# 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 \$10,174,659 million and \$8,650,756million as of December 31, 2001 and 2000, respectively, and sales represent \#16,222,225 million and \$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 \#1,763,185 million and #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 ₩135,329 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 W1,358,760 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 \$542,952 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 #106,996 million and as a result #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    |  |
| Other current assets                                 |    | 129,018    |      | 109,055    |  |
| 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<br>SHAREHOLDERS' EQUITY                                       |      |                        |      |                        |
| Current liabilities:  |      |                        |      |                        |
| Short-term borrowings (Note 10)   | ₩    | 4,314,227              | ₩    | 4,859,334              |
| Current maturities of long-term   |      | 2 050 224              |      | 2 0 4 7 6 4 0          |
| debt (Note 10)<br>Trade accounts and notes payable (Note 24)                  |      | 2,959,324<br>2,822,580 |      | 2,947,649<br>2,155,735 |
| Other accounts payable  |      | 1,809,135              |      | 1,350,927              |
| Accrued expenses  |      | 864,434                |      | 850,322                |
| Advances from customers   |      | 284,508                |      | 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<br>and discounts (premiums) on debentures |      |                        |      |                        |
| and adjustments for conversion rights (Note 11)                               |      | 5,111,383              |      | 3,114,795              |
| 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<br>100,572      |
| 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)

|   |              | 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)                  | 260,411      | 588,036      |
| Gain on disposal of property,                             |              |              |
| plant and equipment                                       | 19,453       | 20,828       |
| Gain on business transfer (Note 27)                       | 1,358,760    | -            |
| Equity in income of affiliates, net (Note 7)              | -            | 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       |              |
| 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)

|  |   | 2001           |   | 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, ne | t | 58,905         |   | (244,431)                    |
| Net income   | ₩ | 1,027,354      | ₩ | 472,548                      |
| Earnings per share (in Won) (Note 20)<br>Basic<br>Diluted            | ₩ | 6,606<br>6,606 | ₩ | <u>3,789</u><br><u>3,739</u> |
| Ordinary income per share (in Won) (Note 20)<br>Basic<br>Diluted     | ₩ | 6,596<br>6,596 | ₩ | 3,572<br>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 | Retai | ned Earnings | Capit | al Adjustments | Min | ority 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                     |    | -           |     | (611,336)     |       | (23,716)     |       | (80,185)       |     | (256,996)       |   | (972,233) |
| Issuance of capital stock                  |    | 398,952     |     | 1,491,565     |       | -            |       | -              |     | -               |   | 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)

| (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:                       |      |             |   |   |
| 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            |      | 93,261      |   | 81,434                                  |
| Loss on redemption of debentures                        |      | 19,900      |   | 664                                     |
| Provision for severance benefits                        |      | 219,102     |   | 193,029                                 |
| Loss on valuation of inventories                        |      | 17,474      |   | 10,840                                  |
| 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,                           |      | 0,009       |   | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, |
| plant and equipment, net                                |      | 73,355      |   | 22,600                                  |
| Loss on impairment of property,                         |      | 15,555      |   | 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          |      | 00,001      |   | 190,101                                 |
| 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      |   | ()1,007)                                |
| 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                                  |
|   |      | 2,010       |   | 10,952                                  |
| 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          |      | 221,110     |   | (1,012,001)                             |
| and notes receivable                                    |      | (13,743)    |   | 49,877                                  |
| Decrease in long-term other accounts receivable         |      | -           |   | 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 (27      |  |  |
| adjustment credit<br>Other                              | (13,571)           | 21,627      |  |  |
| Net cash provided by (used in) financing activities     | 50,798 (1,147,155) | 204,511     |  |  |
| Not cash provided by (used in) matering activities      | (1,117,133)        | 201,011     |  |  |
| 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.

