

LG ELECTRONICS INC. AND SUBSIDIARIES

**AUDIT REPORT ON
CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2000 and 1999

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, 2000 and 1999, 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 Zenith Electronics Corporation, Dacom Corporation and certain consolidated subsidiaries of LGE, of which total assets represent ₩8,650,756 million and ₩9,185,253 million as of December 31, 2000 and 1999, respectively, and sales represent ₩9,776,828 million and ₩8,975,419 million for the years then ended, respectively. Additionally, we did not audit the financial statements of LG Capital Co., Ltd., LG-Caltex Oil Corp. and certain affiliated companies, equity method investees. The Company’s investment in these investees are ₩1,074,496 million and ₩1,168,035 million as of December 31, 2000 and 1999, respectively, and the Company’s share of the net income of these investees are ₩135,329 million and ₩38,701 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 positions of LG Electronics Inc. and its subsidiaries as of December 31, 2000 and 1999, 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.

Continued ;

As discussed in Note 22 to the accompanying consolidated financial statements, LG Information & Communications, Ltd. (“LGIC”), an affiliate, was merged into the Company effective September 1, 2000. In connection with the merger, the Company issued 47,790,404 shares of common stock (issue value : ₩1,347,645 million) to the shareholders of LGIC.

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

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

Without qualifying our opinion, we draw attention to Note 14 of the accompanying consolidated financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying 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 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 19, 2001

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

ASSETS	2000	1999
Current assets:		
Cash and cash equivalents	₩ 369,385	₩ 587,844
Short-term financial instruments (Note 3)	381,207	113,631
Marketable securities (Note 4)	17,743	310,464
Trade accounts and notes receivable (Notes 5 and 24)	2,583,911	2,167,846
Other accounts receivable (Note 5)	288,015	369,116
Short-term loans (Note 5)	24,338	103,725
Inventories (Note 6)	3,193,472	1,759,668
Prepaid expenses	136,012	142,439
Accrued income (Note 5)	341,492	167,989
Advances (Note 5)	192,098	164,151
Other current assets	90,575	102,138
	7,618,248	5,989,011
Property, plant and equipment, less accumulated depreciation (Note 8)	8,200,168	7,397,553
Long-term financial instruments (Note 3)	54,686	76,526
Investments (Note 7)	2,459,169	3,493,564
Refundable deposits	361,935	392,152
Long-term trade accounts receivable (Note 5)	13,383	58,859
Long-term other accounts receivable (Note 5)	-	52,439
Long-term loans (Note 5)	148,932	89,466
Long-term prepaid expenses	46,139	44,802
Deferred tax assets (Note 19)	132,304	266,773
Intangible assets (Note 9)	2,165,931	1,822,566
Other non-current assets	65,732	36,936
	21,266,627	19,720,647
Total assets	₩ 21,266,627	₩ 19,720,647

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

Continued;

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

	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 10)	₩ 4,647,498	₩ 2,889,983
Current maturities of long-term debt (Note 10)	2,362,283	2,637,236
Trade accounts and notes payable (Note 24)	2,156,105	1,993,243
Other accounts payable	1,080,156	659,088
Accrued expenses	816,061	696,067
Advances from customers	303,601	222,004
Withholdings	105,444	120,961
Income taxes payable (Note 19)	204,056	574,321
Dividends payable	147,683	132,352
Other current liabilities	72,502	191,030
Total current liabilities	11,895,389	10,116,285
Debtures, net of current maturities and discounts (premiums) on debtures and adjustments for conversion rights (Note 11)		
	3,114,795	2,710,384
Long-term debt, net of current maturities (Note 11)	1,073,474	749,371
Long-term other accounts payable	87,367	110,126
Accrued severance benefits, net (Note 13)	271,211	246,178
Guarantee deposits withholding	335,018	393,196
Deferred tax liabilities (Note 19)	69,655	50,514
Other long-term liabilities	109,572	73,710
Total liabilities	16,956,481	14,449,764
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Capital stock (Note 15)	1,031,068	632,116
Capital surplus (Note 16)	1,732,583	1,266,157
Retained earnings (Note 17)	1,676,924	1,358,623
Capital adjustments (Note 18)	(1,124,423)	118,264
Minority interests in consolidated subsidiaries	993,994	1,895,723
Total shareholders' equity	4,310,146	5,270,883
	₩ 21,266,627	₩ 19,720,647

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, 2000 and 1999
(In millions of Korean Won except for EPS amounts)

