launch of the GSM business**

- Utilize current LGE brand recognition and distribution channels
- Successful entry into Italy, Indonesia, China, Russia and Kazakhstan

## 4. Asset Allocation

**LGEI will hold most of the investment assets, including telecom services, therefore LGE (New) will be able to focus on its core businesses.**

<b>LGE (New) - Operating Company</b>	<b>LGEI - Holding Company</b>
<ul style="list-style-type: none"><li>❖ <b>Investment assets directly related to the core business</b><ul style="list-style-type: none"><li>- LG.Philips Displays, LG.Philips LCD, LG-IBM, LG Innotek, LG Micron, LG Sports</li></ul></li><li>❖ <b>Overseas subsidiaries</b></li><li>❖ <b>Investment assets related to business</b> (Nara Mold &amp; Die, SunHan Tech)</li><li>❖ <b>Financial affiliates</b> (LG Investment &amp; Securities, LG Card)</li><li>❖ <b>Tangible and fixed assets excluding LGEI holdings</b></li></ul>	<ul style="list-style-type: none"><li>❖ <b>Stocks of affiliates</b><ul style="list-style-type: none"><li>- LG Telecom, DACOM, LG Eng &amp; Const., LG-Caltex, LG Industrial Systems, LG Int'l, LG Dept Store, LG Mart, LG-EDS, etc.</li></ul></li><li>❖ <b>Investment assets related to LG Group</b><ul style="list-style-type: none"><li>- HTI, Dreamwiz, Rotis, etc.</li></ul></li><li>❖ <b>Current assets (deposits)</b></li><li>❖ <b>LG Twin Tower building and land</b></li></ul>
<hr/> <p><b>Value: KRW 9,546.1 billion</b></p>	<hr/> <p><b>Value: KRW 2,119.2 billion</b></p>

\* The operating company will hold investments in LG Card and LG Investment & Securities, since under the Fair Trade Act, these investments cannot be held by a ordinary holding company. However, LGE (New) plans to sell these shares over the next 2 years.

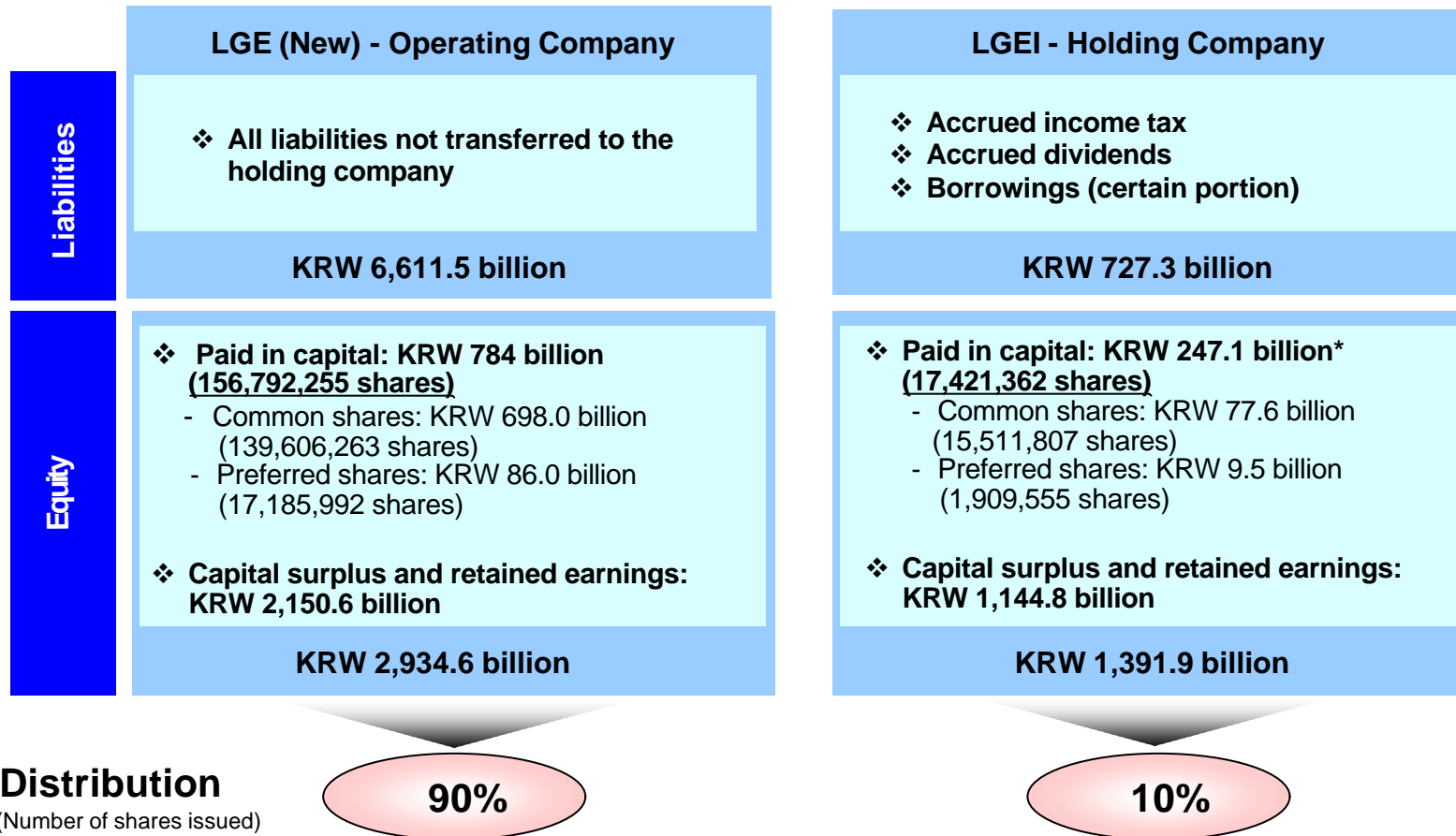
Book value as of June 2001: LG Investment & Securities (KRW 154.4 billion), LG Card (KRW 72.5 billion)