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## 1. <u>The Consolidated Companies</u>:

## 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  $\forall$ 1,031,068 million, including non-voting preferred stock of  $\forall$ 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   | l issued and Share |              | ares owned by |         |  |
|---|--------------------|--------------------|--------------|---------------|---------|--|
|   | outstanding shares | LGE                | Subsidiaries | 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%  |  |

# 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   |            | Shares owned by | 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%  |
| -   |                    |            |                 |            |         |

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

## 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,<br>Ltd.                       | Dacom<br>Corporation | LG.Philips<br>LCD Co., Ltd. | LG Mart<br>Co.,Ltd | LG Industrial<br>Systems Co.,<br>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    | ₩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 ended December 31, 2001 (Millions of Won) |                      |                             |                    |                                       |           |             |             |
|---------------------------|--|----------------------|-----------------------------|--------------------|---------------------------------------|-----------|-------------|-------------|
|                           | LG Telecom,<br>Ltd.                                    | Dacom<br>Corporation | LG.Philips<br>LCD Co., Ltd. | LG Mart<br>Co.,Ltd | LG Industrial<br>Systems Co.,<br>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 administrativ | 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 majorityowned 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).

## 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 |  |  |  |  |

# 1. <u>The Consolidated Companies</u>, 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) |  |  |  |

## 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.Philips Displays |
|  | LG Card Co., Ltd. | LG Construction Co., Ltd.      | 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          |

# Condensed Income Statements -

|                                     | 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)          |

#### 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.

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

#### Principles of Consolidation, Continued --

The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30 % of its issued share capital is held by the other company and that company is the largest shareholder. Investments in 20% to 50% owned affiliated companies or 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.

#### 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.

#### 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.

## 2. Summary of Significant Accounting Policies, 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 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.

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

#### Treasury stock --

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

#### 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  $\mathbb{W}1,326.1$ : US\$1 and  $\mathbb{W}1,259.7$ : 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.

## Translation of Foreign Currency Statements --

Foreign currency financial statements of consolidated subsidiaries are translated into Korean Won using the basic exchange rates in effect at the balance sheet date for assets and liabilities, and annual average exchange rates 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 W1,291.0:US\$1 and W1,130.4: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.

#### 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 lumpsum 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.

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

#### 2. Summary of Significant Accounting Policies, 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 W26,731 million, represent deposits made under group severance insurance plans. The withdrawal of such deposits is restricted to the actual payment of severance benefits.

#### 4. Marketable Securities :

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

|  | Millions of Won |          |  |  |  |  |
|--|-----------------|----------|--|--|--|--|
|  | 2001            | 2000     |  |  |  |  |
| Equity securities                                    | ₩ 170           | ₩ 2,627  |  |  |  |  |
| <u>Debt securities</u><br>Bonds issued by government | 4,452           | 4,661    |  |  |  |  |
| Other  | -               | 10,455   |  |  |  |  |
|  | 4,452           | 15,116   |  |  |  |  |
|  | ₩ 4,622         | ₩ 17,743 |  |  |  |  |

#### 5. <u>Receivables</u> :

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

|                           | Millions of Won |                                       |                              |                |            |                                       |                              |                   |
|---------------------------|-----------------|---------------------------------------|------------------------------|----------------|------------|---------------------------------------|------------------------------|-------------------|
|                           |                 | 2001                                  |                              |                | 2000       |                                       |                              |                   |
|                           | Costs           | Allowance<br>for doubtful<br>accounts | Present<br>value<br>discount | Carrying value | Costs      | Allowance<br>for doubtful<br>accounts | Present<br>value<br>discount | Carrying<br>value |
| Trade accounts and        |                 | uvvounto                              | discount                     | , and          |            | uvvvulit                              | uiseoune                     | , unde            |
| 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  $\forall 102,212$  million.

# 6. Inventories:

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

|                            |   | Millions of | is 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.