		2000		1999
Sales (Note 24)	₩	22,715,502	₩	17,857,210
Cost of sales (Note 24)		17,091,091		14,064,899
Gross profit		5,624,411		3,792,311
Selling and administrative expenses		4,719,955		3,659,767
Operating income		904,456		132,544
Non-operating income:				
Interest and dividend income		127,807		205,669
Foreign exchange gains (Note 14)		292,206		323,602
Gain on disposal of investments (Note 7)		590,622		2,476,664
Gain on disposal of property, plant and equipment		20,812		28,622
Gain on valuation of investments (Note 7)		275		56,712
Gain on disposal of intangible assets (Note 7)		-		281,391
Gain on disposal of business divisions (Note 23)		-		652,653
Equity in income of affiliates, net		396,652		322,298
Royalty income		31,549		85,195
Other		315,727		117,415
		1,775,650		4,550,221
Non-operating expenses:				
Interest expense		948,082		1,077,732
Foreign exchange losses		443,315		370,637
Loss from transfer of trade accounts and notes receivable		196,270		122,964
Loss from disposal of property, plant and equipment		43,412		82,778
Loss from disposal of investments		84,123		40,258
Loss from redemption of debentures		664		87,876
Donations		10,633		97,680
Loss from disposal of business divisions (Note 23)		44,027		12,650
Other		248,645		240,318
		2,019,171		2,132,893

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

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

	2000	1999
Ordinary income	660,935	2,549,872
Extraordinary gains (Note 14)	38,425	98,871
Extraordinary losses (Note 14)	2,502	61,585
Income before income taxes	696,858	2,587,158
Income tax expenses (Note 19)	341,912	584,567
Income before minority interests	354,946	2,002,591
Minority interests, net	47,530	66,951
Net income	₩ 402,476	₩ 2,069,542
Earnings per share (in Won) (Note 20)		
Basic	₩ 3,516	₩ 19,096
Diluted	₩ 3,471	₩ 18,851
Ordinary income per share (in Won) (Note 20)		
Basic	₩ 3,348	₩ 18,825
Diluted	₩ 3,307	₩ 18,584

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, 2000 and 1999
 (In millions of Korean Won)

	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interests	Total
Balance at January 1, 1999	₩ 632,116	₩ 1,052,196	₩ (706,571)	₩ 146,957	₩ 332,162	₩ 1,456,860
Prior year adjustments	-	(11,914)	(251,974)	-	-	(263,888)
Revaluation surplus	-	60,358	-	-	-	60,358
Gain on capital reduction	-	434,692	-	-	-	434,692
Transfer to accumulated deficit	-	(188,779)	188,779	-	-	-
Net income	-	-	2,069,542	-	-	2,069,542
Decrease in deficit in excess of minority interest, net	-	-	264,500	-	-	264,500
Cash dividends paid	-	-	(127,378)	-	-	(127,378)
Loss from valuation of investments	-	-	-	(24,601)	-	(24,601)
Overseas operations translation adjustments	-	-	-	21,335	-	21,335
Consideration for conversion rights	-	-	-	(20,858)	-	(20,858)
Changes in minority interests	-	-	-	-	1,563,561	1,563,561
Adjustment for changes in ownership, net	-	(77,594)	(70,336)	-	-	(147,930)
Other	-	(2,802)	(7,939)	(4,569)	-	(15,310)
Balance at December 31, 1999	<u>632,116</u>	<u>1,266,157</u>	<u>1,358,623</u>	<u>118,264</u>	<u>1,895,723</u>	<u>5,270,883</u>
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)	110,173	-	-	(501,163)
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	-	-	402,476	-	-	402,476
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	-	-	-	(343,580)	-	(343,580)
Overseas operations translation adjustments	-	-	-	(10,615)	-	(10,615)
Consideration for conversion rights	-	-	-	(15,602)	-	(15,602)
Changes in minority interests	-	-	-	-	(901,729)	(901,729)
Adjustment for changes in ownership, net	-	(358,255)	-	-	-	(358,255)
Other	-	9,631	(9,302)	2,714	-	3,043
Balance at December 31, 2000	<u>₩ 1,031,068</u>	<u>₩ 1,732,583</u>	<u>₩ 1,676,924</u>	<u>₩ (1,124,423)</u>	<u>₩ 993,994</u>	<u>₩ 4,310,146</u>

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, 2000 and 1999
(In millions of Korean Won)