\* In order to utilize sports marketing, LG Sports will be held by LGE (New)

( Asset allocation may differ according to LGE' s financial status at the point of the demerger)

## 5. Liability and Equity Allocation

Shares will be distributed 9 to 1 for LGE (New) and LGEI to create a sufficient ground for maximizing shareholder value.



\* Includes KRW 160 billion in redeemable preferred stock that has been repaid.

## 6. Demerger Financial Structure

Post demerger liabilities-to-equity ratio for LGE (New) and LGEI will be 225% and 52%, respectively.

### Financial Structure Pre Demerger

(As 2002.3.31, KRW in billions)

LGE	
Assets	Liabilities
11,665.3	7,338.8
	Equity
	4,326.5
L/E Ratio: 169.6%	

### Financial Structure Post Demerger

(As of 2002.4.1, KRW in billions)

LGE (New)	
Assets	Liabilities
9,546.1	6,611.5
	Equity
	2,934.6
L/E Ratio: 225.3%	

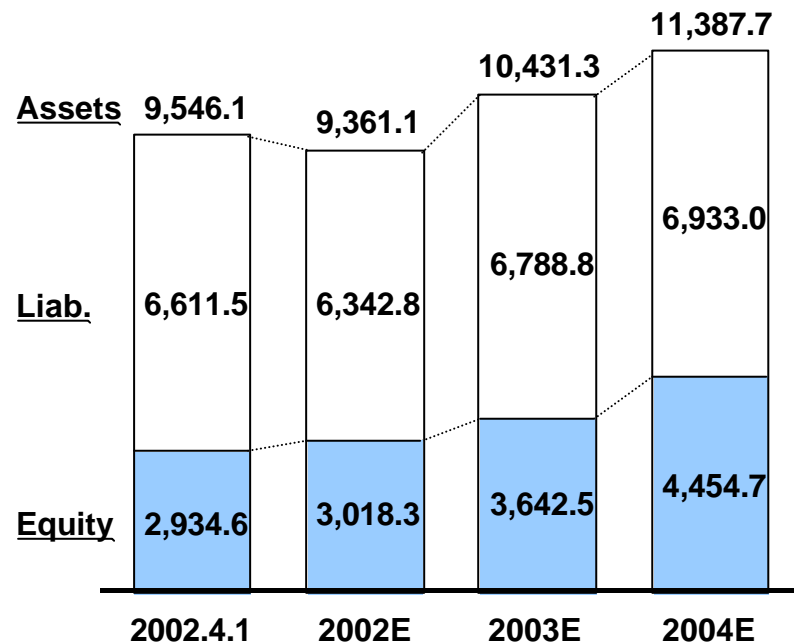
LGEI	
Assets	Liabilities
2,119.2	727.3
	Equity
	1,391.9
L/E Ratio: 52.3%	

## 7. Projected Post Demerger Financial Structure

Over the long-term, LGE (New)'s liabilities-to-equity ratio is expected to trend down to 150% while LGEI will be at 30%.