## 7. Investments:

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

## Investments in affiliates --

|                                 | Percentage of |             |            | Millions   | s of Won    |            |            |
|---------------------------------|---------------|-------------|------------|------------|-------------|------------|------------|
|                                 | 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 | 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. Investments, Continued:

## Investments in affiliates, Continued:

|                                  |                      | Percentage of Millions of Won |                    |                   |                     |                    |                   |
|----------------------------------|----------------------|-------------------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
|                                  | Ownership (%)        |                               | 2001               |                   |                     | 2000               |                   |
|                                  | at December 31, 2001 | Acquisition<br>Cost           | Net Asset<br>Value | Carrying<br>Value | Acquisition<br>Cost | Net Asset<br>Value | Carrying<br>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.,  | 100.00               | 1,010                         |                    | 1,010             | 1,010               | 1,010              | 1,010             |
| 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   | 11.00                | 1,590                         | 1,590              | 1,000             |                     |                    |                   |
| 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        |
| investments in annates total     |                      | ** 1,039,437                  | ** 2,101,034       | vv 2,103,100      | 11 070,243          | ** 1,3 / 1,418     | ** 1,303,203      |

#### 7. Investments, 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 ₩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. Investments, Continued:

# Other investments, Continued:

| , ·   | Percentage of | f Millions of Won |           |          |             |           |          |
|---|---------------|-------------------|-----------|----------|-------------|-----------|----------|
|   | 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> |               |                   |           |          |             |           |          |
| Domestic Companies  |               |                   |           |          |             |           |          |
| 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. Investments, Continued:

## Other investments, Continued:

|                                      | Percentage of<br>Ownership (%) | Millions of Won |            |            |             |            |            |
|--------------------------------------|--------------------------------|-----------------|------------|------------|-------------|------------|------------|
|                                      |                                |                 | 2001       |            | 2000        |            |            |
|                                      | at December                    | Acquisition     | Net Asset  | Carrying   | Acquisition | Net Asset  | Carrying   |
|                                      | 31, 2001                       | Cost            | Value      | Value      | Cost        | Value      | 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         |                                | 12,100          | 12,100     | 12,100     |             |            |            |
| LG Investment&Securities Co., Ltd.   | _                              | 5,000           | 5,000      | 5,000      | _           | _          | _          |
| Other subordinated bonds             | -                              | 15,400          | 14,350     | 14,350     | 15,500      | 15,500     | 15,500     |
|                                      | -                              | 13,400          | 14,550     | 14,550     | 15,500      | 15,500     | 15,500     |
| Convertible bonds issued by Next     |                                | 0.055           |            |            | 0.055       |            |            |
| 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 |

(\*1) Acquisition cost was written off due to negative net book value of the investment as of December 31, 2001.
#### 7. Investments, Continued:

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

|                                   | Millions of Won |
|-----------------------------------|-----------------|
| Balance at January 1, 2001        | ₩ 1,316,374     |
| Acquisitions during the year      | 1,209,623       |
| 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 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  $\forall 22,449$  million and recognized loss on disposal of investment of  $\forall 7,456$  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 W106,996 million and incurred a loss from disposal of investments amounting to W511,388 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 July 2001, LG Industrial Systems Co., Ltd., a subsidiary, sold 8,324,884 shares of its investment in LG Card Co., Ltd. for W290,986 million and recognized a gain from disposal of investment amounting to W145,125 million (see Note 14).

## 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 W21,530,031 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).

#### 9. Intangible Assets :

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 :

|             | Milli     | Millions 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 \$393,820 million and acquired industrial property rights of \$578,788 million. Related amortization expenses of goodwill and industrial property rights approximate \$39,382 million and \$76,359 million, respectively, for the year ended December 31, 2001 (Note 22).