	2000		1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	₩	402,476	₩ 2,069,542
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation		851,913	663,570
Amortization of intangible assets		431,443	656,739
Foreign currency translation loss (gains), net		95,961	(26,287)
Amortization of discounts on debentures, net		67,562	68,051
Loss on redemption of debentures		664	87,876
Gain on exemption of debts		-	(83,471)
Provision for severance benefits		182,270	148,978
Loss on valuation of inventories		10,840	5,860
Loss from transfer of trade accounts and notes receivable		196,270	122,964
Gain on disposal of investments, net		(506,499)	(2,436,406)
Loss (Gain) on valuation of investments, net		9,486	(50,432)
Loss on disposal of property, plant and equipment, net		22,600	54,156
Gain on disposal of intangible assets		-	(281,391)
Loss on impairment of intangible assets		29,123	-
Bad debt expenses		190,154	150,834
Amortization of consolidation adjustment debit, net		-	231,284
Minority interests in earnings of consolidated subsidiaries, net		(47,530)	(66,951)
Equity in income of affiliates, net		(396,652)	(322,298)
Loss (Gain) on disposal of business divisions, net		44,027	(640,003)
Other		2,155	-
Changes in operating assets and liabilities:			
Increase in trade accounts and notes receivable		(363,309)	(416,944)
Decrease in other accounts receivable		62,737	125,289
Increase in accrued income		(208,846)	(141,513)
Increase in advances		(38,720)	(141,758)
Decrease in prepaid expenses		36,324	39,754
Decrease(increase) in other current assets		(28,429)	286,881
Increase in inventories		(854,506)	(180,835)
Decrease(increase) in long-term other accounts receivable		37,773	(25,264)
Increase in deferred income tax assets		(41,989)	(71,514)
Increase(decrease) in trade accounts and notes payable		(180,697)	553,792
Increase in accrued expenses		64,598	119,852
Increase in other accounts payable		349,074	51,908
Increase(decrease) in withholdings		(30,057)	20,373
Increase(decrease) in guarantee deposits withholding		(58,158)	171,078
Increase(decrease) in income taxes payable		(374,736)	529,490
Decrease in deferred income		(4,109)	(54,668)
Increase(decrease) in other current liabilities		(120,989)	127,766
Increase in deferred tax liabilities		19,141	48,146
Increase(decrease) in long-term advance from customers		(22,430)	21,763
Severance benefits transferred from affiliates		105	20,029
Payments of severance benefits		(143,595)	(258,346)
Increase in severance insurance deposits		(27,985)	(353,152)
Other		125,290	(202)
Net cash provided by (used in) operating activities	₩	(217,250)	₩ 824,540

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

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

	2000	1999
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of marketable securities	₩ (977,992)	₩ (1,749,006)
Proceeds from disposal of marketable securities	1,260,829	1,503,349
Decrease(increase) in short-term financial instruments	(263,677)	57,854
Decrease(increase) in short-term loans	30,367	(75,068)
Decrease in long- term financial instruments	25,800	398,993
Proceeds from disposal of investments	1,439,532	3,558,142
Acquisition of investments	(402,496)	(1,799,164)
Decrease in refundable deposits	82,479	89,400
Increase in long- term loans	(45,661)	(80,936)
Decrease(increase) in other non-current assets	(29,493)	58,584
Acquisition of property, plant and equipment	(1,675,524)	(1,280,050)
Proceeds from disposal of property, plant and equipment	38,928	170,377
Decrease(increase) in intangible assets	(199,570)	284,297
Increase in consolidation adjustment debit, net	-	(582,017)
Proceeds from disposal of business divisions	52,098	1,539,801
Increase in cash by changes in consolidated entities	23,228	109,665
Increase in cash by merger	178,700	-
Other	-	1,498
Net cash provided by (used in) investing activities	(462,452)	2,205,719
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase(decrease) in short-term borrowings	661,533	(1,267,762)
Payment of current maturities of long-term debt	(2,572,932)	(1,913,451)
Payment of dividends	(132,357)	(23,025)
Payment of debentures	(40,704)	(490,229)
Issuance of debentures	1,697,558	792,869
Payment of long-term debt	(67,871)	(344,577)
Borrowing of long-term debt	583,325	98,771
Increase(decrease) in other long-term liabilities	29,017	(11,876)
Increase(decrease) in minority interests	(18,606)	244,040
Proceeds from disposal of treasury stock	136,400	-
Acquisition of treasury stock	(377,859)	-
Issuance of redemable preferred stock	542,953	-
Increase in foreign subsidiary translation adjustment credit, net	20,786	11,169
Net cash provided by (used in) financing activities	461,243	(2,904,071)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(218,459)	126,188
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 26)	587,844	461,656
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 26)	₩ 369,385	₩ 587,844

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

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

1. The Consolidated Companies:

The Controlling Company --

LG Electronics Inc. ("LGE"), the controlling company, was incorporated in 1959 under the Commercial Code of the Republic of Korea to manufacture and sell electronic products. LGE is a member of the LG Group, which comprises affiliated companies under common management direction. In 1970, LGE offered its shares for public ownership. As of December 31, 2000, LGE has outstanding capital stock of ₩1,031,068 million, including non-voting preferred stock of ₩95,478 million and redeemable preferred stock of ₩160,000 million (see Note 15). 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 November 27, 2000, LGE entered into a LOI (letter of intent) regarding a joint venture of its Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. ("Philips"). Currently, detailed matters to establish the joint venture are being negotiated.

