# LG ELECTRONICS INC. AND SUBSIDIARIES

# AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2001 and 2000

#### REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of LG Electronics Inc. ("LGE") and its subsidiaries (collectively the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years 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 audits. We did not audit the financial statements of Dacom Corporation, LG Electronics U.S.A., Inc. and certain consolidated subsidiaries of LGE, of which total assets represent \W10,174,659 million and \W8,650,756 million as of December 31, 2001 and 2000, respectively, and sales represent \W16,222,225 million and \(\pi\9,776,828\) million for the years then ended, respectively. Additionally, we did not audit the financial statements of LG Card Co., Ltd., LG-Caltex Oil Corp. and certain equity method investees. The Company's investment in these investees are \(\pi\_{1,763,185}\) million and \(\pi\)1,074,496 million as of December 31, 2001 and 2000, respectively, and the Company's share of the net income (loss) of these investees are  $\mathbb{W}(213,752)$  million and W135,329 million for the years then ended, respectively. 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 aforementioned subsidiaries and equity method investees, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 28 to the accompanying financial statements, upon a resolution of the board of directors on November 15, 2001 and upon a resolution of shareholders on December 28, 2001, the Company spun off its electronics and information & communications businesses and established a new company, and converted its remaining business into a holding company on April 1, 2002. Accordingly, the Company was split into two companies, a divesting company, named LG Electronics Investment Inc., to engage in the operation of investment in subsidiaries and affiliates which are not related to the spun off businesses and a divested company, named LG Electronics Inc., to engage in the electronics and information & communications businesses.

As discussed in Note 2 to the accompanying financial statements, the financial statements as of and for the year ended December 31, 2000 have been restated in order to charge additional amortization of goodwill of LG Industrial Systems Co., Ltd., a subsidiary, and include the accounts of LG.Philips LCD Co., Ltd., in the 2000 consolidated financial statements.

As discussed in Note 27 to the accompanying financial statements, pursuant to the resolution by the board of directors on June 11, 2001, the Company established a joint venture (LG. Philips Displays Holding B.V.) relating to its Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. on June 29, 2001. The Company transferred the assets and liabilities of the CRT business to LG. Philips Displays Korea Co., Ltd., a subsidiary wholly owned by the joint venture, on June 30, 2001. As a result, the Company recognized \text{\text{\text{\text{W}1,358,760}} million of gain on business transfer.

As discussed in Note 15 to the accompanying financial statements, pursuant to the resolution by the board of directors on June 25, 2001, the Company redeemed \W542,952 million (32,000,000 shares) of redeemable preferred stock which were issued in December 2000.

As discussed in Notes 7 and 14 to the accompanying financial statements, on September 21, 2001, the Company sold 6,028 thousand shares of its investment in Dacom Corporation, a subsidiary, for \$W\$106,996 million and as a result \$W\$511,388 million of capital surplus was reduced.

As discussed in Note 14 to the accompanying financial statemens, the Ministry of Information and Communication awarded a CDMA IMT-2000 carrier license to LG Telecom Co., Ltd., a subsidiary, on August 25, 2001.

Without qualifying our opinion, we draw attention to Note 14 to the accompanying consolidated financial statements which states that the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties of 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 consolidated 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 procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries and jurisdictions. Accordingly, this report and the accompanying financial statements are not intended for use by those who are not informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea April 3, 2002

# LG ELECTRONICS INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

As of December 31, 2001 and 2000 (In millions of Korean Won)

	2001			2000	
ASSETS					
Current assets:					
Cash and cash equivalents	₩	1,271,671	₩	401,316	
Short-term financial instruments (Note 3)		181,284		385,437	
Marketable securities (Note 4)		4,622		17,743	
Trade accounts and notes receivable (Notes 5 and 24)		3,411,931		2,782,936	
Inventories (Note 6)		3,157,291		3,512,029	
Short-term loans (Note 5)		13,563		24,352	
Other accounts receivable (Note 5)		618,453		291,819	
Prepaid expenses		108,233		143,357	
Accrued income (Note 5)		307,759		341,761	
Advances (Note 5)		168,759		199,017	
Other current assets		129,618		109,635	
Total current assets		9,373,184		8,209,402	
Property, plant and equipment, less					
accumulated depreciation (Note 8)		11,627,385		10,768,042	
Long-term financial instruments (Note 3)		13,646	54,702		
Investments securities (Note 7)		2,742,108		1,735,058	
Refundable deposits		708,807		372,372	
Long-term trade accounts receivable (Note 5)		21,325		7,583	
Long-term loans (Note 5)		149,218		149,017	
Long-term prepaid expenses		183,890		58,020	
Deferred tax assets (Note 19)		546,030		193,844	
Derivatives transactions debit (Note 14)		139,977		-	
Intangible assets (Note 9)		1,400,397		1,864,203	
Other non-current assets		20,178		71,906	
Total assets		26,926,145	₩	23,484,149	

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

# LG ELECTRONICS INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS, Continued As of December 31, 2001 and 2000

(In millions of Korean Won)

		2001	2000		
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term borrowings (Note 10)	₩	4,314,227	₩	4,859,334	
Current maturities of long-term					
debt (Note 10)		2,959,324		2,947,649	
Trade accounts and notes payable (Note 24)		2,822,580		2,155,735	
Other accounts payable		1,809,135		1,350,927	
Accrued expenses Advances from customers		864,434 284,508		850,322 303,649	
Withholdings		103,734		125,503	
Income taxes payable (Note 19)		115,309		204,707	
Dividends payable		149,826		237,183	
Other current liabilities		426,727		109,339	
Total current liabilities		13,849,804		13,144,348	
Debentures, net of current maturies and discounts (premiums) on debentures					
and adjustments for conversion rights (Note 11)		5,111,383	3,114,79		
Long-term debt, net of current maturities (Note 11)		686,849	1,320,755		
Long-term other accounts payable		102,805	96,910		
Accrued severance benefits, net (Note 13)		316,738		278,221	
Guarantee deposits withholding		465,738	335,018		
Deferred tax liabilities (Note 19)		73,768	69,655		
Other long-term liabilities		48,580		109,572	
Total liabilities		20,655,665		18,469,274	
Commitments and contingencies (Note 14)					
Shareholders' equity:					
Capital stock (Note 15)		1,031,068		1,031,068	
Capital surplus (Note 16)		1,418,174		1,669,005	
Retained earnings (Note 17)		2,007,993		1,613,980	
Capital adjustments (Note 18)		(589,038)		(1,204,615)	
Minority interests in consolidated subsidiaries		2,402,283		1,905,437	
Total shareholders' equity		6,270,480		5,014,875	
	₩	26,926,145	₩	23,484,149	

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

# LG ELECTRONICS INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2001 and 2000 (In millions of Korean Won except for EPS amounts)

	2001	2000
Sales (Note 24)	₩ 29,874,767	₩ 24,609,815
Cost of sales (Note 24)	22,766,793	18,230,114
Gross profit	7,107,974	6,379,701
Selling and administrative expenses	6,174,317	4,605,765
Operating income	933,657	1,773,936
Non-operating income:		
Interest and dividend income	184,224	153,976
Foreign exchange gains	437,843	360,866
Gain on disposal of investments (Note 7) Gain on disposal of property,	260,411	588,036
plant and equipment	19,453	20,828
Gain on business transfer (Note 27)	1,358,760	20,020
Equity in income of affiliates, net (Note 7)	1,550,700	94,867
Royalty income	92,380	31,549
Gain on transaction of derivatives (Note 14)	21,474	-
Gain on valuation of derivatives (Note 14)	71,095	-
Other	624,981	328,949
	3,070,621	1,579,071
Non-operating expenses:		
Interest expense	1,071,676	977,943
Foreign exchange losses	623,509	599,681
Loss on valuation of inventories	71,198	56,654
Loss from transfer of trade accounts and notes receivable	151,933	212,846
Loss from disposal of property, plant and equipment	92,808	50,416
Loss on impairment of property, plant and equipment	34,906	-
Loss from disposal of investments	24,325	83,865
Loss on impairment of investments	10,580	-
Loss from redemption of debentures	19,900	664
Equity in losses of affiliates, net (Note 7)	269,033	-
Other bad debt expenses	21,840	-
Donations	8,225	21,134
Loss from disposal of business divisions	-	44,027
Loss on transaction of derivatives (Note 14)	41,384	-
Loss on valuation of derivatives (Note 14)	3,073	-
Other	238,181	251,346
	2,682,571	2,298,576

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

# LG ELECTRONICS INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME, Continued

for the years ended December 31, 2001 and 2000 (In millions of Korean Won except for EPS amounts)

<u>-</u>	20	001		2000
Ordinary income		1,321,707		1,054,431
Extraordinary gains		8,647		38,425
Extraordinary losses		6,835		2,502
Income before income taxes		1,323,519		1,090,354
Income tax expenses (Note 19)		355,070		373,375
Income before minority interests		968,449		716,979
Minority interests in (income) loss of consolidated subsidiaries, net		58,905		(244,431)
Net income	₩	1,027,354	₩	472,548
=	₩	6,606 6,606	<del>W</del>	3,789 3,739
	₩	6,596 6,596	₩	3,572 3,526

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

#### LG ELECTRONICS INC. AND SUBSIDIARIES

#### STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

# for the years ended December 31, 2001 and 2000 (In millions of Korean Won)

	Ca	pital Stock	Cap	oital Surplus	Reta	ined Earnings	s Capital Adjustments		Adjustments Minority Interests			Total
Balance at January 1, 2000	₩	632,116	₩	1,266,157	₩	1,358,623	₩	118,264	₩	1,895,723	₩	5,270,883
Prior year adjustments	**	032,110	**	(611,336)	**	(23,716)	**	(80,185)	**	(256,996)	**	(972,233)
Issuance of capital stock		398,952		1,491,565		(23,710)		(00,103)		(230,770)		1,890,517
Revaluation surplus		-		23,326		_		_		_		23,326
Transfer to accumulated deficit		_		(88,505)		88,505		_		_		
Net income		_		-		472,548		_		_		472,548
Cash dividends paid		_		_		(147,682)		_		_		(147,682)
Acquisition of treasury stock		_		_		-		(875,604)		_		(875,604)
Loss from disposal of treasury stock		_		_		(125,869)		-		-		(125,869)
Loss from valuation of investments, net		_		-		-		(343,580)		-		(343,580)
Overseas operations translaton adjustments		_		-		-		(10,615)		-		(10,615)
Consideration for conversion rights		-		-		_		(15,602)		-		(15,602)
Changes in minority interests		-		-		-		-		266,710		266,710
Adjustment for changes in ownership, net		-		(421,833)		-		-		-		(421,833)
Other		-		9,631		(8,429)		2,707		-		3,909
Balance at December 31, 2000	₩	1,031,068	₩	1,669,005	₩	1,613,980	₩	(1,204,615)	₩	1,905,437	₩	5,014,875
Balance at January 1, 2001	₩	1,031,068	₩	1,669,005	₩	1,613,980	₩	(1,204,615)	₩	1,905,437	₩	5,014,875
Prior year adjustments		-		-		39,360		-		-		39,360
Issuance of capital stock		-		(15,364)		-		-		-		(15,364)
Revaluation surplus		-		2,354		-		-		-		2,354
Transfer to accumulated deficit		-		(111,901)		111,901		-		-		-
Transfer to capital surplus		-		6,750		(6,750)		-		-		-
Net income		-		-		1,027,354		-		-		1,027,354
Cash dividends paid		-		-		(150,644)		-		-		(150,644)
Redemption of redeemable stock		-		-		(544,000)		-		-		(544,000)
Disposal of treasury stock		-		-		-		405,276		-		405,276
Loss from disposal of treasury stock		-		-		(104,704)		-		-		(104,704)
Gain from valuation of investments, net		-		-		-		129,361		-		129,361
Overseas operations translaton adjustments		-		-		-		21,624		-		21,624
Changes in minority interests		-		-		-		-		496,846		496,846
Adjustment for changes in ownership, net		-		(120,489)		24,301		63,809		-		(32,379)
Other				(12,181)		(2,805)		(4,493)				(19,479)
Balance at December 31, 2001	₩	1,031,068	₩	1,418,174	₩	2,007,993	₩	(589,038)	₩	2,402,283	₩	6,270,480

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

# LG ELECTRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended December 31, 2001 and 2000 (In millions of Korean Won)

	2001			2000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	1,027,354	₩	472,548
Adjustments to reconcile net income to net cash				
provided by operating activities:		1.506.201		1 220 504
Depreciation		1,786,381		1,328,584
Amortization of intangible assets		552,685		290,038
Foreign currency translation loss, net		139,184		122,257
Amortization of discounts on debentures, net Loss on redemption of debentures		93,261		81,434 664
Provision for severance benefits		19,900		193,029
Loss on valuation of inventories		219,102 17,474		193,029
Gain on disposal of investments, net		(235,985)		(499,511)
Loss on valuation of investments, net		6,309		9,486
Loss on disposal of property,		0,507		2,400
plant and equipment, net		73,355		22,600
Loss on impairment of property,		13,333		22,000
plant and equipment		34,906		_
Loss on impairment of intangible assets		674		29,123
Bad debt expenses		80,864		190,154
Minority interests in earnings of consolidated		00,00.		1,0,10.
subsidiaries, net		(58,905)		244,431
Equity in losses (income) of affiliates, net		269,033		(94,867)
Loss on transaction of derivatives, net		19,910		-
Gain on valuation of derivatives, net		(68,022)		_
Loss (Gain) on disposal of business divisions		(1,358,760)		44,027
Other		2,516		10,932
Changes in operating assets and liabilities:				
Increase in trade accounts and notes receivable		(753,611)		(247,931)
Decrease(increase) in other accounts receivable		(306,220)		62,826
Increase in accrued income		(32,780)		(205,948)
Decrease(increase) in advances		20,202		(43,580)
Decrease in prepaid expenses		51,806		39,909
Decrease(increase) in other current assets		25,174		(21,926)
Decrease(increase) in inventories		221,146		(1,012,504)
Decrease(increase) in long-term trade accounts				
and notes receivable		(13,743)		49,877
Decrease in long-term other accounts receivable		<del>-</del>		38,087
Increase in deferred income tax assets		(246,325)		(18,385)
Increase(decrease) in trade accounts and notes payable		710,981		(210,151)
Increase(decrease) in accrued expenses		(121,129)		82,647
Increase in other accounts payable		268,922		452,705
Decrease in withholdings		(41,364)		(18,879)
Increase(decrease) in guarantee deposits withholding		122,924		(58,158)
Decrease in income taxes payable		(89,389)		(436,112)
Increase(decrease) in advances from customers		(68,041)		64,658
Decrease in deferred income		(78,808)		(4,109)
Increase(decrease) in other current liabilities		463,752		(106, 164)
Increase in deferred tax liabilities		4,113		19,141
Decrease in long-term advance from customers		-		(22,430)
Increase in long-term prepaid expenses		(121,409)		-
Payments of severance benefits		(216,929)		(146,014)
Decrease(increase) in severance insurance deposits		25,821		(32,835)
Other		20,357	_	9,249
Net cash provided by operating activities	₩	2,466,686	₩	689,742