## 10. Short-Term Borrowings:

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

|   | Annual interest                     | In Mi        | llions       |
|---|-------------------------------------|--------------|--------------|
|   | rate (%) as of<br>December 31, 2001 | 2001         | 2000         |
| Bank overdrafts   | 7.00 - 11.00                        | ₩ 90,492     | ₩ 1,877      |
| <u>Won currency loans</u> :<br>General term loans<br>Loans from insurance | 4.80 - 8.90                         | 129,531      | 447,997      |
| 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      |
|   |                                     | ₩ 4,314,227  | ₩ 4,859,334  |

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        |  |
| Debentures                       | ₩ 2,334,166     | ₩ 2,495,500 |  |
| Discount on debentures, net      | (5,828)         | (29,112)    |  |
| Long-term debt                   | 568,537         | 449,125     |  |
| Long-term other accounts payable | 62,449          | 32,136      |  |
|                                  | ₩ 2,959,324     | ₩ 2,947,649 |  |

## 11. Long-Term Debt :

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

|  | Annual interest<br>rate (%) at In Millions |                    | In Mil  |              |                |
|--|--|--------------------|---------|--------------|----------------|
|  | December 31, 2001                          | 2001               |         | 200          | 0              |
| <u>Debentures</u>  |  |                    |         |              |                |
| Public, guaranteed payable through 2003                          | 6.00 - 25.00                               | ₩                  | 5,000   | ₩ 30         | 50,500         |
| Private, non-guaranteed payable<br>through 2006                  | 6.14 - 16.50                               | 1,30               | 0,000   | 62           | 20,000         |
| Public, non-guaranteed   |  |                    |         |              |                |
| payable through 2006   | 5.00 - 12.00                               | 4,61               | 2,207   | 4,19         | 90,000         |
| Floating rate notes in foreign currency,<br>payable through 2006 | LIBOR+0.6-1.9                              | 1 46               | 59,765  | 34           | 54,079         |
| payable through 2000   | LIDOK + 0.0-1.9                            | ſ INI              |         |              | ך 100 Y        |
|  |  |                    | 1,119   |              | 5\$ 269        |
| Zenith's senior secured notes, payable                           |  |                    |         |              |                |
| through 2009   | 8.19                                       |                    | 6,305   |              | 52,984         |
|  | -  | (US\$              | 50)     | <u>(US\$</u> | 50)            |
| Convertible Bonds  | -  | /,45               | 3,277   | 5,58         | 87,563         |
| Foreign currency, issued in 1996 (*1)                            | _  |                    | -       |              | 33,096         |
|  |  | (US\$              | -)      | (US\$        | 40)            |
| Foreign currency, issued in 1997                                 |  |                    | ,       |              | ,              |
| by LG Industrial Systems Co., Ltd. (*2)                          | 0.25                                       |                    | 46,414  |              | 31,920         |
|  | -  | (US\$              | 35)     | (US\$        | 35)            |
| Euchenerschle Danda (*2)   | -  | 4                  | 6,414   | (            | 65,016         |
| Exchangeable Bonds (*3)<br>Foreign currency, issued in 1997      | 0.25                                       | 7                  | 3,824   |              | 66,623         |
| i orongin currency, issued in 1997                               | 0.25                                       | (US\$ <sup>'</sup> | 56)     | (US\$        | 75)            |
|  | -  |                    | 3,515   |              | 19,202         |
| Less : treasury debentur   |  |                    | (-)     |              | 17,171)        |
| current maturitie  |  | · · ·              | 34,166) |              | 95,500)        |
| discount on debe   |  | (12                | 27,966) | (3           | 80,280)        |
| premium on deb   | entures<br>conversion rights               |                    | -       | (            | 306<br>11,762) |
| aujustments for a  |  | ₩ 5,11             | (-)     | \            | 11,762)        |
|  | =  | 5,11               | -,505   | ., 5,1       | - 1,170        |