Consolidated Subsidiaries and Equity-Method Investees --

Consolidated subsidiaries and equity-method investees at December 31, 2000 are as follows :

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
<u>Domestic subsidiaries</u>					
Dacom Corporation	23,943,000	11,745,905	1,464,980	13,210,885	55.18%
LG Department Store Co., Ltd.	35,553,846	20,512,573	666,126	21,178,699	59.57%
LG Industrial Systems Co., Ltd.	129,625,586	53,807,730	-	53,807,730	41.51%
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. (formerly, LG Precision Co., Ltd.)	8,620,800	4,603,800	-	4,603,800	53.40%

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

1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
Dacom Multimedia Internet, Inc.	12,000,000		12,000,000	12,000,000	100.00%
Korea Internet Data Center, Inc.	6,160,000	-	6,160,000	6,160,000	100.00%
Dacom International, Inc.	1,600,000	-	1,484,019	1,484,019	92.75%
<u>Domestic equity-method investees</u>					
LG Philips LCD Co., Ltd.	145,000,000	72,500,000	-	72,500,000	50.00%
LG IBM PC Co., Ltd.	4,860,000	2,381,400	-	2,381,400	49.00%
LG Capital Co., Ltd.	70,000,000	4,318,883	8,324,884	12,643,767	18.06%
Dacom System Technology, Inc.	6,000,000	-	3,000,000	3,000,000	50.00%
LG Investments Security Inc.	142,372,000	10,180,531	1,649,698	11,830,229	8.31%
LG Construction Co., Ltd.	51,000,000	4,365,676	2,453,699	6,819,375	13.37%
LG International Corp.	68,000,000	1,999,211	-	1,999,211	2.94%
LG Telecom, Ltd.	190,700,000	53,669,165	-	53,669,165	28.14%
LG-Caltex Oil Corp.	26,000,000	798,100	4,103,088	4,901,188	18.85%
LG EDS Systems Inc.	875,380	87,538	-	87,538	10.00%
LG Hitachi Ltd.	500,000	245,000	-	245,000	49.00%
LG Cable Ltd.	32,200,000	1,915,900	-	1,915,900	5.95%
LG Micron Ltd.	4,000,000	689,600	406,800	1,096,400	27.41%
<u>Overseas subsidiaries</u>					
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)	124,350	62,175	-	62,175	50.00%
LG Electronics Da Amazonia Ltda. (LGEAZ)(*))	-	-	-	-	100.00%
Beijing LG Electronics Component Co., Ltd. (LGEBJ)(*))	-	-	-	-	75.00%

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

1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
LG Electronics China Co., Ltd. (LGECH)(*)	-	-	-	-	100.00%
LG Electronics Canada, Inc. (LGECEI)	42,900	42,900	-	42,900	100.00%
LG Collins Electronics Manila Inc. (LGECEM)	736,561	679,301	-	679,301	92.23%
LG Electronics Deutschland GMBH (LGEDG)(*)	-	-	-	-	100.00%
PT LG Electronics Display Devices Indonesia (LGEDI)	102,240	102,240	-	102,240	100.00%
LG Electronics Egypt S.A.E. (LGEEG)	120,000	61,200	-	61,200	51.00%
LG Electronics Espana S.A. (LGEES)	53,000	53,000	-	53,000	100.00%
LG Goldstar France S.A.R.L. (LGEFS)	37,050,000	-	37,050,000	37,050,000	100.00%
LG Electronics Gulf FZE (LGEGF)	11	11	-	11	100.00%
LG Electronics HK Limited (LGEHK)	2,852,825	2,852,825	-	2,852,825	100.00%
LG Electronics Huizhou Inc. (LGEHZ)(*)	-	-	-	-	80.00%
LG Electronics India PVT Ltd. (LGEIL)	91,851,537	91,851,537	-	91,851,537	100.00%
PT LG Electronics Indonesia Ltd. (LGEIN)	31,200	31,200	-	31,200	100.00%
LG Electronics Italy S.P.A. (LGEIS)	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 Magyar Kft (LGEMK)(*)	-	-	-	-	100.00%
LG Electronics Monterrey Mexico S.A de C.V. (LGEMM)	256,970	254,400	-	254,400	99.00%
LG Electronics Mexico S.A. deCV (LGEMS)	19,800	19,500	300	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%