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

# LG ELECTRONICS INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued for the years ended December 31, 2001 and 2000 (In millions of Korean Won)

		2001	2000		
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of marketable securities	₩	(934,457)	₩	(977,992)	
Proceeds from disposal of marketable securities		955,871		1,260,829	
Decrease(increase) in short-term financial instruments		209,207		(242,344)	
Decrease in short-term loans		17,101		30,752	
Decrease in long- term financial instruments		35,733		34,938	
Proceeds from disposal of investments		605,966		1,439,532	
Acquisition of investments		(400,841)		(407,581)	
Decrease(increase) in refundable deposits		(292,317)		80,128	
Decrease(increase) in long- term loans		581		(43,822)	
Increase in other non-current assets		(58,128)		(29,482)	
Acquisition of property, plant and equipment		(2,284,578)		(2,860,032)	
Proceeds from disposal of property, plant and equipment		336,297		38,928	
Increase in intangible assets		(45,120)		(209,815)	
Proceeds from disposal of business divisions		1,358,760		52,098	
Increase in cash by merger		-		178,700	
Increase in cash by changes in consolidated entities		46,475		574,382	
Other		274			
Net cash used in investing activities		(449,176)		(1,080,781)	
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase(decrease) in short-term borrowings		(607,804)		735,073	
Payment of current maturities of long-term debt		(3,256,222)		(2,590,340)	
Payment of dividends		(237,183)		(554,217)	
Payment of debentures		(1,049,256)		(40,704)	
Issuance of debentures		4,818,700		1,697,558	
Payment of long-term debt		(1,434,697)		(71,746)	
Borrowing of long-term debt		1,009,611		695,355	
Increase(decrease) in other long-term liabilities		(434,971)		29,017	
Increase(decrease) in minority interests		321,355		(18,606)	
Proceeds from disposal of treasury stock		230,085		136,400	
Acquisition of treasury stock		-		(377,859)	
Redemption of redeemable preferred stock		(544,000)		-	
Issuance of redemable preferred stock		-		542,953	
Increase(decrease) in foreign subsidiary translation		(12.571)		21.627	
adjustment credit		(13,571)		21,627	
Other		50,798		204 511	
Net cash provided by (used in) financing activities		(1,147,155)		204,511	
INCREASE (DECREASE) IN CASH AND					
CASH EQUIVALENTS		870,355		(186,528)	
CASH AND CASH EQUIVALENTS AT					
BEGINNING OF YEAR (Note 26)		401,316		587,844	
CASH AND CASH EQUIVALENTS AT					
END OF YEAR (Note 26)	₩	1,271,671	₩	401,316	

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

# LG ELECTRONICS INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

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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, 2001, LGE has outstanding capital stock of \(\pi\)1,031,068 million, including non-voting preferred stock of \(\pi\)95,478 million (see Note 15). LGE's common shares are listed on the Korean stock exchange and its depositary receipts ("DRs") are listed on the London and Luxembourg stock exchanges.

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

Pursuant to the resolution by the board of directors on June 11, 2001, the Company established a 50/50 joint venture (LG.Philips Displays Holding B.V.) of its Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. in the Netherlands on June 29, 2001.

#### Consolidated Subsidiaries and Equity-Method Investees --

Consolidated subsidiaries and equity-method investees at December 31, 2001 are as follows:

	Total issued and	Shares owned by			Ownership
	outstanding shares	LGE	Subsidiaries	Total	(%)
Domestic subsidiaries					
Dacom Corporation	23,943,000	7,182,905	-	7,182,905	30.00%
LG Department Store Co., Ltd.	35,553,846	20,512,573	666,126	21,178,699	59.57%
LG Industrial Systems Co., Ltd.	84,726,567	53,807,730	-	53,807,730	63.51%
LG.Philips LCD Co., Ltd.	145,000,000	72,500,000	-	72,500,000	50.00%
LG Sports Ltd.	1,200,000	471,000	-	471,000	39.25%
LG Mart Co., Ltd.	4,700,000	2,350,000	-	2,350,000	50.00%
LG Innotek Co., Ltd.	8,620,800	4,603,800	-	4,603,800	53.40%
LG Telecom, Ltd.	277,748,430	99,015,932	-	99,015,932	35.65%
LG N-Sys Inc.	200,000	200,000	-	200,000	100.00%

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# 1. The Consolidated Companies, Continued:

# Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and	Shares owned by			Ownership
	outstanding shares	LGE	Subsidiaries	bsidiaries Total	
Dacom Multimedia Internet, Inc.	12,000,000	-	12,000,000	12,000,000	100.00%
Korea Internet Data Center, Inc.	10,000,000	-	9,400,248	9,400,248	94.00%
Dacom IN, Inc.					
(formerly, Dacom International, Inc.)	1,600,000	-	1,484,019	1,484,019	92.75%
CIC Korea, Inc.	777,000	-	377,400	377,400	48.57%
DACOM Crossing Corperation	10,000	-	5,100	5,100	51.00%
Simmani, Inc.	717,771	-	484,450	484,450	67.49%
Domestic equity-method investees					
LG IBM PC Co., Ltd.	4,860,000	2,381,400	-	2,381,400	49.00%
LG Card Co., Ltd.(formerly, LG Capital Co., Ltd.)	70,000,000	4,318,883	-	4,318,883	6.17%
Dacom System Technology, Inc.	6,000,000	-	3,000,000	3,000,000	50.00%
LG Investments Security Inc.	139,856,436	10,180,531	1,734,710	11,915,241	8.52%
LG Construction Co., Ltd.	51,000,000	4,365,676	2,453,699	6,819,375	13.37%
LG International Corp.	62,151,197	1,999,211	-	1,999,211	3.22%
LG-Caltex Oil Corp.	26,000,000	798,100	4,103,088	4,901,188	18.85%
LG CNS Inc. (formerly, LG EDS Systems Inc.)	875,382	306,383	-	306,383	35.00%
LG Hitachi Ltd.	500,000	245,000	-	245,000	49.00%
LG Micron Ltd.	5,800,000	1,000,000	589,860	1,589,860	27.41%
Hankuk Electric Glass Co., Ltd.	8,073,375	1,614,675	-	1,614,675	20.00%
Overseas subsidiaries					
LG Electronics Alabama, Inc. (LGEAI)	266	266	-	266	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 Klima Sanayi ve Ticaret P.S.					
(LGEAT)	120,000	60,000	-	60,000	50.00%
LG Electronics Da Amazonia Ltda. (LGEAZ)(*)	-	-	-	-	100.00%
LG Electronics Columbia Ltd. (LGECB)	-	-	-	-	60.00%

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# 1. The Consolidated Companies, Continued:

# Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and	Shares owned by			Ownership
	outstanding shares	LGE	Subsidiaries	Total	(%)
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. (LGECM)	739,036	681,776	-	681,776	92.25%
LG Electronics Deutschland GMBH (LGEDG)(*)	-	-	-	-	100.00%
PT LG Electronics Display Devices Indonesia					
(LGEDI)	52,240	52,240	-	52,240	100.00%
LG Electronics Egypt S.A.E. (LGEEG)	120,000	79,200	-	79,200	66.00%
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)	112,649,459	112,649,459	-	112,649,459	100.00%
PT LG Electronics Indonesia Ltd. (LGEIN)	40,700	31,200	9,500	40,700	100.00%
LG Electronics Italy S.P.A. (LGEIS)	27,143,846	27,143,846	-	27,143,846	100.00%
LG Electronics Japan Inc. (LGEJP)	1,380,000	1,380,000	-	1,380,000	100.00%
LG Electronics Mlawa SP.Zo.O.(LGEMA)(*)	-	-	-	-	100.00%
LG Electronics Morocco S.A.R.L.(LGEMC)	315,213	315,213	-	315,213	100.00%
LG-Meca Electronics Haiphong, Inc.(LGEMH)(*)	-	-	-	-	70.00%
LG Electronics Magyar Kft (LGEMK)(*)	-	-	-	-	100.00%
LG Electronics Monterrey Mexico S.A de					
C.V. (LGEMM)	16,160	15,998	-	15,998	99.00%
LG Electronics Mexico S.A. deCV (LGEMS)	19,800	19,800	-	19,800	100.00%
LG MITR Electronics Co., Ltd. (LGEMT)	5,076,000	4,453,800	-	4,453,800	87.74%
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%

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# 1. The Consolidated Companies, Continued:

# Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and		Ownership		
	outstanding shares	LGE	Subsidiaries	Total	(%)
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)(*)	-	_	-	-	80.00%
LG Electronics S.A. Pty Ltd. (LGESA)	18,500,000	18,500,000	-	18,500,000	100.00%
LG Electronics Service Europe Netherlands B.V.					
(LGESE) (*)	-	_	-	-	100.00%
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 Sweden AB (LGESW)	44,345	44,345	-	44,345	100.00%
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)	22,016	22,016	-	22,016	100.00%
LG Electronics Wales Ltd. (LGEWA)	519,000	519,000	-	519,000	100.00%
LG Srithai Electronics (LGICTH)					
(formerly, LG Srithai Infocomm(Thailand) Co., Ltd.)	76,000	45,600	-	45,600	60.00%
LG Electronics LG Infocomm, U.S.A. (LGICUS)					
(formrly, LG Infocomm U.S. A. Inc.)	250,000	250,000	-	250,000	100.00%
LG Innotek Indonesia(LGITIN) (*)	-	-	-	-	100.00%
LG Precision Huizhou Inc. (LGPHZ) (*)	-	-	-	-	100.00%
LG Precision U.S.A. Inc. (LGPUS)	20,000	_	20,000	20,000	100.00%
LG Soft India PVT, LTD (LGSI)	9,549,093	8,403,200	-	8,403,200	88.00%
Zenith Electronics Corporation	1,000	1,000	-	1,000	100.00%
DACOM AMERICA, INC.	48,400	-	48,400	48,400	100.00%
Dalian LG Electronics Equipment Co., Ltd. (*)	-	-	-	-	90.00%
Overseas equity-method investees					
Taizhou LG-Chunlan Home Appliances Co., Ltd.					
(LGECT)(*)	-	-	-	-	33.30%
PT Video Display Glass Indonesia Co., Ltd. (V.G.I.)	40,000	_	10,400	10,400	26.00%
Thailand Mieco Inc.	42,000	_	8,400	8,400	20.00%
Compania Minera Gral Rodolfo Fierro, SA de CV	14,936,474	-	3,151,596	3,151,596	21.10%
Hitachi-LG Data Storage Inc.	30,000	14,700	-	14,700	49.00%
EIC PROPERTIES PTE LTD.	34,170,000	13,052,940	-	13,052,940	38.20%
LG.Philips Displays Holdings B.V	49,998	18,749	6,250	24,999	50.00%

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

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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 Sheets --

	As of December 31, 2001 (Millions of Won)									
	LG Telecom,	Dacom Corporation	LG.Philips LCD Co., Ltd.	LG Mart Co.,Ltd	LG Industrial Systems Co., Ltd.	Zenith	Others	Total		
Current assets	₩734,419	₩492,544	₩374,198	₩84,809	₩432,359	₩127,172	₩8,717,279	₩10,962,780		
Investments	413,870	286,580	128,397	769,502	160,741	4,481	631,879	2,395,450		
Property, plant and										
equipment	1,606,671	1,397,842	2,937,209	830,248	511,560	5,474	8,359,883	15,648,887		
Intangible assets	11,211	65,647	295,614	1,866	130,860		838,573	1,343,771		
Total assets	2,766,171	2,242,613	3,735,418	1,686,425	1,235,520	137,127	18,547,614	30,350,888		
Current liabilities	1,469,933	876,362	904,952	231,407	640,622	129,131	9,630,489	13,882,896		
Non-current liabilities	482,041	698,777	1,251,713	688,087	476,668	319,768	4,138,787	8,055,841		
Total liabilities	1,951,974	1,575,139	2,156,665	919,494	1,117,290	448,899	13,769,276	21,938,737		
Capital stock	1,386,392	119,715	1,450,000	47,000	648,128	-	3,825,786	7,477,021		
Capital surplus	11,579	585,584	-	178,262	-	690,677	1,158,564	2,624,666		
Retained earnings										
(deficit)	(574,045)	-	128,337	265,533	(181,252)	(1,047,219)	(340,803)	(1,749,449)		
Capital adjustments	(9,729)	(37,825)	416	276,136	(348,646)	44,770	134,791	59,913		
Total shareholders'										
equity	814,197	667,474	1,578,753	766,931	118,230	(311,772)	4,778,338	8,412,151		
Total liabilities and shareholders' equity	W0 5/( 15:	W0 040 (12	W2 525 4:2	W1 606 405	W1 005 500	W127 127	W10.545.614	W20 250 000		
shareholders equity	₩2,766,171	₩2,242,613	₩3,735,418	₩1,686,425	₩1,235,520	₩137,127	₩18,547,614	₩30,350,888		

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#### 1. The Consolidated Companies, Continued:

#### Condensed Income Statements --

			For the year e	nded December	31, 2001 (Million	s of Won)		
	LG Telecom,	Dacom Corporation	LG.Philips LCD Co., Ltd.	LG Mart Co.,Ltd	LG Industrial Systems Co., Ltd.	Zenith	Others	Total
Sales	₩2,121,779	₩997,104	₩2,444,831	₩1,046,527	₩806,000	₩303,631	₩17,422,911	₩25,142,783
Cost of sales	1,695,859	=	2,618,437	760,536	580,880	255,357	15,652,487	21,563,556
Gross profit (loss)	425,920	997,104	(173,606)	285,991	225,120	48,274	1,770,424	3,579,227
Selling and administrative	e							
expenses	56,059	909,885	111,449	203,861	150,457	117,324	1,601,757	3,150,792
Operating income (loss)	369,861	87,219	(285,055)	82,130	74,663	(69,050)	168,667	428,435
Non operating income	57,010	31,354	108,083	38,596	212,928	84,849	431,281	964,101
Non operating expenses	203,789	181,872	242,067	23,540	287,080	31,532	578,216	1,548,096
Ordinary income (loss)	223,082	(63,299)	(419,039)	97,186	511	(15,733)	21,732	(155,560)
Extraordinary gains	-	-	-	-	-	-	8,647	8,647
Extraordinary losses	-	5,493	-	-	-	-	1,341	6,834
Income tax expenses								
(benefit)	68,709		(37,436)	26,657	16,845		27,180	101,955
Net income (loss)	₩154,373	₩(68,792)	₩(381,603)	₩70,529	₩(16,334)	₩(15,733)	₩ 1,858	₩(255,702)

#### Changes in Consolidated Subsidiaries --

The 2001 consolidated financial statements include the accounts of the newly majority-owned subsidiaries such as LG Telecom, Ltd., LG N-Sys Inc., CIC Korea, Inc., DACOM Crossing Corperation, Simmanni, Inc., LG Electronics Colombia Ltd.("LGECB)", LG Electronics Morocco S.A.R.L.("LGEMC"), LG-Meca Electronics Haiphong, Inc.,("LGEMH"), LG Electronics Sweden AB("LGESW"), LG Innotek Indonesia ("LGITIN"), DACOM AMERICA, INC.("DA"), Dalian LG Electronics Equipment Co., Ltd.