**LGE (New) Financial Outlook**

(KRW in billions)



L/E Ratio

225%

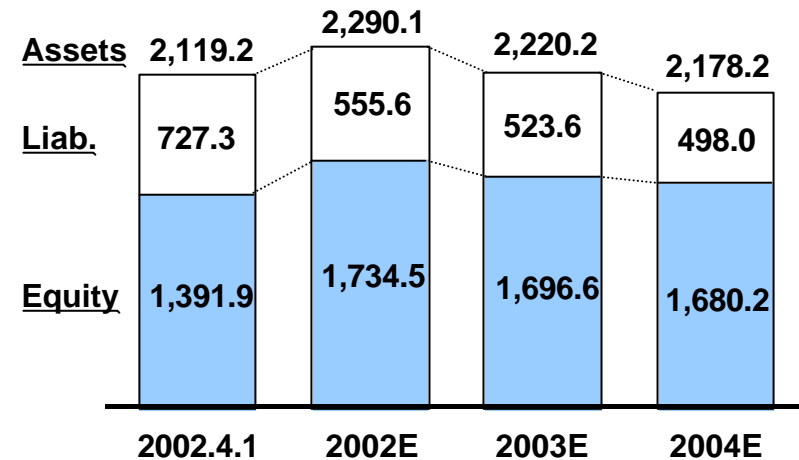
211%

186%

156%

**LGEI Financial Outlook**

(KRW in billions)



L/E Ratio

52%

32%

31%

30%

***(Ways to improve LGE' s liabilities-to-equity ratio)***

**Although LGE (New)' s liabilities-to-equity ratio will increase slightly upon the demerger, it will be brought down to 210% level in 2002 .**

**2002 Estimated Cash Flow**

<b>(2Q to 4Q)</b>	<b>(Unit: KRW in billions)</b>
Cash flow from Operations	853.9
Cash flow from Investments	<b>(702.6)</b>
	151.3
Sales of Marketable Securities	125.9
	277.2
<b>Beginning Borrowings Balance</b>	<b>3,688.4</b>
<b>Liabilities/Equity Ratio</b>	<b>(225%)</b>
<b>Ending Borrowings Balance</b>	<b>3,411.2</b>
<b>Liabilities/Equity Ratio</b>	<b>(210%)</b>

**Measures to be Taken**

- Increase profitability by strengthening operating activities**
- Improve working capital management by reducing receivables and others**
- Disposal of marketable securities**
  - Sale of Nextwave Bonds
  - Sale of LGIS Shares
  - Sale of R&D Center in Boondang

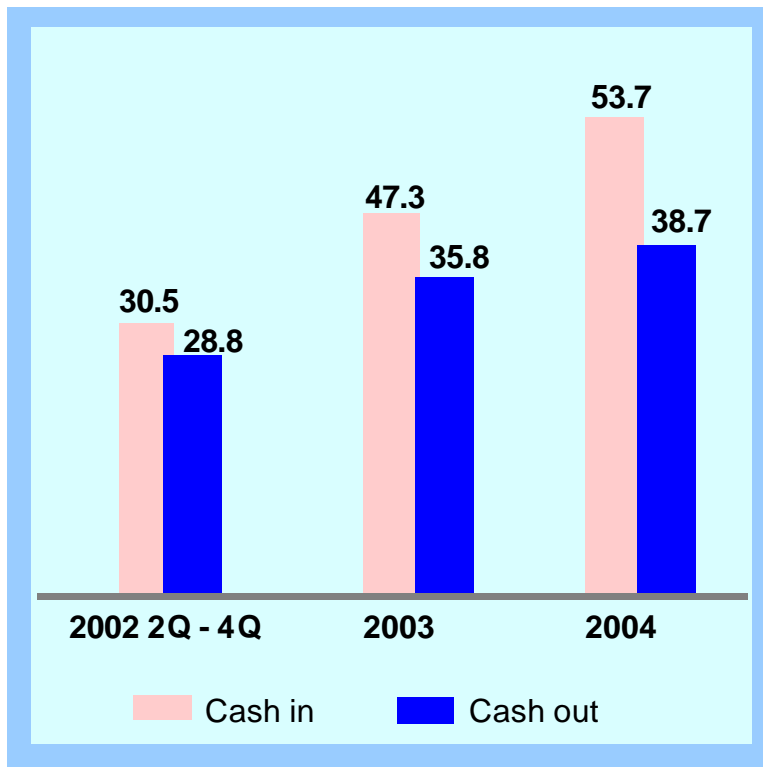
( Asset allocation may differ according to the LGE' s financial status at the time of the demerger)