Continued;

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

1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		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)(*)	-	-	-	-	100.00%
LG Electronics S.A. Pty Ltd. (LGESA)	18,500,000	18,500,000	-	18,500,000	100.00%
LG Electronics Service Europe Netherland B.V. (LGESE) (*)	-	-	-	-	100.00%
Shuguang LG Electronics Co., Ltd (LGESG)(*)	-	-	-	-	53.06%
Shanghai LG Electronics Co., Ltd. (LGESH)(*)	-	-	-	-	70.00%
LG Electronics de Sao Paulo Ltd. (LGESP)(*)	-	-	-	-	100.00%
LG SEL Electronics Vietnam Ltd. (LGESV)(*)	-	-	-	-	55.00%
LG Electronics Shenyang Inc. (LGESY)(*)	-	-	-	-	70.00%
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)(*)	-	-	-	-	80.00%
LG Electronics Thailand Co., Ltd. (LGETH)	2,050,000	1,004,500	1,045,500	2,050,000	100.00%
LG Electronics U.K. Ltd. (LGEUK)	76,000	76,000	-	76,000	100.00%
LG Electronics U.S.A. Inc. (LGEUS)	20,165	20,165	-	20,165	100.00%
LG Electronics Wales Ltd. (LGEWA)	519,000	519,000	-	519,000	100.00%
LG Precision Huizhou Inc. (LGPHZ) (*)	-	-	-	-	100.00%
LG Precision U.S.A. Inc. (LGP US)	20,000	-	20,000	20,000	100.00%
LG Soft India PVT, LTD (LGSI)	9,549,091	8,460,800	-	8,460,800	88.60%
LG Srithai Infocomm(Thailand) Co., Ltd. (LGST)	76,000	45,600	-	45,600	60.00%
LG Infocomm U.S. A. Inc. (LGInfocomm)	10,000	10,000	-	10,000	100.00%
Zenith Electronics Corporation	1,000	1,000	-	1,000	100.00%
<u>Overseas equity-method investees</u>					
LG Hotline CPT Ltd. (LGEHL)	91,000,000	45,500,000	-	45,500,000	50.00%
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECT)(*)	-	-	-	-	50.00%
PT Video Display Glass Indonesia Co., Ltd. (V.G.I.)	40,000	-	14,400	14,400	36.00%
Vietnam Korea Exchange Ltd. (V.K.X)(*)	-	-	-	-	40.00%
Thailand Mieco	42,000	-	8,400	8,400	20.00%
Compania Minera	13,492,483	-	3,151,596	3,151,596	23.36%
HLDS	30,000	14,700	-	14,700	49.00%

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

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

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, 2000 (Millions of Won)					
	LG Industrial Systems Co.,Ltd	Dacom Corporation	LG Mart Co.,Ltd	Zenith	Others	Total
Current assets	₩ 313,750	₩ 402,240	₩ 54,941	₩ 169,452	₩ 7,331,039	₩ 8,271,422
Investments	390,891	325,581	692,034	4,901	4,996,847	6,410,254
Property, plant and equipment	502,906	1,436,592	798,360	10,851	5,435,729	8,184,438
Intangible assets	483,334	65,331	1,452	1,633	1,182,074	1,733,824
Total assets	<u>₩1,690,881</u>	<u>2,229,744</u>	<u>1,546,787</u>	<u>186,837</u>	<u>18,945,689</u>	<u>24,599,938</u>
Current liabilities	722,923	939,021	272,574	178,279	10,275,162	12,387,959
Non-current liabilities	627,922	614,784	559,236	289,368	3,257,316	5,348,626
Total liabilities	<u>1,350,845</u>	<u>1,553,805</u>	<u>831,810</u>	<u>467,647</u>	<u>13,532,478</u>	<u>17,736,585</u>
Capital stock	648,128	119,715	47,000	-	2,087,106	2,901,949
Capital surplus	139,950	654,377	178,262	690,678	2,535,571	4,198,838
Retained earnings (deficit)	-	-	222,319	(1,031,485)	1,671,987	862,821
Capital adjustments	(448,042)	(98,153)	267,396	59,997	(881,453)	(1,100,255)
Total shareholders' equity	<u>340,036</u>	<u>675,939</u>	<u>714,977</u>	<u>(280,810)</u>	<u>5,413,211</u>	<u>6,863,353</u>
Total liabilities and shareholders' equity	<u>₩ 1,690,881</u>	<u>₩ 2,229,744</u>	<u>₩1,546,787</u>	<u>₩ 186,837</u>	<u>₩18,945,689</u>	<u>₩24,599,938</u>