Additionally, according to financial accounting standards generally accepted in the Republic of Korea, LG.Philips LCD Co., Ltd., of which 50% of common shares are owned by LG Electronics Inc. as its largest shareholder, is also included as a consolidated subsidiary. For the convenience of the reader, its 2000 financial statements were restated to consolidate LG.Philips LCD Co., Ltd. (see Note 2).

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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 Sheets --

	As of December 31, 2001 (Millions of Korean Won)								
		LG.Philips							
	LG Telecom,	LCD Co.,							
	Ltd.	Ltd.	LGESW	LGITIN	Others	Total			
Current assets	₩ 734,419	₩374,198	₩ 47,050	₩ 18,919	₩100,402	₩1,274,988			
Investments	413,870	128,397	-	-	6,637	548,904			
Property, plant and equipment	1,606,671	2,937,209	3,948	9,567	24,178	4,581,573			
Intangible assets	11,211	295,614		129	21,999	328,953			
Total assets	2,766,171	3,735,418	50,998	28,615	153,216	6,734,418			
Current liabilities	1,469,933	904,952	46,095	21,805	86,663	2,529,448			
Non-current liabilities	482,041	1,251,713	-	3,978	9,290	1,747,022			
Total liabilities	1,951,974	2,156,665	46,095	25,783	95,953	4,276,470			
Capital stock	1,386,392	1,450,000	5,668	2,394	23,251	2,867,705			
Capital surplus	11,579	-	-	-	39,975	51,554			
Retained earnings (deficit)	(574,045)	128,337	(674)	175	(8,937)	(455,144)			
Capital adjustments	(9,729)	416	(91)	263	2,974	(6,167)			
Total shareholders' equity	814,197	1,578,753	4,903	2,832	57,263	2,457,948			
Total liabilities and									
shareholders' equity	₩2,766,171	₩3,735,418	₩ 50,998	₩ 28,615	₩153,216	₩6,734,418			

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# 1. The Consolidated Companies, Continued:

# Condensed Income Statements --

	For the year ended December 31, 2001 (Millions of Korean Won)								
		LG.Philips							
	LG Telecom,	LCD Co.,							
	Ltd.	Ltd.	LGESW	LGITIN	Others	Total			
Sales	₩2,121,779	₩2,444,831	₩ 92,079	₩ 48,224	₩ 175,423	₩4,882,336			
Cost of sales	1,695,859	2,618,437	83,674	46,815	142,778	4,587,563			
Gross profit	425,920	(173,606)	8,405	1,409	32,645	294,773			
Selling and administrative									
expenses	56,059	111,449	7,290	992	34,696	210,486			
Operating income (loss)	369,861	(285,055)	1,115	417	(2,051)	84,287			
Non operating income	57,010	108,083	540	143	6,856	172,632			
Non operating expenses	203,789	242,067	1,711	160	7,765	455,492			
Ordinary income (loss)	223,082	(419,039)	(56)	400	(2,960)	(198,573)			
Extraordinary gains	-	-	-	-	-	-			
Extraordinary losses	-	-	62	-	-	62			
Income tax expenses									
(benefit)	68,709	(37,436)		225	1,403	32,901			
Net income (loss)	₩ 154,373	₩(381,603)	₩ (118)	₩ 175	₩ (4,363)	₩ (231,536)			

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# 1. The Consolidated Companies, Continued:

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

#### Condensed Balance Sheets --

	As of	December 31, 2001 (Millions of	Korean Won)
	LG Card Co., Ltd.	LG Construction Co., Ltd.	LG.Philips Displays Holdings B.V.
Current assets	₩11,034,252	₩1,456,656	₩2,051,222
Investments	3,040,981	580,974	-
Property, plant and equipment	126,937	592,168	3,577,339
Intangible assets	5,713	10,016	447,987
Total assets	14,207,883	2,639,814	6,076,548
Current liabilities	9,928,733	1,225,806	2,239,251
Non-current liabilities	2,933,642	526,645	2,308,041
Total liabilities	12,862,375	1,752,451	4,547,292
Capital stock	350,000	255,000	1,094,879
Capital surplus	54,198	207,169	919,422
Retained earnings (deficit)	942,719	298,159	(448,686)
Capital adjustments	(1,409)	127,035	(36,359)
Total shareholders' equity	1,345,508	887,363	1,529,256
Total liabilities and shareholders' equity	₩14,207,883	₩2,639,814	₩6,076,548

# <u>Condensed Income Statements</u> –

	For the year	ended December 31, 2001 (Milli	ons of Korean Won)
			LG.Philips Displays
	LG Card Co., Ltd.	LG Construction Co., Ltd.	Holdings B.V.
Sales	₩3,892,902	₩3,153,102	₩2,639,658
Cost of sales		2,748,174	2,614,283
Gross Profit	3,892,902	404,928	25,375
Selling and administrative expenses	2,912,341	150,083	220,238
Operating income (loss)	980,561	254,845	(194,863)
Non operating income	26,757	40,430	14,138
Non operating expenses	47,087	84,159	88,106
Ordinary income (loss)	960,231	211,116	(268,831)
Extraordinary gains	-	714	-
Extraordinary losses	-	-	175,319
Income tax expenses	296,957	61,752	4,536
Net income (loss)	₩663,274	₩150,078	₩(448,686)

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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 accompanying consolidated financial statements have been extracted from the Company's Korean language consolidated financial statements that were prepared using the accounting principles generally accepted in the Republic of Korea.

Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Some information including financial ratios, computation of value added, employees' welfare, donations and environmental efforts attached to the Korean language consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

Accordingly, 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 Korea.

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

#### 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 in consolidation.

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### 2. <u>Summary of Significant Accounting Policies</u>, 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 investments in affiliated companies over which the Company exerts significant influences 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.

To eliminate the investment account of the controlling company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied depending on the nature of the transaction. In using the purchase method, when the Company has control over a subsidiary initially, the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, which is amortized over five years using the straight-line method, except for subsidiaries in the telecommunications industry, which is amortized over ten years reflecting the industry's longer term of realizing its profit. When the Company has significant influence over equity-method investees initially, differences between the initial investment accounts and corresponding capital accounts of equity-method investees 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 fully eliminated and charged to equity of the controlling company and minority interest 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:

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#### 2. Summary of Significant Accounting Policies, Continued:

### Revenue Recognition --

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

#### Marketable Securities and Investments --

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

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

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). 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.

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#### 2. Summary of Significant Accounting Policies, Continued:

#### 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.

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 years ended December 31, 2001 and 2000 are approximately \W84,183 million and \W96,882 million, respectively.

#### Intangible Assets --

Intangible assets are stated at cost, net of accumulated amortization. The excess of price paid over acquired company's net book value is recorded as goodwill. Amortization is computed using the straight-line method over five years for goodwill, except for investees in the telecommunications industry, which is amortized over ten years reflecting the industry's longer term of realizing its profit, and over the estimated useful lives for other intangible assets.

#### Continued:

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### 2. <u>Summary of Significant Accounting Policies</u>, Continued:

### Research and Development Cost --

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

#### Derivative Financial Instruments --

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

#### 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.

#### 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.

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#### 2. <u>Summary of Significant Accounting Policies</u>, Continued:

#### <u>Treasury stock</u> ---

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

#### Foreign Currency Translation --

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

The exchange rates used to translate U.S. Dollar denominated monetary assets and liabilities at December 31, 2001 and 2000 are \W1,326.1: US\$1 and \W1,259.7: US\$1, respectively.

Foreign currency denominated convertible bonds and exchangeable bonds are translated at the historical exchange rates prevailing as of the date of issuance. However, if it is certain that a foreign currency denominated convertible bond (or exchangeable bond) will not be converted (or exchanged) to stocks, it is translated using the basic exchange rate in effect at the balance sheet date.

#### <u>Translation of Foreign Currency Statements</u> --

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 for income and expenses. Any resulting translation gain or loss is included in shareholders' equity.

Annual average exchange rates to translate U.S. Dollar denominated income and expenses for the years ended December 31, 2001 and 2000 are \$1,291.0:US\$1 and \$1,130.4:US\$1, respectively.

#### Product Warranty Provision --

The Company provides product warranties relating to product defects for a specified period of time after sale. Estimated costs of product warranties are charged to current operations at the time of sale and relating liability is included in the accompanying balance sheet.

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#### 2. Summary of Significant Accounting Policies, Continued:

#### Accrued Severance Benefits --

Employees and directors with more than one year of service are entitled to receive a lump-sum severance payment upon termination of their employment with 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.

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.

#### 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.

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#### 2. <u>Summary of Significant Accounting Policies</u>, Continued:

#### Income Taxes ---

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial accounting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to be reversed. Deferred tax assets are recognized to the extent that it is certain that such deferred tax assets will be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred tax assets and liabilities.

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

#### Sale of Accounts and Notes Receivable -

The Company sells certain accounts or notes recievable 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 for Consolidated Financial Statements in Korea --

The Company adopted the revised financial accounting standards for consolidated financial statements in the Republic of Korea effective January 1, 2000. Pursuant to the provision of the revised financial accounting standards, the Company records the differences between the investment account and corresponding capital accounts arising from additional investments subsequent to initial investment as capital surplus, which had been recorded as consolidation adjustment debit (credit) and amortized over five years prior to the revision.

As a result of cumulative effect of retroactive adoption of the revised financial accounting standards for consolidated financial statements, as of January 1, 2000 retained earnings were increased by \$169,451 million and capital surplus was decreased by \$629,052 million.

#### Continued:

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#### 2. <u>Summary of Significant Accounting Policies</u>, Continued:

Pursuant to the provision of the revised financial accounting standards, consolidation adjustment debit (credit) and minority interests in consolidated subsidiaries are reclassified to goodwill (negative goodwill) and shareholders' equity, respectively. Equity in income (loss) of affiliates and amortization of consolidation adjustments are reclassified to non-operating income (expenses) and selling and administrative expenses, respectively.

#### Restatement of the 2000 financial statements --

The financial statements as of and for the year ended December 31, 2000 have been restated in order to charge additional amortization of goodwill in relation to merger with LG Metal Co., Ltd. in 1999 of LG Industrial Systems Co., Ltd., a subsidiary, to the beginning retained earnings in 2000 and include the accounts of LG.Philips LCD Co., Ltd., in the 2000 consolidated financial statements. As a result, as of and for the year ended December 31, 2000, total assets, total liabilities, total shareholders' equity, sales and net income were increased by 2,217,522 million, 1,512,793 million, 704,729 million, 1,894,313 million and 70,072 million, respectively (see Note 1).

#### 3. Restricted Financial Instruments:

As of December 31, 2001 and 2000, short-term financial instruments of \$7,331 million and \$19,384 million, respectively, and long-term financial instruments of \$12,094 million and \$7,804 million, respectively, are deposited in connection with maintaining checking accounts, various short-term borrowings and long-term debt, and research and development projects funded by the government. The withdrawal of these financial instruments is restricted (see Notes 10 and 11).

In addition, as of December 31, 2000, long-term financial instruments of  $\mbox{$W$26,731$ million,}$  represent deposits made under group severance insurance plans. The withdrawal of such deposits is restricted to the actual payment of severance benefits.

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#### 4. Marketable Securities:

Marketable securities at December 31, 2001 and 2000 comprise the following:

Million	s of Won
2001	2000
₩ 170	₩ 2,627
4,452	4,661
-	10,455
4,452	15,116
₩ 4,622	₩ 17,743
	2001 ₩ 170 4,452 

#### 5. Receivables:

Receivables, including trade accounts and notes receivable, as of December 31, 2001 and 2000 are as follows:

	Millions of Won								
		2001				2000			
	Costs	Allowance for doubtful accounts	Present value discount	Carrying value	Costs	Allowance for doubtful accounts	Present value discount	Carrying value	
Trade accounts and									
notes receivable	₩3,723,160	₩310,923	₩306	₩3,411,931	₩3,057,436	₩271,793	₩2,707	₩2,782,936	
Short-term loans	13,623	60	-	13,563	24,544	192	-	24,352	
Other accounts receivable	630,539	11,812	274	618,453	305,655	13,629	207	291,819	
Accrued income	313,515	5,756	-	307,759	372,085	30,324	-	341,761	
Advances	170,132	1,373	-	168,759	200,848	1,831	-	199,017	
Long-term trade accounts									
receivable	21,328	3	-	21,325	8,058	475	-	7,583	
Long-term loans	171,964	22,746		149,218	183,509	34,492		149,017	
	₩5,044,261	₩352,673	₩580	₩4,691,008	₩4,152,135	₩352,736	₩2,914	₩3,796,485	

As of December 31, 2001, the outstanding balance of notes receivable, sold at discount to financial institution with recourse, from Hynix Semiconductor Inc. (formerly, Hyundai Electronics Industries Co., Ltd.) in relation to the Company's share transfer of LG Semicon Co., Ltd. in 1999 is  $$\mathbb{W}$102,212$  million.