## (LGEI operating plans and estimated cash flow)

LGEI is a pure holding company focused on investment management and restructuring. LGEI intends to maximize capital gains through listing of portfolio companies.

### Estimated Cash Flow

(Unit: KRW in billions)



### Objectives

- Maximize Capital Gains**  
Listing of unlisted investments was not included in the cash flow projections
- Investment Portfolio Management**  
Continuous restructuring of non-core assets

## (LGEI's Possible Additional Requirements)

**Additional funding needed for telecom investments, such as LG Telecom and Dacom, will be secured by each individual company.**

<b>LG Telecom (33%)</b>	<ul style="list-style-type: none"> <li>• Pre demerger rights offering (early 2002)</li> <li>• Maintain current profit base and generate internal cash surplus</li> <li>• Efficient investments for the future 3G market</li> </ul>
<b>Dacom (30%)</b>	<ul style="list-style-type: none"> <li>• Minimize investments in non-core areas, such as Chollian and telephony business</li> <li>• Strengthen business efficiency by cutting costs and through continuous restructuring, such as demergers and/or asset sales</li> </ul>
<b>LG Industrial Systems (42%)</b>	<ul style="list-style-type: none"> <li>• Excluding goodwill amortization, LGIS will achieve a operating profit of 16%</li> <li>• Aggressively target overseas markets and maintain dominant position in the domestic market</li> </ul>

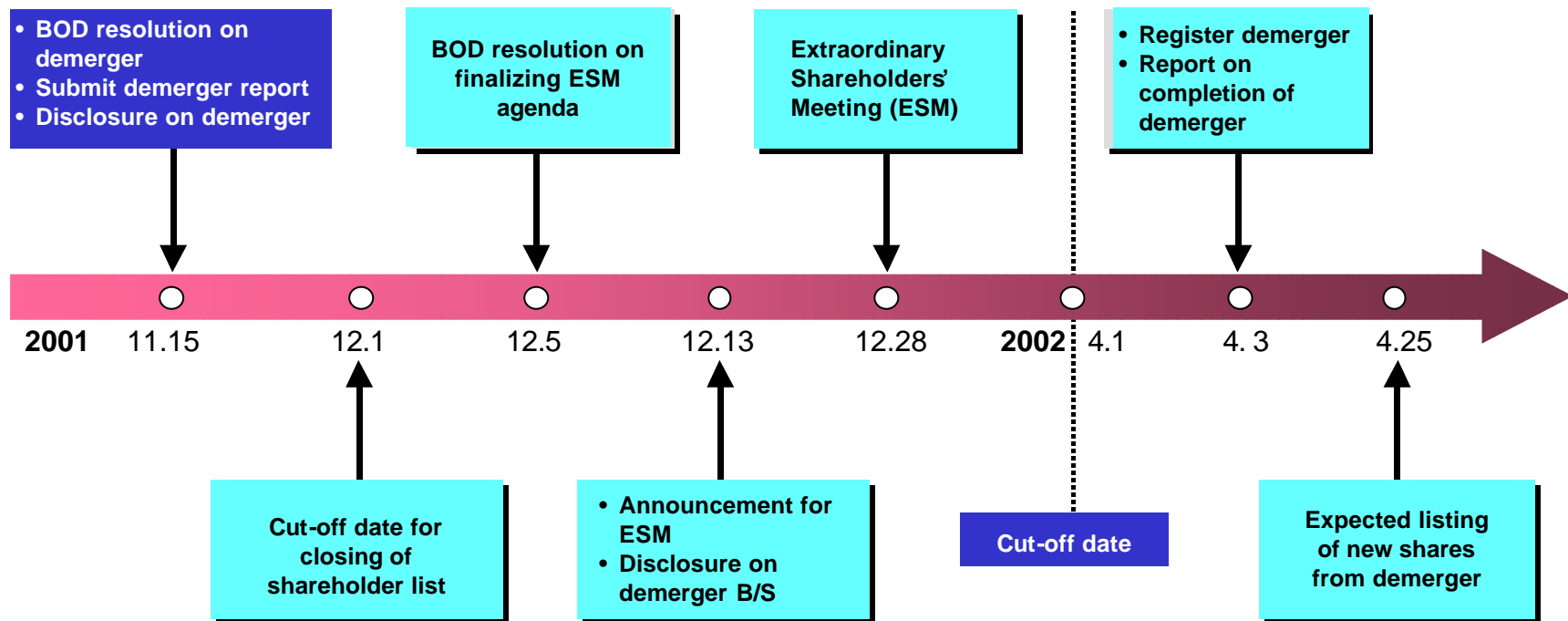
(Based on 3Q 2001 YTD figures; Unit: KRW in billions)