## 11. Long-Term Debt, Continued:

|  | Annual interest<br>rate (%) at |  | lions  |
|--|--------------------------------|--|--|
|  | December 31, 2001              | 2001   | 2000   |
| Won currency loans                         | ,                              |  |  |
| Korea Development Bank                     | 1.0 - 10.7                     | ₩ 53,226   | ₩ 265,754  |
| Kookmin Bank                               | 3.0 - 12.9                     | 188,738  | 276,469  |
| Korea Technology Banking Corporation       | 4.8 - 8.5                      | 10,760   | 17,558   |
| Housing and Commercial Bank                |                                |  | 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         | 0.5                            | 5,400  | 467  |
| Kyobo Life Insurance Co., Ltd.             | 8.1 - 10.2                     | 70,000   | 407  |
| Other                                      | 6.5 - 9.5                      | 425  | 5,566  |
| ould                                       | 0.5 - 9.5                      | 502,279  | 670,811  |
| Foreign ourrengy loans                     |                                | 502,279  | 070,011  |
| Foreign currency loans<br>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+0.8<br>LIBOR+2.5         | 4,641  | 2,374  |
| Bank of Tokyo-mitsubishi                   | LIBOR 2.5                      | 4,041  | 10,128   |
| CITI Bank                                  | —                              | -  | 1,684  |
| BANQUE PARIBAS                             | LIBOR+0.7                      | 6,519  | 8,257  |
| TOKYO Bank                                 | LIBOR+0.7<br>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                            | LIBOR+1.4 - 2.3                | 2,032  | 26,626   |
| Development Bank of Singapore              | LIBOR+1.6                      | 13,166   | 12,507   |
| Other                                      | LIBOR 11.0                     | 127,878  | 325,154  |
| Other                                      | -                              | 753,107  | 1,099,069  |
|  |                                | ر USD 469  | ر USD 894 ک  |
|  |                                | CNY 128  | CNY 594  |
|  |                                | GBP 28   | GBP 41   |
|  |                                | $\begin{bmatrix} ODI & 28\\ INR & 300 \end{bmatrix}$ | $\begin{bmatrix} OBI & 41\\ INR & 413 \end{bmatrix}$ |
|  |                                | 1,255,386  | 1,769,880  |
| Less : current maturities                  |                                | (568,537)  | (449,125)  |
| Less . current maturnes                    |                                | ₩686,849   | ₩1,320,755   |
| ~  |                                | w 000,049  | W 1,520,755  |

## 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 ₩5,000. The exchange price was initially determined to be ₩33,345 per share based on a fixed exchange rate for U.S. dollars of US\$1.00 = ₩888.30. The terms and conditions of the exchangeable bonds are as follows :

 Basic exchange price for each share of 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 : W888.30.

· Redemption at the option of the bondholders :

The bondholders may require the Company to redeem any or all (in multiples of US\$ 10,000) of the bonds held by such holders on July 8, 2002 at 133.67% of the principal amount of such bonds, plus accrued interest.

• Exchange by bondholder :

Each bond is exchangeable for a pro rata share of the exchange property until November 30, 2007. 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 : W888.30) 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.

#### 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  $\mathbb{W}$  316,189 million, and related depreciation expenses recognized in 2001 is  $\mathbb{W}$  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:

| Milli | ons of Won |
|-------|------------|
| ₩     | 88,204     |
|       | 67,590     |
|       | 19,295     |
|       | 11,897     |
|       | 186,986    |
|       | (24,855)   |
|       | (73,410)   |
| ₩     | 88,721     |
|       |            |

#### 12. Leases, 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 | Million | 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            |           |   | 2000      |
| 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        |                 | 8,991     |   | (5,189)   |
| in consolidated entities              |                 |           |   |           |
| 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.

#### 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  $\forall 472,300$  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  $\frac{1}{2},366,783$  million (including US\$ 1,324 million) and the outstanding balance of factored accounts receivable is  $\frac{1}{3}$  173,359 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 # 194,372 million on indebtedness of its subsidiaries and affiliates, and has received guarantees approximating # 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  $\mathbb{W}$  36,067 million.