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# 6. <u>Inventories</u>:

Inventories as of December 31, 2001 and 2000 comprise the following:

	Millions of Won						
	2	2001	2000				
Merchandise	₩	959,799	₩	708,995			
Finished products		701,640		1,027,696			
Semi-finished products							
and work in process		214,959		317,333			
Raw materials and supplies		666,397		846,340			
Materials in transit		556,252		568,754			
Other		58,244		42,911			
	₩	3,157,291	₩	3,512,029			

See Note 8 for insurance against fire and other casualty losses for inventories at December 31, 2001.

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# 7. <u>Investments</u>:

Investments in affiliates and other investments as of December 31, 2001 and 2000 are as follows:

#### Investments in affiliates --

	Percentage of						
	Ownership (%)		2001			2000	
	at December	Acquisition	Net Asset	Carrying	Acquisition	Net Asset	Carrying
	31, 2001	Cost	Value	Value	Cost	Value	Value
<equity method=""></equity>							
Domestic affiliates							
LG Construction Co., Ltd.	13.37	₩63,422	₩121,405	₩121,405	₩63,422	₩98,113	₩98,113
LG International Corp.	3.22	20,253	14,691	14,691	20,253	18,727	18,727
LG Investments Security Inc.	8.56	242,915	148,107	148,107	242,915	183,994	183,994
LG Card Co., Ltd.	6.17	29,744	92,860	92,860	90,367	168,899	168,899
LG Telecom, Ltd. (*3)	-	-	-	-	165,641	42,577	42,577
LG-Caltex Oil Corp.	18.85	111,231	639,223	639,223	111,231	617,066	617,066
LG CNS Inc.							
(formerly, LG-EDS Systems Inc.)	35.00	48,506	56,426	56,426	360	7,073	7,073
LG IBM PC Co., Ltd.	49.00	11,907	11,633	11,633	11,907	16,913	16,913
LG Cable Ltd.	-	-	-	-	29,313	51,338	51,338
LG Micron Ltd.	27.41	32,376	53,769	53,769	32,376	50,320	50,320
LG Hitachi Ltd.	49.00	6,060	9,260	9,260	6,060	7,137	7,137
Dacom System Technology, Inc.	50.00	15,000	15,527	15,527	15,000	17,990	17,990
Hankuk Electric Glass Co., Ltd.	20.00	92,428	103,815	103,815	-	-	-
Overseas affiliates							
LG.Philips Displays Holding B.V	V. 50.00	1,069,047	806,759	806,759	-	-	-
Taizhou LG-Chunlan Home							
Appliances Co., Ltd. (LGECT)	50.00	22,953	25,636	25,636	22,953	15,987	15,987
Compania Minera(*1)	22.36	4,552	-	-	4,552	-	-
Vietnam Korea Exchange Ltd.							
(V.K.X)	40.00	1,734	1,972	1,972	1,734	1,941	1,941
Thailand Mieco	20.00	260	2,037	2,037	260	2,069	2,069
PT Video Display Glass							
Indonesia Co., Ltd. (V.G.I.)	36.00	12,156	8,625	8,625	12,156	8,546	8,546
LG Hotline CPT Ltd. (LGEHL)	-	-	-	-	10,561	-	-
HLDS	49.00	7,684	7,111	7,111	7,684	7,684	7,684
EIC PROPERTIES PTE LTD.	38.02	9,636	9,283	9,283			
		₩1,801,864	₩2,128,139	₩2,128,139	₩848,745	₩1,316,374	₩1,316,374

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# 7. <u>Investments</u>, Continued:

# <u>Investments in affiliates</u>, Continued:

	Percentage of	Percentage of Millions of Won					
	Ownership (%)		2001			2000	
	at December	Acquisition	Net Asset	Carrying	Acquisition	Net Asset	Carrying
	31, 2001	Cost	Value	Value	Cost	Value	Value
<cost method=""></cost>		-			_		
Domestic affiliates							
ROKEOTEL (*2)	45.00	₩1,272	₩493	₩1,272	₩1,272	₩493	₩1,272
Mobile Hands (*2)	25.00	2,750	1,199	2,750	-	-	-
Simmani Inc. (*3)	-	-	-	-	2,600	9,691	2,600
Other	-	2,305	2,283	2,305	2,414	2,620	2,414
Overseas affiliates							
LG Electronics Argentina							
S.A. (LGEAR) (*2)	100.00	7,410	7,410	7,410	1,111	1,111	1,111
LG Electronics Columbia,							
Ltd. (LGECB) (*3)	-	-	-	-	5,847	5,847	5,847
LG Electronics Design Tech, Ltd.							
(LGEDT) (*2)	100.00	1,002	1,002	1,002	1,002	1,002	1,002
LG Electronics Egypt Cairo							
S.A.E. (LGEEC) (*2)	100.00	4,382	4,382	4,382	-	-	-
LG Electronics Morocco							
S.A.R.L (LGEMC) (*3)	-	-	-	-	2,774	2,774	2,774
LG-MECA Electronics							
Haiphong, Inc. (LGEMH) (*3)	-	-	-	-	1,690	1,598	1,598
LG Electronics Sweden AB							
(LGESW) (*3)	-	-	-	-	5,668	5,658	5,658
LG Electronics Taistar Taiwan							
(LGETT) (*2)	66.94	5,609	5,609	5,609	-	-	-
LGE Yantai							
Information&Communication							
Technology Co. (LGEYN) (*2)	100.00	2,720	2,720	2,720	-	-	-
LG Electronics System India,							
Ltd. (LGSYS) (formerly,							
Escorts Communication Ltd.)							
(*2)	100.00	6,400	6,400	6,400	6,400	6,400	6,400
LG Electronics Ukraine Co., Ltd.							
(LGEUR) (*2)	100.00	1,041	1,041	1,041	1,041	1,041	1,041
DACOM America Inc. (*3)	-	-	-	-	5,112	6,830	5,112
DACOM Japan Inc.(*2)	100.00	1,048	777	1,048	1,048	1,048	1,048
LG Vina Industrial Systems Co.,							
Ltd. (*2)	55.00	1,224	1,733	1,224	1,224	1,201	1,224
SLD Telecom Pte. Ltd. (*2)	44.00	4,390	4,390	4,390	-	-	-
Dalian LG Electronic Equipment							
Co., Ltd. (*3)	-	-	-	-	3,025	3,025	3,025
Other	-	16,020	13,476	13,476	7,270	4,705	4,705
		57,573	52,915	55,029	49,498	55,044	46,831
Investments in affiliates total		₩1,859,437	₩2,181,054	₩2,183,168	₩898,243	₩1,371,418	₩1,363,205

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#### 7. <u>Investments</u>, Continued:

#### Investments in affiliates, Continued:

- (\*1) The equity method of accounting has been suspended due to accumulated losses.
- (\*2) Investments in small sized subsidiaries and affiliates whose total assets at the previous year-end are less than \$\pm 7,000\$ million are stated at cost in accordance with financial accounting standards generally accepted in the Republic of Korea.
- (\*3) Affiliates are newly included as consolidated subsidiaries for the year ended December 31, 2001.

#### Other investments --

	Percentage of	Millions of Won						
	Ownership (%)	2001			2000			
	at December	Acquisition	Market	Carrying	Acquisition	Market	Carrying	
	31, 2001	Cost	Value	Value	Cost	Value	Value	
<marketable equity="" securities=""></marketable>								
Hynix Semiconductor Inc.								
(formerly, Hyundai Electronics								
Industries Co., Ltd.)	0.38	₩ 24,298	₩ 4,551	₩ 4,551	₩ 24,298	₩ 7,569	₩ 7,569	
Korea stock market stabilization								
fund	2.74	18,135	19,357	19,357	22,987	12,108	12,108	
Hanaro Telecom Inc.	14.19	320,560	181,273	181,273	262,693	49,624	49,624	
Korean Telecom M.Com	-	-	-	-	1,277	1,842	1,842	
Treasury Stock Fund	-	-	-	-	20,817	7,439	7,439	
ASIACONTENT. COM	1.25	1,120	67	67	-	-	-	
Other	-	812	1,533	1,533	2,928	1,184	1,194	
		₩364,925	₩206,781	₩206,781	₩335,000	₩ 79,766	₩ 79,776	

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# 7. <u>Investments</u>, Continued:

### Other investments, Continued:

	Percentage of								
	Ownership (%)		2001 2000						
	at December	Acquisition	Net Asset	Carrying	Acquisition	Net Asset	Carrying		
	31, 2001	Cost	Value	Value	Cost	Value	Value		
<non-marketable equity="" securities=""></non-marketable>									
<u>Domestic Companies</u>									
Lotis Co., Ltd.	29.84	₩ 6,029	₩ 2,381	₩ 6,029	₩ 1,900	₩ 1,060	₩ 1,900		
LG-OTIS Elevator Company	19.90	89,550	88,755	89,550	89,550	87,890	89,550		
Airmedia	-	119	184	119	119	119	119		
Ilshin&Dacom Investment									
Partnership	14.00	3,000	3,000	3,000	3,000	3,000	3,000		
Korea Defense Industry Association	-	3,001	3,001	3,001	2,750	3,217	2,750		
KICA (Korea Information									
Certification Authority)	10.00	1,852	1,860	1,852	1,852	1,841	1,852		
Carrier-LG Limited	-	4,500	4,500	4,500	4,500	4,500	4,500		
Gigalink Co., Ltd.	-	-	-	-	12,759	7,699	12,759		
Dreamwiz Inc.	10.00	11,111	1,463	11,111	11,111	1,513	11,111		
Linux One Inc.	-	2,000	1,572	2,000	2,000	1,141	2,000		
STIC	94.00	28,200	29,320	28,200	28,200	28,829	28,200		
Syswave	-	1,002	315	315	1,002	1,087	1,002		
Shinsegi Telecomm	-	-	-	-	4,514	4,514	4,514		
E-PowerGate Inc.	15.83	1,620	592	1,620	1,620	545	1,620		
QMTel Co., Ltd.	-	-	-	-	1,200	1,200	1,200		
Kiwoom.com Securities Co., Ltd.	5.00	2,500	2,118	2,500	2,500	2,031	2,500		
Information & Communication									
Financial Cooperative	-	2,229	2,444	2,229	2,590	2,033	2,590		
TEMCO	13.04	1,200	1,200	1,200	-	-	-		
Korea Management Association									
Consultants	10.00	1,852	1,852	1,852	-	-	-		
GRETECH Corperation	8.96	1,680	211	1,680	-	-	-		
SUPER BOARD Technology, Inc.	10.00	2,393	404	2,393	-	-	-		
GLOBAL TRADING WEB	-	12,367	6,255	6,255	-	-	-		
MVP5 Venture Investment									
Cooperative	42.86	3,000	3,000	3,000	-	-	-		
Other	-	19,015	13,541	19,015	13,425	9,298	13,425		

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### 7. <u>Investments</u>, Continued:

# Other investments, Continued:

	Percentage of Ownership (%) at December 31, 2001	Millions of Won					
		2001 2000					
		Acquisition Cost	Net Asset Value	Carrying Value	Acquisition Cost	Net Asset Value	Carrying Value
Overseas Companies							
TAISTAR	-	₩ -	₩ -	₩ -	₩ 760	₩ 990	₩ 760
GEMFIRE	4.41	1,835	170	1,835	1,835	170	1,835
APV Technology Partners	8.25	2,235	4,323	4,323	2,235	7,571	2,235
Nakhodka FEZ							
Telecommunication Co., Ltd	5.00	129	129	129	129	129	129
NICE TELECOM	15.00	105	105	105	105	105	105
Erlang Technology	8.40	1,129	187	1,129	1,129	1,129	1,129
Athena Venture	2.51	2,000	2,014	2,000	12,597	10,909	10,909
CMEA	-	6,789	6,789	6,798	6,789	6,789	6,789
iTV Corporation (*1)	13.08	1,957	-	-	1,957	-	-
eT Communication (*1)	5.45	1,468	-	-	-	-	-
E2OPEN. COM	6.25	9,744	3,606	9,744	-	-	-
Cenix Inc.	2.07	3,272	958	3,272	-	-	-
Monet Mobile Networks	1.90	1,299	871	1,299	-	-	-
SUNPOWER, Inc.	10.35	1,257	219	1,257	-	-	-
Vodabi Technology	19.86	2,928	2,928	2,928	-	-	-
Other	-	1,210	737	737	2,101	2,081	2,101
		235,577	191,004	226,977	214,229	191,390	210,584
<debt securities=""></debt>							
Bonds issued by government	-	52,350	25,507	25,507	₩ 39,818	₩ 31,625	₩ 31,625
Subordinated bonds issued by							
Khai primary special purpose private	;						
company	_	17,716	17,716	17,716	_	_	_
Subordinated bonds issued by		.,.	.,.	.,.			
Khai secondary special purpose							
private company		12,158	12,158	12,158			
Subordinated bonds issued by	-	12,136	12,136	12,136	-	-	-
		5,000	5,000	5,000			
LG Investment&Securities Co., Ltd.	-	5,000	5,000	5,000	15.500	15.500	15.500
Other subordinated bonds	-	15,400	14,350	14,350	15,500	15,500	15,500
Convertible bonds issued by Next							
Wave Telecom	-	8,255	-	-	8,255	-	-
Corporate bond	-	-	-	-	25,000	25,000	25,000
Beneficiary certificates	-	50,000	50,000	50,000	13,328	5,980	5,980
Other	-	451	451	451	3,388	3,388	3,388
		161,330	125,182	125,182	105,289	81,493	81,493
Other investments total		761,832	522,967	558,940	654,518	352,649	371,853
Investments total		₩2,621,269	₩2,704,021	₩2,742,108	₩1,552,761	₩1,724,067	₩1,735,058
m.comonto total		11 2,021,207	11 2, 104,021	11 2, 1 72, 100	11,552,701	11,727,007	11 1,133,030

<sup>(\*1)</sup> Acquisition cost was written off due to negative net book value of the investment as of December 31, 2001.