	Sales	Operating Profits	EBITDA	Major Plans
<b>LG Telecom</b>	1,600.0	288.0 (18.0%)	476.0	<ul style="list-style-type: none"> <li>– Annual capex under KRW 500 billion</li> <li>– 3G investments for the next 5 years to total KRW 870 billion</li> </ul>
<b>Dacom</b>	718.5	29.9 (4.2%)	152.0	<ul style="list-style-type: none"> <li>– Annual capex under KRW 150 billion</li> </ul>
<b>LGIS</b>	570.5	91.0 (16.0%)	160.1	<ul style="list-style-type: none"> <li>– Maintain borrowings of KRW 750 billions by end 2001</li> </ul>

## 8. Schedule

BOD resolution on finalizing ESM agenda will take place on Dec 5, 2001, while the ESM will be on Dec 28, 2001. The official date of demerger is April 1, 2002.

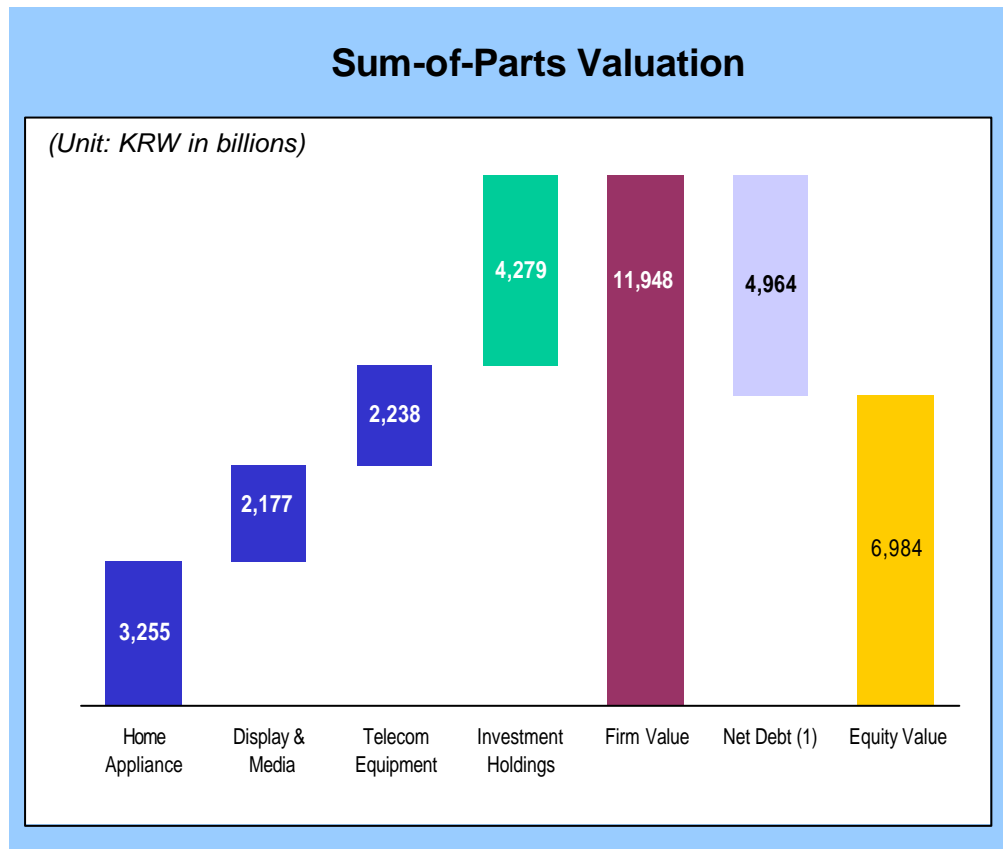
### Demerger Schedule



## 9. Valuation

### 1) Post Demerger LGE (New)

We believe the post-demerger equity value of LGE (New) is approximately W7 tril.