With regard to license of CDMA IMT-2000 carrier, LG Telecom, Ltd.., a subsidiary, will pay  $\forall 220,000$  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 (#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 \$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 contract amounts: ₩155,547 million (US\$120 million)
- · 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 W20,849 million in excess of the option premium cost of W26,947 million was recognized for the year ended December 31, 2001.

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## 14. Commitments and Contingencies, 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 : ₩ 18,200 per share, preferred stock : ₩ 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  $\$  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 ₩141,979 million (US\$110 million), preferred stock ₩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 # 23,761 million in excess of the option premium cost of #22,477 million was recognized for the year ended December 31, 2001.

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## 14. Commitments and Contingencies, 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  $\forall 212 \text{ million.}$ 

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 :  $\tilde{\mathbb{W}}$ 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 # 22,189 million in excess of the option premium cost of #14,857 million was recognized for the year ended December 31, 2001.

14. Commitments and Contingencies, Continued :

(2) Contracts of LGIS

LGIS sold 1,464,980 shares of Dacom Corporation to CSFB for #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 : \$17,258.53 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  $\mathbb{W}4,187$  million in excess of the option premium cost of  $\mathbb{W}4,710$  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 W722 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 :  $\mathbb{W}1,283.85$  : US\$ 1~ $\mathbb{W}1,352.0$  : 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 :  $\pm 121.11$  : US\$1 $\sim \pm 122.47$  : 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~  $\in$  0.8998 : US\$ 1, contract due dates : January through June 2002).

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

As a result of the above foreign currency forward contracts, an unrealized gain and loss of  $\mathbb{W}$  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  $\mathbb{W}2,532$  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  $\mathbb{W}2,412$  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  |
|-------------------------|--------|-----------------|------------------|-----------|
|                         | Туре   | (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    | <b>EURO 4.0</b> | ¥ 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 \$2,167 million and a loss of \$15,395 million were recognized for the year ended December 31, 2001. Continued;

#### 14. Commitments and Contingencies, 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 :

|             |               |          | <b>Delivery Price</b> | 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.

## 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 #13,700 million of subordinated bond issued by the SPC and #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 W10,293 million of accounts receivable.

## 14. Commitments and Contingencies, 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.

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

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.

- Subordinated Notes (Par value : US \$ 22,100 thousand )

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  $\forall 321,731$  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.

## 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  $\forall$ 193 million in 9 cases and  $\forall$ 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.

## 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.

#### 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 ₩542,952 million (32,000,000 shares) of the redeemable preferred stock issued on December 23, 2000 and reduced ₩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 ₩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.

#### 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 W339,619 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 |           |      |           |
|--|-----------------|-----------|------|-----------|
|  | 2               | 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.

#### 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            | 2000          |  |  |  |
| Current income taxes  | ₩ 240,2         | 379 ₩ 324,422 |  |  |  |
| Deferred income taxes | 114,0           | 691 48,953    |  |  |  |
|                       | ₩ 355,0         | 070 ₩ 373,375 |  |  |  |

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

|   | Millions of Won                          |           |  |  |
|---|--|-----------|--|--|
|   | Deferred income tax assets (liabilities) |           |  |  |
|   | 2001                                     | 2000      |  |  |
| Deferred foreign exchange loss                    | ₩ 6,125                                  | ₩ 21,166  |  |  |
| Deferred foreign exchange gain                    | (1,214)                                  | (4,568)   |  |  |
| Loss from sales of receivables                    | -  | 45,570    |  |  |
| Accrued income                                    | (3,711)                                  | (4,558)   |  |  |
| Bad debt expenses                                 | 81,200                                   | 75,858    |  |  |
| Reserves for technological development and others | (99,627)                                 | (104,133) |  |  |
| Development costs                                 | (51,489)                                 | (33,323)  |  |  |
| Marketable securities                             | 205                                      | (938)     |  |  |
| Valuation of investment securities and deferred   |  |           |  |  |
| taxation of investment in kind                    | (46,816)                                 | -         |  |  |
| Investments in equity-method investees            | 386,385                                  | 167,682   |  |  |
| Tax credits carried-forward                       | 84,413                                   | 41,541    |  |  |
| Loss carried-forward                              | 193,048                                  | -         |  |  |
| Effect of adoption of revised accounting          |  |           |  |  |
| standards and the changes                         |  |           |  |  |
| in consolidated entities                          | 182,061                                  | (51,139)  |  |  |
| Valuation reserve                                 | (335,101)                                | (21,682)  |  |  |
| Other   | 76,783                                   | (7,287)   |  |  |
|   | ₩ 472,262                                | ₩ 124,189 |  |  |