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#### 7. Investments, Continued:

Changes in investments in affiliates accounted for using the equity method for the year ended December 31, 2001 are as follows:

Balance at January 1, 2001  Acquisitions during the year  Reclassification  Increase in retained earnings  Decrease in capital surplus  Increase in capital adjustments  Equity in loss of affiliates, net  Elimination of unrealized profit  Dividend received  Disposal of investment securities  Balance at December 31, 2001  W 1,316,374  1,209,623  (33,263)  (22,789)  (2,789)  (264,967)  (4,066)  (30,472)  W 2,128,139		Milli	ions of Won
Reclassification (33,263) Increase in retained earnings 2,023 Decrease in capital surplus (2,789) Increase in capital adjustments 63,053 Equity in loss of affiliates, net (264,967) Elimination of unrealized profit (4,066) Dividend received (30,472) Disposal of investment securities (127,377)	Balance at January 1, 2001	₩	1,316,374
Increase in retained earnings  Decrease in capital surplus  Increase in capital adjustments  Equity in loss of affiliates, net  Elimination of unrealized profit  Dividend received  Disposal of investment securities  2,023  (2,789)  (264,967)  (30,472)  (30,472)	Acquisitions during the year		1,209,623
Decrease in capital surplus (2,789) Increase in capital adjustments 63,053 Equity in loss of affiliates, net (264,967) Elimination of unrealized profit (4,066) Dividend received (30,472) Disposal of investment securities (127,377)	Reclassification		(33,263)
Increase in capital adjustments  Equity in loss of affiliates, net  (264,967)  Elimination of unrealized profit  (4,066)  Dividend received  (30,472)  Disposal of investment securities  (127,377)	Increase in retained earnings		2,023
Equity in loss of affiliates, net (264,967) Elimination of unrealized profit (4,066) Dividend received (30,472) Disposal of investment securities (127,377)	Decrease in capital surplus		(2,789)
Elimination of unrealized profit (4,066) Dividend received (30,472) Disposal of investment securities (127,377)	Increase in capital adjustments		63,053
Dividend received (30,472) Disposal of investment securities (127,377)	Equity in loss of affiliates, net		(264,967)
Disposal of investment securities (127,377)	Elimination of unrealized profit		(4,066)
	Dividend received		(30,472)
Balance at December 31, 2001 ₩ 2,128,139	Disposal of investment securities		(127,377)
	Balance at December 31, 2001	₩	2,128,139

At December 31, 2001 and 2000, except for the Korea stock market stabilization fund, of which the differences between the market value and the acquisition cost are charged to current operations, the differences between the market value and the acquisition cost of the investments in marketable equity securities are accounted for as capital adjustments.

In February 2001, LGE sold 1,915,900 shares of LG Cable Ltd. in exchange for \W22,449 million and recognized loss on disposal of investment of \W7,456 million.

On June 29, 2001, LGE contributed its investments in Beijing LG Electronics Components Co., Ltd. ("LGEBJ") and LG Shuguang Electronics Co., Ltd. ("LGESG") to the CRT joint venture with Koninklijke Philips Electronics N.V. (see Note 27).

In September 2001, the Company sold 6,027,980 shares of its investment in Dacom Corporation for \$106,996 million and incurred a loss from disposal of investments amounting to \$511,388 million, which was accounted for as decrease in capital surplus according to the financial accounting standards for consolidated financial statements in the Republic of Korea (see Note 14).

In December 2001, LGE purchased 218,845 shares of common stock of LG CNS Inc. (formerly, LG-EDS Systems Inc.) for \$\text{W}48,146\$ million.

In July 2001, LG Industrial Systems Co., Ltd., a subsidiary, sold 8,324,884 shares of its investment in LG Card Co., Ltd. for \$290,986 million and recognized a gain from disposal of investment amounting to \$145,125 million (see Note 14).

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# 8. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2001 and 2000 comprise the following:

	Millions of Won			
		2001		2000
Buildings	₩	2,990,053	₩	3,218,319
Structures		213,479		298,940
Machinery and equipment		7,869,006		6,334,094
Vehicles		25,241		128,996
Other		2,776,177		2,186,011
		13,873,956		12,166,360
Accumulated depreciation		(5,085,809)		(3,973,544)
		8,788,147		8,192,816
Land		1,673,146		1,707,384
Construction in progress		1,166,092		867,842
	₩	11,627,385	₩	10,768,042

As of December 31, 2001 and 2000, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates \$1,371,484 million and \$1,371,529 million, respectively.

As of December 31, 2001, property, plant and equipment, other than land and certain construction in progress, and inventories are insured against fire, other casualty losses and business interruptions up to approximately \$21,530,031 million.

A substantial portion of property, plant and equipment as of December 31, 2001 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately \$996,985 million (see Notes 10 and 11).

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# 9. <u>Intangible Assets</u>:

Intangible assets as of December 31, 2001 and 2000 comprise the following:

	Millions of Won			
	2001			2000
Development costs	₩	238,054	₩	171,625
Goodwill		436,586		953,959
Negative goodwill		(-)		(6,237)
Organization costs		733		8,576
Industrial property rights		529,525		614,144
Other		195,499		122,136
	₩	1,400,397	₩	1,864,203

Details of research and development costs incurred for the years ended December 31, 2001 and 2000 are as follows:

	Mill	ions of Won
	2001	2000
Capitalized	₩ 140,821	₩ 105,845
Expensed	599,665	375,349
	₩ 740,486	₩ 481,194

As a result of the merger with LG Information & Communications, Ltd. in September, 2000, the Company recognized goodwill of \$\pmu393,820\$ million and acquired industrial property rights of \$\pmu578,788\$ million. Related amortization expenses of goodwill and industrial property rights approximate \$\pmu39,382\$ million and \$\pmu76,359\$ million, respectively, for the year ended December 31, 2001 (Note 22).

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# 10. Short-Term Borrowings:

Short-term borrowings as of December 31, 2001 and 2000 comprise the following:

Bank overdrafts         7.00 − 11.00         ₩ 90,492         ₩ 1,877           Won currency loans:         General term loans         4.80 − 8.90         129,531         447,997           Loans from insurance companies         -         -         55,500           Trust loans         8.25 − 9.00         60,000         -           Notes discounted         4.63 − 10.20         683,770         724,700           Foreign currency loans         8ank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,331,742         3,495,519           (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 − 5.50         18,692         133,741           ₩ 4,314,227         ₩ 4,859,334		Annual interest	In Millions			
Won currency loans :         4.80 – 8.90         129,531         447,997           Loans from insurance companies         -         -         55,500           Trust loans         8.25 – 9.00         60,000         -           Notes discounted         4.63 – 10.20         683,770         724,700           873,301         1,228,197           Foreign currency loans           Bank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,313         -           3,331,742         3,495,519         (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 – 5.50         18,692         133,741		, ,		2001		2000
General term loans       4.80 – 8.90       129,531       447,997         Loans from insurance companies       -       -       55,500         Trust loans       8.25 – 9.00       60,000       -         Notes discounted       4.63 – 10.20       683,770       724,700         873,301       1,228,197         Foreign currency loans       Bank loans       LIBOR+1.0-1.7       904,311       943,750         Trade notes receivable discounted       LIBOR+0.6-2.0       2,424,118       2,551,769         Operating fund       3.05       3,313       -         3,331,742       3,495,519         (US\$ 2,512)       (US\$ 2,775)         Trade loans       0.60 – 5.50       18,692       133,741	Bank overdrafts	7.00 – 11.00	₩	90,492	₩	1,877
Loans from insurance companies       -       -       55,500         Trust loans       8.25 - 9.00       60,000       -         Notes discounted       4.63 - 10.20       683,770       724,700         873,301       1,228,197         Foreign currency loans       Bank loans       LIBOR+1.0-1.7       904,311       943,750         Trade notes receivable discounted       LIBOR+0.6-2.0       2,424,118       2,551,769         Operating fund       3.05       3,331,742       3,495,519         (US\$ 2,512)       (US\$ 2,775)         Trade loans       0.60 - 5.50       18,692       133,741	Won currency loans:					
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	General term loans	4.80 - 8.90		129,531		447,997
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	Loans from insurance					
Notes discounted       4.63 – 10.20       683,770 mode of the street of the str	companies	-		-		55,500
Foreign currency loans           Bank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,313         -           3,331,742         3,495,519         (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 - 5.50         18,692         133,741	Trust loans	8.25 - 9.00		60,000		-
Foreign currency loans           Bank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,313         -           3,331,742         3,495,519         (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 - 5.50         18,692         133,741	Notes discounted	4.63 - 10.20		683,770		724,700
Bank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,313         -           3,331,742         3,495,519         (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 - 5.50         18,692         133,741				873,301		1,228,197
Bank loans         LIBOR+1.0-1.7         904,311         943,750           Trade notes receivable discounted         LIBOR+0.6-2.0         2,424,118         2,551,769           Operating fund         3.05         3,313         -           3,331,742         3,495,519         (US\$ 2,512)         (US\$ 2,775)           Trade loans         0.60 - 5.50         18,692         133,741	Foreign currency loans					
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		LIBOR+1.0-1.7		904,311		943,750
Operating fund       3.05       3,313       -         3,331,742       3,495,519       (US\$ 2,512)       (US\$ 2,775)         Trade loans       0.60 - 5.50       18,692       133,741	Trade notes receivable					
3,331,742     3,495,519       (US\$ 2,512)     (US\$ 2,775)       Trade loans     0.60 - 5.50     18,692     133,741	discounted	LIBOR+0.6-2.0		2,424,118		2,551,769
<u>(US\$ 2,512)</u> (US\$ 2,775) <u>Trade loans</u> 0.60 – 5.50 <u>18,692</u> <u>133,741</u>	Operating fund	3.05		3,313		-
<u>Trade loans</u> 0.60 – 5.50 <u>18,692</u> <u>133,741</u>				3,331,742		3,495,519
				(US\$ 2,512)		(US\$ 2,775)
	Trade loans	0.60 - 5.50		18,692		133,741
			₩		₩	

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

Current maturities of long-term debt as of December 31, 2001 and 2000 comprise the following:

Millions	of Won	
2001 2000		
₩ 2,334,166	₩ 2,495,500	
(5,828)	(29,112)	
568,537	449,125	
62,449	32,136	
₩ 2,959,324	₩ 2,947,649	
	₩ 2,334,166 (5,828) 568,537 62,449	

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# 11. Long-Term Debt:

Long-term debt as of December 31, 2001 and 2000 comprises the following:

	Annual interest rate (%) at		In Mi	llions	
	December 31, 2001			2000	
<u>Debentures</u> Public, guaranteed payable through 2003	6.00 - 25.00	₩	5,000	₩ 3	60,500
Private, non-guaranteed payable through 2006	6.14 - 16.50	1,30	00,000	62	20,000
Public, non-guaranteed payable through 2006 Floating rate notes in foreign currency,	5.00 - 12.00	4,61	12,207	4,1	90,000
payable through 2006	LIBOR+0.6-1.9	( INI		(CN	54,079 IY 100
Zenith's senior secured notes, payable through 2009	8.19	(US\$	1,119 J 66,305 50) 53,277	(US\$	S\$ 269 J 62,984 50) 87,563
Convertible Bonds Foreign currency, issued in 1996 (*1)	-	(US\$	- -)	(US\$	33,096
Foreign currency, issued in 1997 by LG Industrial Systems Co., Ltd. (*2)	0.25	(US\$	46,414 35)	(US\$	31,920
Exchangeable Bonds (*3) Foreign currency, issued in 1997	0.25	(US\$	73,824 56) 73,515	(US\$	65,016 66,623 75) 19,202
Less: treasury debentur current maturitie discount on debe premium on debe adjustments for o	s entures entures	(2,33)	(-) 34,166) 27,966) - (-)	(2,4	17,171) 95,500) 80,280) 306 (11,762) 14,795

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# 11. <u>Long-Term Debt</u>, Continued:

	Annual interest	In Milli	ons
	rate (%) at December 31, 2001	2001	2000
Won currency loans		2001	2000
	1.0 10.7	₩ 53,226	₩ 265,754
Korea Development Bank Kookmin Bank	1.0 - 10.7	, -	,
	3.0 - 12.9	188,738	276,469
Korea Technology Banking Corporation	4.8 - 8.5	10,760	17,558
Housing and Commercial Bank	- 10.2	114.210	843
Hana Bank	5.5 - 10.3	114,210	49,893
Hanvit Bank	5.0 - 8.5	712	30,890
Shinhan Bank	5.0 - 9.2	18,914	7,384
Chohung Bank	5.0 - 5.5	249	574
Nonghyup	3.5	190	190
Yonhap Capital Co., Ltd.	5.5	1,877	1,870
Korea Informatics Telesis Inc.	8.5 - 12.9	1,418	9,349
Korea First Bank	5.0 - 8.0	38,100	100
Korea Development Capital Corporation	6.5	3,460	3,904
Korea Network Research Association	-	-	467
Kyobo Life Insurance Co., Ltd.	8.1 - 10.2	70,000	-
Other	6.5 - 9.5	425	5,566
		502,279	670,811
Foreign currency loans			
Korea First Bank	LIBOR+0.9 - 1.5	16,501	18,793
Korea Development Bank	LIBOR+0.5 - 2.9	233,761	116,064
Hanvit Bank	LIBOR+0.4-2.5	148,900	272,501
Chohung Bank	LIBOR+0.4 - 0.9	317	34,463
Korea Exchange Bank	LIBOR+0.45 - 2.0	135,358	200,527
Kookmin Bank	LIBOR+0.75 - 2.5	2,024	3,103
Export-Import Bank of Korea	LIBOR+0.63 - 1.5	17,667	7,115
Hana Bank	LIBOR+0.7 - 1.4	276	786
KorAm Bank	9.0	2,475	2,351
Korea Resources Corporation	5.0	4,084	3,880
Sanwa Bank	LIBOR+0.8	1,245	2,574
Shinhan Bank	LIBOR+2.5	4,641	-
Bank of Tokyo-mitsubishi	_	-	10,128
CITI Bank	_	-	1,684
BANQUE PARIBAS	LIBOR+0.7	6,519	8,257
TOKYO Bank	LIBOR+0.7	8,514	13,479
SOCIETE Bank	LIBOR+0.6	13,868	18,443
SUMITOMO Bank	LIBOR+0.7	13,261	11,389
BANK ONE	LIBOR+1.4 - 2.5	2,652	9,245
NOVASCOTIA Bank	_	, -	26,626
Development Bank of Singapore	LIBOR+1.6	13,166	12,507
Other	-	127,878	325,154
		753,107	1,099,069
		(USD 469)	(USD 894)
		CNY 128	CNY 594
		GBP 28	GBP 41
		$\left(\begin{array}{cc} 3D1 & 20 \\ INR & 300 \end{array}\right)$	(INR 413)
		1,255,386	1,769,880
Less : current maturities		(568,537)	(449,125)
1055 . Current maturities		₩686,849	₩1,320,755
		vv 000,0 <del>4</del> 3	11,340,733

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#### 11. Long-Term Debt, Continued:

- (\*1) In 2001, the foreign currency convertible bond issued in 1996 has been redeemed earlier than its maturity.
- (\*2) 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, 2001 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 139.62% 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.