**Implied Share Price**  
KRW 44,543

#### Valuation Methodology

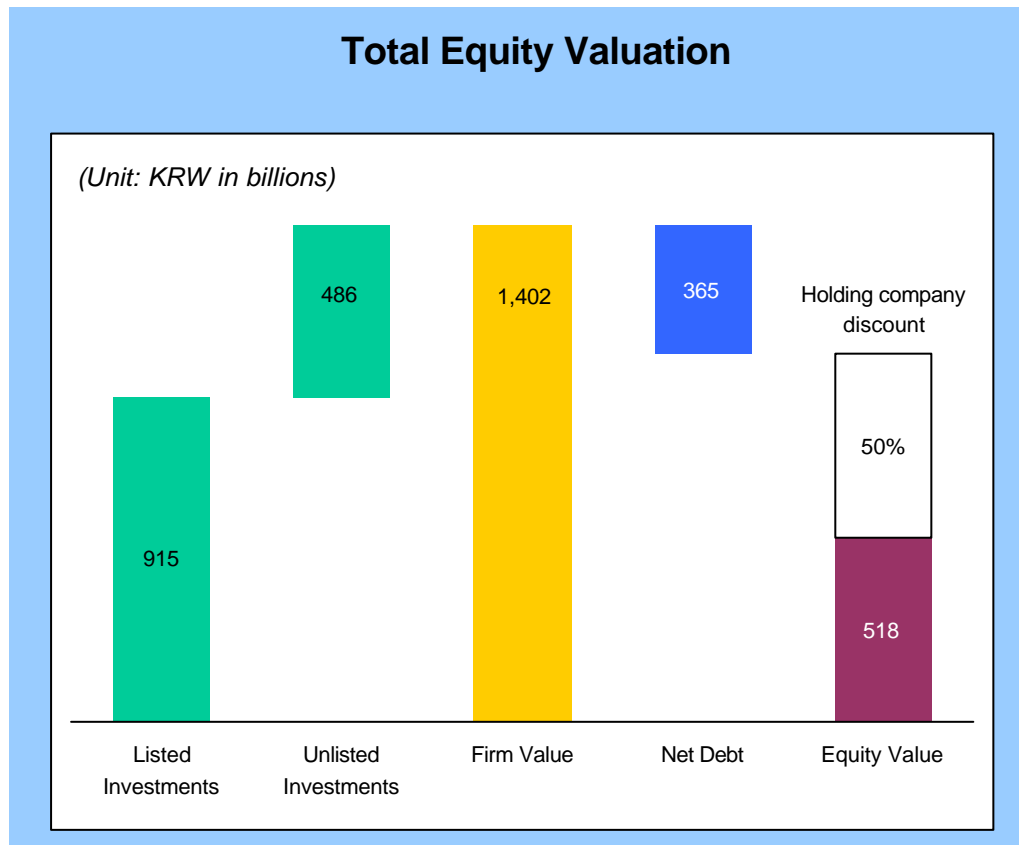
❖ LGE's valuation was determined based on the estimated EBITDA of each business divisions and operating affiliates (LCD, CRT), which was compared against LGE (New)'s global peer group (Maytag, Sony, Toshiba, Alcatel, Siemens, among others) EBITDA multiples. We then applied appropriate discounts to the multiples

\* Source : LGE advised by Salomon Smith Barney Investment Banking

\* As of November 9, 2001

1) Including payment guarantee of KRW 1,426 billion to overseas affiliates

We believe LGEI's equity value is approximately around W500 bil.