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 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                           | 108,942,560 |  |  |
| 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 da |         |    |            |
|---|------------------------------------|---------|----|------------|
| 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              | 133,804,678                        |         | 10 | 08,942,560 |
| Basic ordinary income per share           | ₩                                  | 6,596   | ₩  | 3,572      |

(\*) 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.

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

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

#### Dividends

|                      |           | Millions of Won     |         |           |        |         |  |  |
|----------------------|-----------|---------------------|---------|-----------|--------|---------|--|--|
|                      |           | 2001                |         | 2000      |        |         |  |  |
|                      | Dividend  | Dividends<br>amount |         | Dividend  |        | idends  |  |  |
|                      | Ratio (%) |                     |         | Ratio (%) | amount |         |  |  |
| 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      | 2000 |         |  |  |
| Total dividends (A)             | ₩               | 138,891 | ₩    | 144,861 |  |  |
| Net income (LGE) (B)            |                 | 507,282 |      | 502,183 |  |  |
| Dividend payout ratio ((A)/(B)) |                 | 27.38%  |      | 28.85%  |  |  |

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#### **Dividend Yield Ratio**

|                                |    |                  |    | In W    | on     |        |           |
|--------------------------------|----|------------------|----|---------|--------|--------|-----------|
|                                |    | 200              | )1 |         | 2000   |        |           |
|                                | Co | Common Preferred |    | eferred | Common |        | Preferred |
|                                | s  | hares            | S  | hares   | sh     | ares   | shares    |
| Dividend per share (A)         | ₩  | 750              | ₩  | 800     | ₩      | 1,000  | ₩ 1,050   |
| Market price as                |    |                  |    |         |        |        |           |
| of balance sheet date (B)      | ₩  | 24,800           | ₩  | 12,600  | ₩      | 11,950 | ₩ 6,310   |
| Dividend yield ratio ((A)/(B)) |    | 3.02%            |    | 6.35%   |        | 8.37%  | 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.

#### 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 ( $\oplus$ 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  $\oplus$ 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 -

| Condensed Surdice 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. Disposal of Business Divisions :

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.

#### 24. Transactions with Related Parties:

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   |  |  |

#### 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 divisior         | : 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<br>Information & | : CPT/CDT, DY, FBT, electron gun and magnetron  |
| Communications division                  | : mobile telecommunication systems, mobile phones,<br>electronic switching systems, transmission equipment<br>and network equipment |

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

|                                    |             |                 | Business Division |           |                |            |  |
|------------------------------------|-------------|-----------------|-------------------|-----------|----------------|------------|--|
|                                    |             | 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    |  |
| $I\!\!I$ . 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. Segment Information, 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   |

#### 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 #1,432, 530 million (US\$1,100 million) in cash and paid Philips #73,770 million to settle the debt transferred to the joint venture.

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 of Won |         |  |  |
|------------------|-----------------|---------|--|--|
| Sales            | $\mathbb{W}$    | 938,060 |  |  |
| Operating profit |                 | 121,407 |  |  |

In March, 2002, Philips paid LGE #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.

#### 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  |  |