Continued ;

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

1. The Consolidated Companies, Continued:

Condensed Income Statements --

	For the year ended December 31, 2000 (Millions of Won)					
	LG Industrial Systems Co.,Ltd	Dacom Corporation	LG Mart Co.,Ltd	Zenith	Others	Total
Sales	₩780,871	₩998,875	₩891,841	₩685,799	₩26,224,575	₩29,581,961
Cost of sales	559,457	-	656,888	659,779	21,918,050	23,794,174
Gross profit	221,414	998,875	234,953	26,020	4,306,525	5,787,787
Selling and administrative expenses	306,239	996,368	172,241	111,601	3,136,802	4,723,251
Operating income (loss)	(84,825)	2,507	62,712	(85,581)	1,169,723	1,064,536
Non operating income	398,204	103,225	20,949	65,160	1,307,059	1,894,597
Non operating expenses	299,231	198,033	30,780	47,570	1,578,902	2,154,516
Ordinary income (loss)	14,148	(92,301)	52,881	(67,991)	897,880	804,617
Extraordinary gains	-	-	4,439	-	2,126	6,565
Extraordinary losses	-	-	-	-	1,044	1,044
Income tax expenses	76,881	-	20,256	5,026	264,260	366,423
Net income (loss)	₩(62,733)	₩(92,301)	₩37,064	₩(73,017)	₩ 634,702	₩ 443,715

Changes in Consolidated Subsidiaries --

The 2000 consolidated financial statements include the accounts of the newly majority-owned subsidiaries such as Dacom Multimedia Internet, Inc. (“DMI”), Korea Internet Data Center, Inc., LG Electronics Klima Sanayi ve Ticaret P.S. (“LGEAT”), LG Electronics Mawa Sp.z.o.o. (“LGEMA”), LG Electronics Monterrey Mexico (“LGEMM”), LG Electronics Reynosa, S.A. De C.V. (“LGERS”), LG Electronics Services Europe B.V. (“LGESE”), LG Soft India Private Limited (“LGSF”), LG Srithai Infocomm(Thailand) Co., Ltd. (“LGST”), LG Infocomm. U.S.A. Inc. (“LGInfocomm”).

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

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, 2000 (Millions of Korean Won)					
	Korea	Dacom	LG			Total
	Internet Data	Multimedia	LGEAT		Infocomm	
	Center, Inc.	Internet, Inc.	LGEAT	Infocomm	Others	
Current assets	₩25,954	₩5,298	₩27,684	₩165,429	₩383,748	₩608,113
Investments	2,297	3,731	114	18	567	6,727
Property, plant and equipment	22,913	14,313	23,660	14,003	26,715	101,604
Intangible assets	2,563	1,111	301	-	2,029	6,004
Total assets	53,727	24,453	51,759	179,450	413,059	722,448
Current liabilities	19,086	5,219	5,341	169,852	373,992	573,490
Non-current liabilities	577	330	26,714	-	7,235	34,856
Total liabilities	19,663	5,549	32,055	169,852	381,227	608,346
Capital stock	30,800	60,000	29,436	12,263	26,412	158,911
Capital surplus	-	-	2,654	-	4,258	6,912
Retained earnings (deficit)	3,264	(41,096)	(5,402)	(3,657)	2,973	(43,918)
Capital adjustments	-	-	(6,984)	992	(1,811)	(7,803)
Total shareholders' equity	34,064	18,904	19,704	9,598	31,832	114,102
Total liabilities and shareholders' equity	₩53,727	₩24,453	₩51,759	₩179,450	₩413,059	₩722,448