As of December 31, 2001, the bonds are translated using exchange rate as of balance sheet date and reclassified to current maturities of long-term debt as the Company estimates that bondholders will request to redeem the bonds in September 2002.

- (\*3) In 1997, the Company issued foreign currency denominated exchangeable bonds totaling US\$ 75 million bearing interest at 0.25% per annum. In 2001, the Company extinguished bonds amounting to US\$19 million. The bonds are exchangeable into common stock of Hynix Semiconductor Inc. ("Hynix", formerly, Hyundai Electonics Industries Co., Ltd.) through November 2007, unless previously redeemed. Each bond can be exchanged for 266.4 shares of Hynix common stock with a par value of \(\pi 5,000\). The exchange price was initially determined to be \(\pi 33,345\) per share based on a fixed exchange rate for U.S. dollars of US\$1.00 = \(\pi 888.30\). The terms and conditions of the exchangeable bonds are as follows:
  - Basic exchange price for each share of Hynix common stock:
     US\$ 37.54 (₩33,345 / ₩888.30)

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#### 11. Long-Term Debt, Continued:

· 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: \text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\text{\$\$}}\$}}}}}.

### · 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. As of December 31, 2001, the exchange property comprises 1,997,976 common shares of Hynix, calculated by dividing the aggregate principal amount (converted into Won at a fixed exchange rate of US\$1.00: \text{\$\psi 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.

As of December 31, 2001, the bonds are translated using exchange rate as of balance sheet date and reclassified to current maturities of long-term debt as the Company estimates that bondholders will request to redeem the bonds in September 2002.

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

Continued:

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#### 11. Long-Term Debt, Continued:

The maturities of long-term debt outstanding as of December 31, 2001 are as follows:

		Millions of Won				
For the year ending						
December 31,	Long-term debt	Debentures	Total			
2003	₩ 431,080	₩ 1,655,042	₩ 2,086,122			
2004	112,026	2,479,035	2,591,061			
2005	56,426	10,005	66,431			
2006	63,523	1,028,962	1,092,485			
2007 and thereafter	23,794	66,305	90,099			
	₩ 686,849	₩ 5,239,349	₩ 5,926,198			

#### 12. Leases:

The Company has acquired certain machinery and equipment under capital lease agreements. At December 31, 2001 the acquisition cost of machinery under capital leases is  $\mbox{$\mathbb{W}$}$  316,189 million, and related depreciation expenses recognized in 2001 is  $\mbox{$\mathbb{W}$}$  55,556 million.

As of December 31, 2001, future minimum lease payments under capital leases which are recorded as long-term other accounts payable or current maturities of long-term debt are as follows:

For the year ending		
December 31,	Milli	ons of Won
2002	₩	88,204
2003		67,590
2004		19,295
2005		11,897
Total minimum lease payments		186,986
Less: interest portion		(24,855)
current portion		(73,410)
Long-term capital lease obligations	₩	88,721

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#### 12. <u>Leases</u>, Continued:

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, 2001, future lease payments under operating lease agreements are as follows:

For the year ending	Millions of Won	
December 31,		
2002	₩ 23,787	
2003	9,017	
2004	5,791	
2005 and thereafter	4,100	
	₩ 42,695	

# 13. Accrued Severance Benefits:

Accrued severance benefits at December 31, 2001 and 2000 are as follows:

		Millions	of Won	
	2001		2001 200	
Beginning balance	₩	770,696	₩	656,136
Severance payments		(216,929)		(146,015)
Transfer-in from affiliated companies		1,399		2,650
Transfer-in by merger		-		66,263
Decrease by business transfer		(69,415)		(2,175)
Increase (Decrease) by changes in consolidated entities		8,991		(5,189)
Provision of severance benefits		219,102		193,029
Other		310		5,997
		714,154		770,696
Contribution to National Pension Fund		(38,007)		(55,606)
Severance insurance deposits		(359,409)		(436,869)
	₩	316,738	₩	278,221

The severance benefits are funded approximately 50% and 57% at December 31, 2001 and 2000, respectively, through employees severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies.

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### 14. Commitments and Contingencies:

At December 31, 2001, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

At December 31, 2001, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩472,300 million.

At December 31, 2001, the outstanding balance of domestic trade notes receivable and export trade accounts receivable sold at discount to various financial institutions with recourse is 32,366,783 million (including US\$ 1,324 million) and the outstanding balance of factored accounts receivable is 32,359 million.

At December 31, 2001, the Company was a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

At December 31, 2001, the Company was contingently liable for guarantees approximating  $\mbox{$\mathbb{W}$}$  194,372 million on indebtedness of its subsidiaries and affiliates, and has received guarantees approximating  $\mbox{$\mathbb{W}$}$  504,765 million from various banks for the repayment of certain debentures of the Company.

At December 31, 2001, LG Telecom, Ltd., a subsidiary, is under a commission business contract concerning membership entries and other supplementary services with SK Global Co., Ltd. and is paying a fixed percentage of the amount received from related customers as a commission to SK Global Co., Ltd.. At December 31, 2001, due payments are recognized as accrued expenses which amounts to \$\psi\$ 36,067 million.

With regard to license of CDMA IMT-2000 carrier, LG Telecom, Ltd.., a subsidiary, will pay \(\pi 220,000\) million by February 28, 2002 and a certain portion of its related revenue for the following 15 years to the Ministry of Information and Communication for contribution.

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### 14. Commitments and Contingencies, Continued:

As of December 31, 2001, LGE entered into a treasury stock sales and call option contract with Credit Suisse First Boston International ("CSFB") and Bank of America, N.A., Charlotte Head Office ("BOA"). The terms and conditions of the contracts are as follows:

#### (1) Contract with CSFB

#### Treasury stock sales

- · Trade date: December 21, 2000
- · Number of shares: 11,000,000 shares of common stock
- · Sales price: the closing trade price on the trade date per share ( $\mathbb{W}12,400$  per share)
- · Price adjustment:

On March 19, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period which was determined based on CSFB's executions. As a result, LGE recognized a gain on transaction of derivatives amounting to  $\mathbb{W}19,095$  million.

#### Call option contract

- · Call option buyer : LGE
- · Call option seller: CSFB
- · Effective date: March 19, 2001
- · Termination date: September 17, 2004
- · Initial share price : ₩14,140.62
- · Call option premium: 17.34% of call option contract amounts
- · Exercise of call options:

Call option buyer has the right to exercise the call options on the expiry date, which is the fifth business day immediately preceding the termination date. On the termination date, the call options exercised shall be cash settled and the call option seller shall pay an amount per the call options exercised equal to: Max(final share price minus initial share price, 0), subject to a maximum of 30.0% of initial share price.

#### · Final share price:

equal to the arithmetic average of the seven interim share prices, calculated based on the closing trade prices during the period from 36 months following the effective date through the expiry date.

An unrealized gain on valuation of derivatives in the amount of \$\pmu20,849\$ million in excess of the option premium cost of \$\pmu26,947\$ million was recognized for the year ended December 31, 2001.

#### Continued:

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# 14. <u>Commitments and Contingencies</u>, Continued:

#### (2) Contract with BOA

#### Treasury stock sales

- · Trade date: May 24, 2001
- · Number of shares: 9,149,920 shares of common stock 1,023,180 shares of preferred stock
- · Sales price: the closing trade price on the trade date per share (common stock: \W 18,200 per share, preferred stock: \W 8,340 per share)
- · Price adjustment:

On September 7, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period determined based on BOA's executions. As a result, LGE incurred a loss on transaction of derivatives amounting to  $\mathbb{W}$  25,267 million.

# Call option contract

- · Call option buyer : LGE
- · Call option seller: BOA
- · Effective date: September 7, 2001
- · Termination date: 3 years after effective date (September 7, 2004)
- · Initial share price : common stock ₩ 15,517, preferred stock ₩ 7,660
- · Call option contract amounts: common stock \$\footnote{141,979}\$ million (US\$110 million), preferred stock \$\footnote{7,838}\$ million (US\$6 million)
- · Call option premium: 15% of call option contract amounts
- · Exercise of call options:

Call option buyer has the right to exercise the call options. On the termination date, the call options exercised shall be cash settled and the call option seller shall pay an amount per the call options exercised equal to: Max (final share price minus initial share price, 0), subject to a maximum of 30.0% of initial share price.

· Final share price:

Determined as the average of twelve monthly closing prices for the twelve months up to and including the termination date, where each "monthly closing price" is taken as the arithmetic average of the official closing price of the five business day period ending in and including the monthly anniversary date relative to the termination date of each month.

An unrealized gain on valuation of derivatives in the amount of W 23,761 million in excess of the option premium cost of W22,477 million was recognized for the year ended December 31, 2001.

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# 14. <u>Commitments and Contingencies</u>, Continued:

As of December 31, 2001, LGE and LG Industrial Systems Co., Ltd. ("LGIS"), a subsidiary, have entered into Dacom Corporation stock sales and derivatives contracts for their shares in Dacom Corporation with Credit Suisse First Boston International ("CSFB"). The terms and conditions of the contracts are as follows:

#### (1) Contracts of LGE

# Sales of Shares in Dacom Corporation

- · Trade date: September 21, 2001
- · Number of shares: 4,563,000 shares of common stock
- · Sales price : the closing trade price on the trade date per share ( $\mathbb{W}$  17,750 per share)
- · Price adjustment:

On November 5, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period determined based on CSFB's executions. As a result, LGE incurred a gain on transaction of derivatives amounting to \W 212 million.

#### Call option contract

- · Call option buyer : LGE
- · Call option seller : CSFB
- · Effective date: November 5, 2001
- · Termination date: 3 years after effective date (November 5, 2004)
- · Initial share price: \widetilde{\psi}17,796.40
- · Call option contract amounts: \W80,687 million
- · Call option premium: 18.3% of call option contract amounts
- · Exercise of call option :

Final call option buyer has the right to exercise the final call options on the termination date. On the date two business days after the termination date, the final call options exercised shall be cash settled and the final call option seller shall pay the final call option buyer an amount equal to : (final share price – initial share price) X number of final call options.

- · Final share price:
  - Determined as the average of all daily closing prices from the first business day following effective date to the termination date subject to a minimum of initial share price.
- Upper limit of daily closing price:

  Starting on the first business day following the effective date at 170% of initial share price and decreasing linearly on each subsequent business day down to 130% of initial share price on the termination date.

An unrealized gain on valuation of derivatives in the amount of  $\mbox{$\mathbb{W}$}$  22,189 million in excess of the option premium cost of  $\mbox{$\mathbb{W}$}$ 14,857 million was recognized for the year ended December 31, 2001.

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#### 14. Commitments and Contingencies, Continued:

#### (2) Contracts of LGIS

LGIS sold 1,464,980 shares of Dacom Corporation to CSFB for \(\pi\)26,003 million on September 21, 2001. In connection with this transaction, LGIS entered into derivative contracts where LGIS is entitled to receive the difference between the market value and the contracted value (limit: 130%-170% of base price) during the contract period.

The conditions of contracts are as follows:

- Effective date : October 18, 2001

- Underlying assets : 1,464,980 common shares of Dacom Corporation

- Type of transaction : purchase of call option

- Termination date : 3 years from the effective date

- Base price: \W17,258.53 per share - Premium: 18.3% of base price

- Maximum gain per share: 30%-70% of base price

An unrealized gain on valuation of derivative in the amount of \$\pmu4,187\$ million in excess of the option premium cost of \$\pmu4,710\$ million was recognized for the year ended December 31, 2001.

In addition, LGIS also entered into derivative contracts that LGIS purchased call option and sold out put option where shares of Dacom Corporation are underlying asset. This derivative contracts have been settled in October 2001 and LGIS recognized  $\mbox{$W$722}$  million loss from this contract in 2001.

In order to reduce the impact of changes in exchange rates on future cash flows, LGE enters into foreign currency forward contracts. LGE has outstanding forward contracts with Citibank for selling US dollars amounting to US\$ 40 million (contract rates: \$1,283.85: US\$  $1\sim\$1,352.0$ : US\$ 1, contract due dates: January through July 2002).

As of December 31, 2001, LGE has outstanding forward contracts with Bank of Tokyo-Mitsubishi for selling US dollars and buying Japanese Yen amounting to US\$ 4 million (contract rates:  $\frac{121.11}{202.47}$ : US\$1, contract due dates: January through February 2002).

As of December 31, 2001, LGE has outstanding forward contracts for selling Euro and buying US Dollars amounting to US\$ 24 million (contract rates :  $\in$  0.8766 : US\$ 1 $\sim$   $\in$  0.8998 : US\$ 1, contract due dates : January through June 2002).

#### Continued:

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#### 14. <u>Commitments and Contingencies</u>, Continued:

As a result of the above foreign currency forward contracts, an unrealized gain and loss of \$\psi\$ 109 million and 661 million, respectively, were charged to operations for the year ended December 31, 2001.