### Implied Share Price

**KRW 29,745**

Listed Investments	Unlisted Investments
• LG Telecom	• LG Mart
• Dacom	• LG-Caltex
• Hankuk Electric Glass	• LG Dept. Store
• LG Indus. System	• LG-EDS
• LG Construction	• LG-Hitachi
• Hanaro Telecom	• LG OTIS
• LG International	• Others

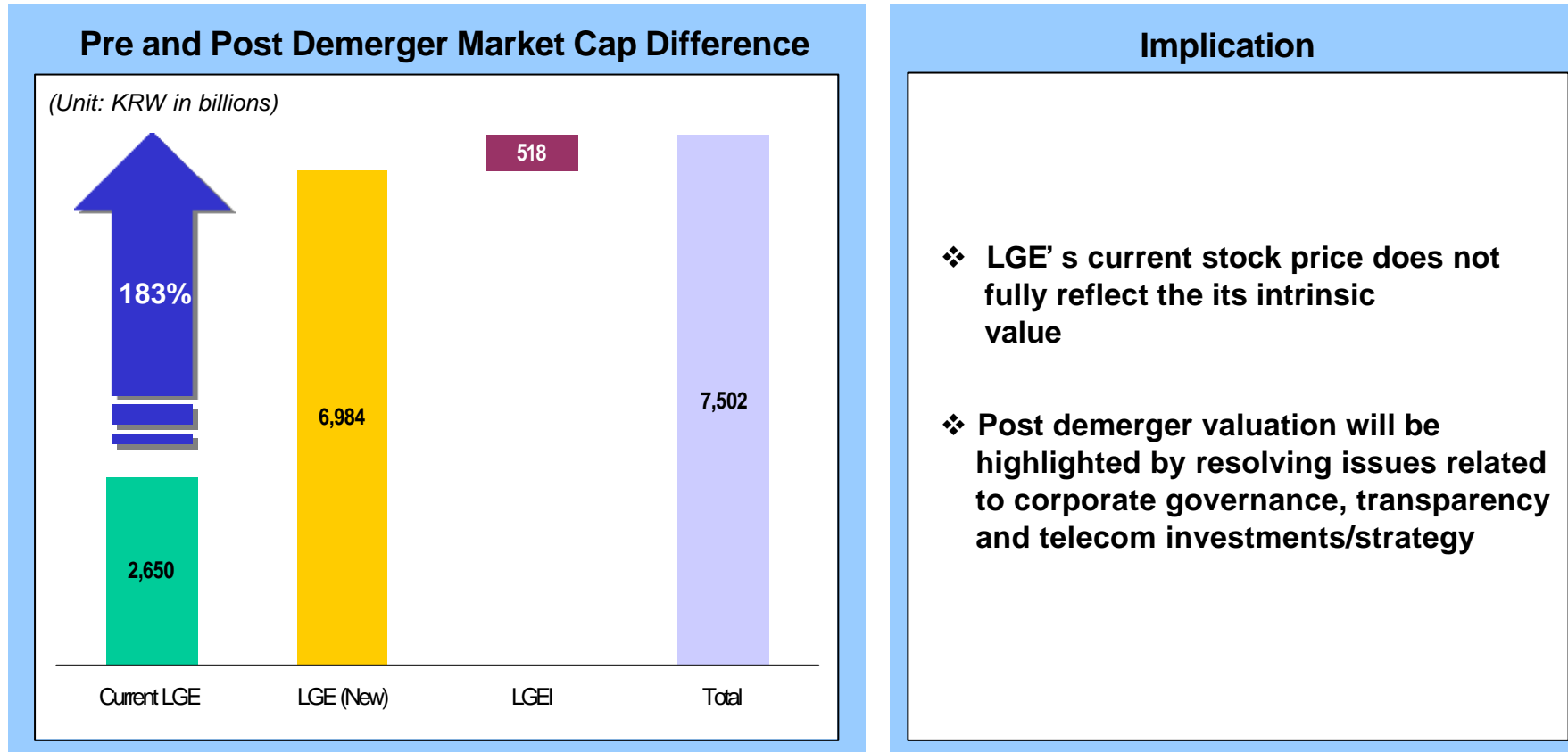
\* Source : LGE advised by Salomon Smith Barney Investment Banking  
 \* As of November 9, 2001

\* The number of LGEI shares issued will only be 1/10 of pre demerger LGE.

## 9. Valuation

### 3) Pre and Post Market Capitalization Difference

As LGE (New) and LGEI's intrinsic value is estimated to total W7.5 tril., we expect post demerger market capitalization to increase significantly.



\* Source : LGE advised by Salomon Smith Barney Investment Banking

\* As of November 9, 2001

*Thank You*

A hand holding a megaphone, with a trail of orange sparks or particles emanating from the top, set against a dark blue background.

[www.lge.co.kr](http://www.lge.co.kr)