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

1. The Consolidated Companies, Continued:

Condensed Income Statements --

	For the year ended December 31, 2000 (Millions of Korean Won)					
	Korea	Dacom				
	Internet Data	Multimedia		LG		
	Center, Inc.	Internet, Inc.	LGEAT	Infocomm	Others	Total
Sales	₩22,273	₩5,725	₩8,189	₩ 240,541	₩712,623	₩989,351
Cost of sales	-	-	4,868	221,608	674,877	901,353
Gross profit	22,273	5,725	3,321	18,933	37,746	87,998
Selling and administrative expenses	18,075	20,535	10,718	12,600	37,360	99,288
Operating income (loss)	4,198	(14,810)	(7,397)	6,333	386	(11,290)
Non operating income	692	1,000	4,961	2,528	6,652	15,833
Non operating expenses	40	27,286	1,522	657	6,873	36,378
Ordinary income (loss)	4,850	(41,096)	(3,958)	8,204	165	(31,835)
Extraordinary gains	-	-	-	-	5,776	5,737
Extraordinary losses	-	-	1,497	-	-	1,458
Income tax expenses	1,492	-	-	18	1,565	3,075
Net income (loss)	<u>₩ 3,358</u>	<u>₩(41,096)</u>	<u>₩(5,455)</u>	<u>₩ 8,186</u>	<u>₩4,376</u>	<u>₩(30,631)</u>

Continued;

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

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, 2000 (Millions of Korean Won)			
	LG. Philips LCD	LG Capital Co.,	LG Construction	LGECT
	Co., Ltd.	Ltd.	Co., Ltd.	
Current assets	₩455,304	₩10,723,859	₩1,229,534	₩40,633
Investments	63,386	494,760	546,455	2
Property, plant and equipment	2,584,643	114,660	596,989	44,801
Intangible assets	325,506	2,387	9,556	6,386
Total assets	<u>3,428,839</u>	<u>11,335,666</u>	<u>2,382,534</u>	<u>91,822</u>
Current liabilities	1,204,805	7,264,968	1,146,346	47,395
Non-current liabilities	263,834	3,266,243	493,814	252
Total liabilities	<u>1,468,639</u>	<u>10,531,211</u>	<u>1,640,160</u>	<u>47,647</u>
Capital stock	1,450,000	350,000	255,000	47,055
Capital surplus	-	54,198	199,929	5
Retained earnings (deficit)	509,940	427,695	187,971	(13,538)
Capital adjustments	260	(27,438)	99,474	10,653
Total shareholders' equity	<u>1,960,200</u>	<u>804,455</u>	<u>742,374</u>	<u>44,175</u>
Total liabilities and shareholders' equity	<u>₩3,428,839</u>	<u>₩11,335,666</u>	<u>₩2,382,534</u>	<u>₩91,822</u>

Continued;

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

1. The Consolidated Companies, Continued:

Condensed Income Statements --

	For the year ended December 31, 2000 (Millions of Korean Won)			
	LG. Philips LCD	LG Capital Co.,	LG Construction	LGECT
	Co., Ltd.	Ltd.	Co., Ltd.	
Sales	₩2,389,712	₩2,387,087	₩2,707,864	₩50,635
Cost of sales	1,641,447	753,210	2,328,362	42,772
Gross Profit	748,265	1,633,877	379,502	7,863
Selling and administrative expenses	74,107	1,037,561	154,073	5,410
Operating income (loss)	674,158	596,316	225,429	2,453
Non operating income	80,124	27,023	61,072	636
Non operating expenses	258,153	51,655	110,414	812
Ordinary income (loss)	496,129	571,684	176,087	2,277
Extraordinary gains	-	-	-	-
Extraordinary losses	-	-	-	-
Income tax expenses	1,361	176,825	52,493	-
Net income (loss)	<u>₩ 494,768</u>	<u>₩ 394,859</u>	<u>₩ 123,594</u>	<u>₩2,277</u>

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

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

Use of Estimates --

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

Principles of Consolidation --

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

Continued;

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

2. Summary of Significant Accounting Policies, Continued:

Principles of Consolidation, Continued --

The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30 % of its issued share capital is held by the other company and that company is the largest shareholder. Investments in 20% to 50% owned affiliated companies or 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 10 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 5 years using the straight-line method.

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

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

Continued;

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

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.

Continued;

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

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, 2000 and 1999 are approximately ₩36,621 million and ₩49,031 million, respectively.

Intangible Assets --

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over five years for goodwill, except for investees in the telecommunications industry, which is amortized over 10 years reflecting the industry's longer term of realizing its profit, and over the estimated useful lives for other intangible assets.

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

Continued;

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

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 cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in capital adjustment account and recorded in operations in period when underlying transactions have effect on operations.

Discounts (premium) on Debentures --

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

Treasury Debentures --

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

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.

Continued;

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

2. Summary of Significant Accounting Policies, Continued:

Foreign Currency Translation --

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

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

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

Translation of Foreign Currency Statements --

Foreign currency financial statements of consolidated subsidiaries are translated into Korean Won using the basic exchange rates in effect at the balance sheet date for assets and liabilities, and annual average exchange rates 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, 2000 and 1999 are ₩1,130.4:US\$1 and ₩1,189.5:US\$1, respectively.