In order to reduce the impact of changes in interest rates, LGE enters into interest rate swap contracts and an unrealized loss of \$2,532 million was recorded as a capital adjustment. A summary of the terms of outstanding interest rate swap contracts at December 31, 2001 is as follows (see Note 18):

	Amount	Buying	Selling	Contract
	(In millions)	rate (%)	rate (%)	due date
ABN AMRO Bank	US\$ 70	7.35%	6M LIBOR	June 14, 2002

In order to reduce the impact of changes in exchange rates, LGE enters into foreign currency option contracts. An unrealized loss of \(\partial 2,412\) million was charged to operations for the year ended December 31, 2001. A summary of the terms of outstanding currency option contracts at December 31, 2001 is as follows:

	Option	Amount		Contract
	Type	(In millions)	Exercising price	due date
Citibank	Put	US\$ 9.0	₩ 1,280.0/US\$	2002.3.11
	Call	US\$ 9.0	₩ 1,343.5/US\$	2002.3.11
	Put	US\$ 5.0	₩ 1,285.0/US\$	2002.1.14
	Call	US\$ 10.0	₩ 1,285.0/US\$	2002.1.14
	Put	US\$ 5.0	₩ 1,295.0/US\$	2002.2.26
	Call	US\$ 10.0	₩ 1,295.0/US\$	2002.2.26
Deutsche Bank	Put	US\$ 10.0	₩ 1,280.0/US\$	2002.3.11
	Call	US\$ 10.0	₩ 1,343.0/US\$	2002.3.11
	Put	US\$ 10.0	₩ 1,290.0/US\$	2002.4.12
	Call	US\$ 10.0	₩ 1,337.0/US\$	2002.4.12
	Put	US\$ 2.0	¥ 121.1/US\$	2002.6. 4
	Call	US\$ 2.0	¥ 124.5/US\$	2002.6. 4
UBS Warburg	Put	US\$ 10.0	₩ 1,280.0/US\$	2002.6. 5
	Call	US\$ 10.0	₩ 1,305.0/US\$	2002.6. 5
Credit Lyonnais	Put	US\$ 10.0	₩ 1,300.0/US\$	2002.6.18
	Call	US\$ 10.0	₩ 1,329.0/US\$	2002.6.18
Standard Chartered Bank	Put	US\$ 2.0	¥ 117.0/US\$	2002.4.9
	Call	US\$ 2.0	¥ 120.05/US\$	2002.4.9
Credit Lyonnais	Put	EURO 4.0	¥ 117.0/€	2002.3.14
-	Call	EURO 4.0	¥ 120.05/€	2002.3.14

As a result of the above derivatives contracts, a gain of \W2,167 million and a loss of \W15,395 million were recognized for the year ended December 31, 2001.

Continued;

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#### 14. <u>Commitments and Contingencies</u>, Continued:

In order to stabilize raw material and inventory costs, LG Industrial Systems Co., Ltd., a subsidiary, entered into futures contracts for commodities, such as electrolytic copper, with certain financial institutions. At December 31, 2001, outstanding contracts and their conditions are as follows:

			Delivery Price	Quantity
Counterpart	Exercise Date	Position	(US\$/MT)	(unit : MT)
Triland	2002. 1. 3	Long	1,510.50-1,717.25	525
Triland	2002. 2. 4	Long	1,515.00-1,723.00	175
Triland	2002. 3. 4	Long	1,515.00-1,726.25	150
Triland	2002. 4. 3	Long	1,515.00-1,730.50	200
Triland	2002. 5. 2	Long	1,590.00-1,731.50	125
Triland	2002. 6. 6	Long	1,590.00-1,600.00	125
Triland	2002. 7. 2	Long	1,590.50-1,600.00	100
Enron	2002. 1. 3	Long	1,473.50-1,692.00	325
Enron	2002. 2. 4	Long	1,388.00-1,719.00	850
Enron	2002. 3. 4	Long	1,388.00-1,719.00	1,000
Enron	2002. 4. 3	Long	1,388.00-1,719.00	1,025
Enron	2002. 5. 2	Long	1,388.00-1,719.00	1,000
Enron	2002. 6. 6	Long	1,422.00-1,719.00	975
Enron	2002. 7. 2	Long	1,422.00-1,719.00	900
Enron	2002. 8. 2	Long	1,422.00-1,473.00	225
Enron	2002. 9. 4	Long	1,422.00	75
Enron	2002.10. 2	Long	1,422.00	75
Enron	2002.11.4	Long	1,422.00	75
Enron	2002.12. 3	Long	1,422.00	75

LG.Philips LCD Co., Ltd., a subsidiary, enters into foreign currency contracts in order to reduce the impact of changes in exchange rates on future cash flows from investments, repayment of debts, purchase of raw material and export of finished goods. However, those contracts do not fulfill the financial reporting requisite of hedging cash flow risk. Therefore, the realized and unrealized gain and loss from the above foreign currency contracts were charged to the operations for the year ended December 31, 2001.

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# 14. Commitments and Contingencies, Continued:

As a result of foreign currency transactions, a gain and loss of \$8,440 million and \$15,970 million, respectively, were realized for the year ended December 31, 2001 and a gain and loss of \$69 million and \$49,342 million, respectively, were realized for the year ended December 31, 2000. LG.Philips LCD Co., Ltd. has outstanding forward contracts for buying Japanese Yen, US dollars and Korean Won amounting to \$23,860 million, US\$10 million and \$123,838 million, repectively, and for selling US dollars and Korean Won amounting to US\$290 million and \$13,110 million, respectively. As a result of the above foreign currency contracts, an unrealized gain and loss of \$239 million and \$17,372 million, respectively, were charged to operations for the year ended December 31, 2001.

On December 14, 2000, LGE has entered into a leasehold deposits sales agreement with LG Shinhan Securitization L.L.C. ("SPC") to securitize the leasehold deposits owned by LGE. LGE has sold leasehold deposits whose book value is \$133,854 million to the SPC for \$120,400 million, and in 2001 LGE repurchased a substantial portion of leasehold deposits for \$119,898 million.

As of December 31, 2001, LGE has \(\pext{W}\)13,700 million of subordinated bond issued by the SPC and \(\pext{W}\)3,300 million of long-term loan due from the SPC. LGE provides management services related to the leasehold deposits owned by the SPC and receives a service fee from the SPC. The holders of the bonds issued by the SPC based on the leasehold deposits have rights to request LGE to purchase the bonds under certain adverse conditions within two years after the date upon which the bond sales are completed.

As of December 31, 2001, LG Telecom, Ltd., a subsidiary, has contracts with Khai Securitization Specialty L.L.C. regarding asset management and service consignment and with Kookmin Bank regarding trustee service in connection with the transfer of asset-backed securities. LG Telecom, Ltd. may redeem all of its sold accounts receivables relating to invalid or cancelled PCS service contracts. And LG Telecom, Ltd. may redeem all overdue accounts receivable longer than four months up to 10% of its disposal amounts. In 2001, LG Telecom, Ltd. redeemed \text{\text{\$\text{\$W\$}}10,293 million of accounts receivable.}

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#### 14. <u>Commitments and Contingencies</u>, Continued:

At July 23, 2001, LG Industrial Systems Co., Ltd., a subsidiary, sold 8,324,884 shares of LG Card Co., Ltd. to Cherry Stone Investment Holdings Ltd., Malaysia, wholly owned by Island Trust And Management Company. Cherry Stone Investment Holdings Ltd. issued the bonds with the underlying collaterals of the shares of LG Card Co., Ltd. Types and issuance conditions of bonds are as follows.

# - Exchangeable Bonds (par value: US\$ 155,000 thousand)

Exchangeable Bonds can be exchanged with 5,389,867 shares of LG Card Co., Ltd. at W37,500 per share and the maturity date is July 20, 2003. The redemption price at the maturity date is 117.72% of issue price. However, the price is to be adjusted to 123.21% of issue price if the shares of LG Card Co., Ltd. are not listed or registered at the Korea Stock Exchange or Korea Securities Dealers Association within 1 year from the issuance date.

#### - Senior Notes (par value : UD \$ 50,000 thousand )

The maturity date is January 20, 2004, and the redemption price at the maturity date is 128.51% of the issue price. The redemption of Senior Notes is guaranteed by 2,935,017 shares of LG Card Co., Ltd.

#### - <u>Subordinated Notes (Par value : US \$ 22,100 thousand )</u>

The maturity date is January 20, 2004, and it has the rights on residual assets after the owners of the Exchangeable Bonds and the Senior Notes are satisfied based on the conditions described above. The principal amount is not guaranteed.

LG Industrial Systems Co., Ltd. provided approximately \W321,731 million of payment guarantee on the principal and interest of Exchangeable Bonds and Senior Notes for 30 month period from the issuance date which is July 20, 2001.

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# 14. Commitments and Contingencies, Continued:

At December 31, 2001 LGE is named as the defendant in legal actions which were brought against LGE by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, LGE is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of domestic claims as the defendant and the plaintiff are approximately \(\pmu\)193 million in 9 cases and \(\pmu\)4,447 million in 7 cases, respectively, as of December 31, 2001. LGE believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for LGE. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

In December 1999, an executive officer of Dacom Corporation ("Dacom"), a subsidiary, issued 3 promissory notes without authorization maturing in March 2000, which total W8,600 million, by allegedly fraudulently using Dacom's name and chop. These notes were discounted into cash with a financial institution and misappropriated by certain third parties. Dacom recognized an extraordinary loss amounting to W5,494 million for the year ended December 31, 2001 for the amount to be paid according to the judgment of the lawsuit raised by the bank over Dacom's dishonor of the matured notes.

Zenith Electronics Corporation ("Zenith"), a subsidiary, has experienced significant financial difficulties resulting from continuous losses. Zenith filed a pre-packaged plan of reorganization under Chapter 11 of the Bankruptcy Code of the United States of America in August 1999 and the reorganization plan was approved by the court in November 1999. As a result of the reorganization plan, LGE owns 100% of equity in the restructured Zenith.

In order to recover its accumulated deficits, Zenith has reduced costs through restructuring and disposal of production lines, and became a research & development and marketing company.

As a result, Zenith charged a non-operating expense of \$663 million (US\$ 0.5 million) and \$20,573 million (US\$ 18.2 million) in 2001 and 2000, respectively, primarily related to costs associated with legal consulting fee, severance costs and restructuring costs.

The Company's management expects that royalty income from VSB technology patents for digital TV owned by Zenith will significantly contribute to the recovery of Zenith in the future.

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# 14. Commitments and Contingencies, Continued:

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

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

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#### 15. Capital Stock:

As of December 31, 2001 and 2000, capital stock is as follows:

		2001			2000	
	Number of		Millions of	Number of		Millions of
	issuance (shares)	Par value	Won	issuance (shares)	Par value	Won
Common stock	155,118,070	₩5,000	₩ 775,590	155,118,070	₩ 5,000	₩ 775,590
Preferred stock(*1)	19,095,547	5,000	95,478	19,095,547	5,000	95,478
Redeemable						
preferred stock(*2)		5,000	160,000	32,000,000	5,000	160,000
	174,213,617		₩1,031,068	206,213,617		₩1,031,068

As of December 31, 2001 and 2000, the number of shares authorized is 500,000,000 shares.

- (\*1) As of December 31, 2001 and 2000, 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.
- (\*2) On June 29, 2001, the Company redeemed \$\text{W}542,952\$ million (32,000,000 shares) of the redeemable preferred stock issued on December 23, 2000 and reduced \$\text{W}544,000\$ million of retained earnings, pursuant to the resolution by the board of directors on June 25, 2001. On December 31, 2001, the Company recorded dividends payable of \$\text{W}20,121\$ million for the period from January 1, 2001 until June 29, 2001. As a result, as of December 31, 2001, there is discrepancy between capital stock amount and total par value amount of shares issued and outstanding.

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#### 16. Capital Surplus:

At December 31, 2001 and 2000, capital surplus is as follows;

	Millions of Won			
	2001	2000		
LGE's capital surplus				
Capital reserve	₩ 2,014,007	₩ 2,014,886		
Revaluation surplus	339,619	339,619		
LGE's share of subsidiaries' and equity				
method investees' capital surplus	(935,452)	(685,500)		
	₩ 1,418,174	₩ 1,669,005		

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

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, 2001 and 2000, the revaluation increments of  $\mathbb{W}339,619$  million, net of tax, transfer to capital stock and offset against deferred foreign currency translation losses, are credited to revaluation surplus.

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### 17. Retained Earnings:

Retained earnings as of December 31, 2001 and 2000 are as follows:

	Millions of Won			
	7	2001	2000	
Legal reserve (*1)	₩	69,888	₩	55,999
Reserve for business rationalization (*2)		431,065		281,065
Reserve for improvement of				
financial structure (*3)		84,458		84,458
Reserve for technological development (*4)		866,561		708,680
Reserve for redemption of redeemable				
preferred stock		_		544,000
Unappropriated retained earnings carried				
over to subsequent year		556,021		(60,222)
	₩	2,007,993	₩	1,613,980

- (\*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.

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# 17. Retained Earnings, Continued:

- (\*3) In accordance with the regulations regarding securities' issuance and disclosure (formerly, the provisions of the Financial Control Regulation for publicly listed companies), the Company is required to appropriate, as a reserve for improvement of financial structure, a portion of retained earnings equal to a minimum of 10% of its annual income plus at least 50% of the net gain from the disposal of property, plant and equipment after deducting related taxes, until equity equals 30% of total assets. This reserve is not available for dividends, but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.
- (\*4) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to appropriate retained earnings as a reserve for technological development. These reserves are not available for dividends until used for the specified purposes or reversed.

### 18. Capital Adjustments:

As of December 31, 2001 and 2000, capital adjustments are as follows:

	Millions of Won				
		2001		2000	
Treasury stock	₩	(494,235)	₩	(875,604)	
Loss on valuation of investment securities		(68,560)		(382,661)	
Overseas operations translation credit		120,332		133,903	
Loss on valuation of derivatives		(2,532)		(1,091)	
Other		(144,043)		(79,162)	
	₩	(589,038)	₩	(1,204,615)	

In 2000, LGE purchased its own stocks amounting to 40,835,200 shares of common stock and 1,508,876 shares of preferred stock mainly in relation to specified money trust agreements and the stock repurchase request option executed by shareholders who objected to the merger with LG Information & Communications, Ltd. As of December 31, 2001, LGE retains treasury stocks amounting to 17,126,361 shares of common stock and 16 shares of preferred stock. LGE has intention to sell the treasury stock in the future.

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#### 19. Income Taxes:

Income tax expense for the years ended December 31, 2001 and 2000 comprise the following:

	Millions of Won				
	2001				
Current income taxes	₩ 240,379	₩ 324,422			
Deferred income taxes	114,691	48,953			
	₩ 355,070	₩ 373,375			

Components of deferred taxes as of December 31, 2001 and 2000 are as follows:

Millions of Won			
Deferred income tax assets (liabilities			
2001		2000	
₩ 6,1	125 ₩	21,166	
(1,2	214)	(4,568)	
	-	45,570	
(3,	711)	(4,558)	
81,2	200	75,858	
(99,0	627)	(104,133)	
(51,4	489)	(33,323)	
2	205	(938)	
(46,8	816)	-	
386,3	385	167,682	
84,4	413	41,541	
193,0	)48	-	
182,0	061	(51,139)	
(335,	101)	(21,682)	
76,7	783	(7,287)	
₩ 472,2	262 ₩	124,189	
	Deferred in 2001  W 6,3 (1,2 (3,6 81,2 (99,6 (51,6 2) (46,8 386,3 84,6 193,6 (335,6 (335,6 76,7	Deferred income tax assets  2001  W 6,125 W (1,214)  - (3,711) 81,200 (99,627) (51,489) 205  (46,816) 386,385 84,413 193,048  182,061 (335,101) 76,783	

In 2001, the change in the balance of deferred tax assets and liabilities is not the same as deferred income tax expenses due to capital transactions and other.

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.

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# 20. Earnings Per Share:

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

Basic earnings per share for the years ended December 31, 2001 and 2000 are calculated as follows:

	Millions of Won (except for EPS data)			
Basic earnings per share	2001 20		2000	
Net income as reported on the				
statement of income	₩	1,027,354	₩	472,548
Less: Preferred stock dividends		(35,397)		(19,472)
Additional income available for				
dividend allocated to preferred stock		(108,002)		(40,307)
Net income allocated to common stock		883,955		412,769
Weighted average number				
of common shares outstanding	133,804,678		10	08,942,560
Basic earnings per share	₩	6,606	₩	3,789

Basic ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows:

	Millions of Won (except for EPS data)				
Basic ordinary income per share	2001			2000	
Net income allocated to common stock	₩	883,955	₩	412,769	
Less: extraordinary gains		(1,814)		(35,923)	
Add: income tax (*)		487		12,301	
Ordinary income allocated to common stock		882,628		389,147	
Weighted average number					
of common shares outstanding	13	33,804,678	10	08,942,560	
Basic ordinary income per share	₩	6,596	₩	3,572	

<sup>(\*)</sup> It is computed based on effective tax rate.

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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 and dividends on any convertible preferred stock, by the weighted average number of common shares and diluted securities outstanding during the year. Diluted ordinary income per share is computed by dividing diluted ordinary income allocated to common stock, which is diluted net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted average number of common shares and diluted securities outstanding during the year, assuming conversion into common shares at beginning of years.

Diluted earnings per share for the years ended December 31, 2001 and 2000 are calculated as follows:

	Millions of Won(except for EPS data)				
	2001	2000			
Net income allocated to common stock	₩ 883,955	₩ 412,769			
Add: interest expenses on convertible bonds,					
net of tax	-	2,070			
Redeemable preferred stock dividends		1,006			
Diluted net income allocated to common stock	883,955	415,845			
Weighted average number of common shares and					
diluted securities outstanding	133,804,678	111,224,159			
Diluted earnings per share	₩ 6,606	₩ 3,739			

Diluted ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows:

	Millions of Won(except for EPS data)				
	2001			2000	
Diluted net income allocated to common stock	₩	883,955	₩	415,845	
Less: extraordinary gains		(1,814)		(35,923)	
Add: income tax (*)		487		12,301	
Diluted ordinary income allocated to common stock		882,628		392,223	
Weighted average number of common shares and					
diluted securities outstanding	1	33,804,678	1	11,224,159	
Diluted ordinary income per share	₩	6,596	₩	3,526	

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

Diluted earnings per share and diluted ordinary income per share for the year ended December 31, 2001 are the same as basic earnings per share and basic ordinary income per share, respectively, because there are no diluted securities outstanding as of December 31, 2001.

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#### 21. <u>Dividends</u>:

Details of dividends of LGE for the years ended December 31, 2001 and 2000 are as follows:

#### <u>Dividends</u>

	Millions of Won							
	2001			2000				
	Dividend	Dividends		Dividends Dividend		Div	idends	
	Ratio (%)	amount		amount		Ratio (%)	an	nount
Common shares	15.0%	₩	103,494	20.0%	₩	125,389		
Preferred shares	16.0%		15,276	21.0%		18,466		
Redeemable preferred								
stock	25.5%		20,121	25.5%		1,006		
		₩	138,891		₩	144,861		

### **Dividend Payout Ratio**

		Millions of Won					
	200	)1	2	000			
Total dividends (A)	₩	138,891	₩	144,861			
Net income (LGE) (B)		507,282		502,183			
Dividend payout ratio ((A)/(B))		27.38%		28.85%			

#### Dividend Yield Ratio

	In Won							
	2001				2000			
	Common shares		Preferred Shares		Common shares		Preferred shares	
Dividend per share (A) Market price as	₩	750	₩	800	₩	1,000	₩ 1,050	
of balance sheet date (B) Dividend yield ratio ((A)/(B))	₩	24,800 3.02%	₩	12,600 6.35%	₩	11,950 8.37%	₩ 6,310 16.64%	

#### 22. <u>Merger</u>:

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

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

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# 22. Merger, Continued:

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

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

Changes in goodwill are as follows:

	Millions of Won			
Goodwill at the merger		₩ 393,820		
Amortization				
2001	(39,382)			
2000	(21,275)	(60,657)		
Goodwill as of December 31, 2001		₩ 333,163		

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

#### Condensed balance sheets -

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

#### Continued:

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# 22. Merger, Continued:

# Condensed income statements -

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

# 23. <u>Disposal of Business Divisions</u>:

On July 31, 2000, LG Industrial Systems Co., Ltd. disposed its copper leaf division to LG Cable Ltd. at W68,467 million and recorded W447 million of loss from disposal of business divisions.

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#### 24. <u>Transactions with Related Parties</u>:

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies during 2001 and 2000 and the related account balances at December 31, 2001 and 2000 are summarized as follows:

#### Transactions between LGE and its consolidated subsidiaries --

	Millions of Won					
		2001		2000		
Receivables	₩	2,622,693	₩	2,854,539		
Payables		234,162		221,627		
Sales and other income		7,361,361		5,175,291		
Purchases and other expenses		927,793		1,492,156		
Guarantees		1,389,090		1,382,759		

# Transactions between consolidated subsidiaries -

	Millions of Won					
		2001		2000		
Receivables and payables	₩	850,882	₩	718,464		
Sales, purchases and others		3,792,159		1,461,441		
Guarantees		20,820		50,246		

### Transactions between the Company and equity-method investees-

	Millions of Won					
		2001		2000		
Receivables and payables	₩	91,146	₩	535,584		
Sales, purchases and others		1,548,060		1,519,439		
Guarantees		71,875		161,360		

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#### 25. Segment Information:

LGE has organized four reportable business divisions: digital display & media division, digital appliances division, display device division and information & communications 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. LGE transferred the assets and liabilities of display device division to LG.Philips Displays Korea Co., Ltd. on June 30, 2001. Therefore, display device division does not exist as of December 31, 2001.

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

Digital Display & Media division: VCR, PC, computer, CD-ROM, TV, monitor, audio

and PDP

Digital Appliances division : refrigerator, washing machine, air conditioner,

microwave oven and vacuum cleaner

Display Device division

Information &

: CPT/CDT, DY, FBT, electron gun and magnetron

Communications division : mobile telecommunication systems, mobile phones,

electronic switching systems, transmission equipment

and network equipment

# Financial Data of LGE by Business Division based on non-consolidation (Millions of Won)

		Digital display	Digital Display		Information &	Supporting
	Total	& media	appliances	device	communications	division
I . Sales						
External sales	₩16,600,971	₩ 6,775,357	₩4,963,473	₩ 739,635	₩ 3,909,720	₩ 212,786
Inter-division sales	523,799	67,728	12,771	215,363	134,368	93,569
	17,124,770	6,843,085	4,976,244	954,998	4,044,088	306,355
II . Operating income (loss)	795,966	180,211	601,791	(15,020)	184,075	(155,091)
III. Fixed assets						
Property, plant &						
equipment	2,923,487	600,580	817,792	-	456,410	1,048,705
Intangible assets	1,071,170	29,136	11,720		507,362	522,952
Total	3,994,657	629,716	829,512		963,772	1,571,657
Depreciation	₩ 625,221	₩ 165,704	₩ 123,528	₩ 82,078	₩ 143,421	₩ 110,490

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# 25. <u>Segment Information</u>, Continued:

# Financial data of LGE by Geographic Area based on non-consolidation (Millions of Won)

				Central &					
			North	South					Supporting
	Total	Domestic	America	America	Europe	Central Asia	Asia	Oceania	division
External sales	₩16,600,971	₩6,083,982	₩3,899,403	₩701,924	₩1,932,931	₩766,068	₩2,866,953	₩250,913	₩98,797
Inter-division sales	100.0%	36.6%	23.5%	4.2%	11.6%	4.6%	17.3%	1.5%	0.6%
Sales	523,799	523,799		-	-		-	-	
Total	₩17,124,770	₩6,607,781	₩3,899,403	₩701,924	₩1,932,931	₩766,068	₩2,866,953	₩250,913	₩98,797

### 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.

Significant transactions not affecting cash flows for the years ended December 31, 2001 and 2000 are as follows:

_	Millions of Won			
		2001		2000
Transfer to property, plant and equipment from				
construction in progress	₩	330,161	₩	190,766
Reclassify current maturities of long-term debt		419,655		211,691
Reclassify current maturities of debenture		1,747,228		1,819,339
Increase (decrease) in assets by changes in				
consolidated subsidiaries		1,579,869		(128,653)
Increase (decrease) in liabilities by changes in				
consolidated subsidiaries		1,637,898		(46,982)
Increase in assets by merger		-		3,060,233
Increase in liabilities by merger		-		2,534,043
Increase in investments by contribution of CRT				
division in kind		913,431		-
Transfer to capital surplus from consolidation				
adjustments		-		382,909

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#### 27. Establishment of a joint venture related to Cathode Ray Tubes ("CRT") business:

Pursuant to the resolution by the board of directors on June 11, 2001, LGE established a joint venture (LG.Philips Displays Holding B.V.) relating to its Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. ("Philips") on June 29, 2001. In connection with the joint venture, LGE contributed its investments in Beijing LG Electronics Components Co., Ltd. ("LGEBJ") and LG Shuguang Electronics Co., Ltd. ("LGESG"), and assets and liabilities of the CRT business of LG Electronics Wales Ltd. ("LGEWA") and PT LG Electronics Display Devices Indonesia ("LGEDI"), and cash of US\$ 400 million. LGE also sold assets and liabilities of its CRT business located in Kumi and Changwon to LG.Philips Displays Korea Co., Ltd., a subsidiary wholly owned by the joint venture, on June 30 2001. As a result, LGE was paid \(\pm 1,432\), 530 million (US\$1,100 million) in cash and paid Philips \(\pm 73,770\) million to settle the debt transferred to the joint venture.

LGE recognized a gain on business transfer amounting to ₩1,358,760 million.

The book value of assets and liabilities of the CRT business transferred to LG.Philips Displays Korea Co., Ltd. is as follows:

	Millions of Won	
Current assets	₩ 287,238	
Fixed assets	510,034	
Total assets	797,272	
Current liabilities	163,249	
Fixed liabilities	23,427	
Total liabilities	186,676	
Net assets	₩ 610,596	

Information regarding income of the CRT business for the first half period of 2001 is as follows:

	Millions o	Millions of Won		
Sales	₩	938,060		
Operating profit		121,407		

In March, 2002, Philips paid LGE  $$\mathbb{W}$139,372$  million (US\$105 million) to settle the price adjustment based on determination of assets and liabilities contributed and transferred to the joint venture.

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#### 28. Spin-off of LGE:

Upon a resolution of the board of directors on November 15, 2001 and upon a resolution of shareholders on December 28, 2001, LGE spun off its electronics and information & communications businesses and established a new company, and converted its remaining business into a holding company on April 1, 2002. Accordingly, LGE was split into two companies, a divesting company, named LG Electronics Investment Inc., to engage in the operation of investment in subsidiaries and affiliates which are not related to the spun off businesses and a divested company, named LG Electronics Inc., to engage in the electronics and information & communications businesses.

Condensed financial information as of April 1, 2002, of two companies after the split is, as follows:

		Millions of Won		
		(Post spin-off)		
		LG Electronics		
	Prior to spin-off	Investment Inc.	_LG Electronics Inc.	
Assets	₩11,982,532	₩2,972,213	₩9,443,488	
Liabilities	7,514,855	887,074	6,627,781	
Equity	4,467,677	2,085,139	2,815,707	

#### 29. Spin-off of LG Mart Co., Ltd.:

Upon a resolution of the board of directors on November 1, 2001 and upon a resolution of shareholders on November 29, 2001, LG Mart Co., Ltd., a subsidiary, carved out its facility management (FM) division, internet maintenance, repair & operations (MRO) division and special communications division to establish LG MRO, and its leisure division to establish Konjiam Country Club. Stocks issued in relation to the above spin-off were allocated in proportion to the ratio of each shareholder's holding. The value of assets and liabilities transferred to the newly established companies and the information regarding income for the year of 2001 are as follows.

	Millions of Won			
	Konjiam Country			
	LG MRO	Club	Total	
Current assets	₩ 22,102	₩ 11,167	₩ 33,269	
Non-current Assets	1,095,438	118,974	1,214,412	
Total assets	1,117,540	130,141	1,247,681	
Current liabilities	60,136	1,634	61,770	
Non-current liabilities	482,323	109,419	591,742	
Total liabilities	542,459	111,053	653,512	
Net assets	575,081	19,088	594,169	
Transferred capital	276,136	-	276,136	
Capital reduction	4,000	1,000	5,000	
Loss from capital reduction	294,945	18,088	313,033	
Sales	180,041	10,245	190,286	
Operating income (loss)	₩ 33,114	₩ (2,552)	₩ 30,562	