Accrued Severance Benefits --

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

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

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

Continued;

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

2. Summary of Significant Accounting Policies, Continued:

Long-Term Accounts Receivable and Payable --

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

Lease Transactions --

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

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

Income Taxes --

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

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

Continued;

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

2. Summary of Significant Accounting Policies, Continued:

Sale of Accounts and Notes Receivable -

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

Significant Changes in Financial Accounting Standards 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. The accompanying financial statements for the year ended December 31, 1999, presented for comparative purposes, are not restated except for reclassifications.

Reclassifications --

Certain amounts in the 1999 financial statement have been reclassified to conform to the 2000 presentation. Pursuant to the reclassification, 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. As a result of reclassification, for the year ended December 31, 1999 operating income was decreased by ₩231,284 million, ordinary income and income before minority interests were increased by ₩91,014 million, respectively, but there is no impact on previously reported net income. As of December 31, 1999 total assets were decreased by ₩64,182 million and shareholders' equity was increased by ₩1,831,541 million.

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

3. Restricted Financial Instruments :

As of December 31, 2000 and 1999, short-term financial instruments of ₩19,384 million and ₩95,905 million, respectively, and long-term financial instruments of ₩7,788 million and ₩7,068 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 and 1999, long-term financial instruments of ₩26,731 million and ₩64,404 million, respectively, represent deposits made under group severance insurance plans. The withdrawal of such deposits is restricted to the actual payment of severance benefits (see Note 13).

4. Marketable Securities :

Marketable securities at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
<u>Equity securities</u>	₩ 2,627	₩ 150
<u>Debt securities</u>		
Bonds issued by government	4,661	4,516
Beneficiary certificates	-	305,773
Other	10,455	25
	15,116	310,314
	₩ 17,743	₩ 310,464

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

5. Receivables :

Receivables, including trade accounts and notes receivable, as of December 31, 2000 and 1999 are as follows:

	Millions of Won							
	2000				1999			
	Costs	Allowance for doubtful accounts	Present value discount	Carrying value	Costs	Allowance for doubtful accounts	Present value discount	Carrying value
Trade accounts and notes receivable	₩2,853,853	₩267,235	₩2,707	₩2,583,911	₩2,382,125	₩210,469	₩ 3,810	₩2,167,846
Short-term loans	24,530	192	-	24,338	116,727	13,002	-	103,725
Other accounts receivable	301,606	13,591	-	288,015	376,718	7,602	-	369,116
Accrued income	371,813	30,321	-	341,492	170,811	2,822	-	167,989
Advances	193,929	1,831	-	192,098	165,947	1,796	-	164,151
Long-term trade accounts receivable	13,858	475	-	13,383	59,179	320	-	58,859
Long-term loans	183,424	34,492	-	148,932	89,812	346	-	89,466
Long-term other accounts receivable	-	-	-	-	68,519	654	15,426	52,439
	<u>₩3,943,013</u>	<u>₩348,137</u>	<u>₩2,707</u>	<u>₩3,592,169</u>	<u>₩3,429,838</u>	<u>₩237,011</u>	<u>₩19,236</u>	<u>₩3,173,591</u>

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

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

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

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

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

6. Inventories:

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

	Millions of Won	
	2000	1999
Merchandise	₩ 708,995	₩ 315,054
Finished products	879,614	533,497
Semi-finished products and work in process	232,342	246,354
Raw materials and supplies	760,856	319,374
Materials in transit	568,754	343,026
Other	42,911	2,363
	₩ 3,193,472	₩ 1,759,668

At December 31, 2000, inventories are insured against fire and other casualty losses up to approximately ₩2,255,642 million.

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

7. Investments:

Investments in affiliates and other investments as of December 31, 2000 and 1999 are as follows:

Investments in affiliates --

	Percentage of Ownership (%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition Cost	Net Asset Value	Carrying Value	Acquisition Cost	Net Asset Value	Carrying Value
<Equity method>							
<u>Domestic affiliates</u>							
LG Construction Co., Ltd.	13.37	₩63,422	₩98,113	₩98,113	₩ 63,732	₩ 105,442	₩ 105,442
LG International Corp.	2.94	20,253	18,727	18,727	20,253	18,454	18,454
LG Investments Security Inc.	8.31	242,915	183,994	183,994	304,142	238,018	238,018
LG Capital Co., Ltd.	18.06	90,367	168,899	168,899	149,156	189,237	189,237
LG Telecom, Ltd.	28.14	165,641	42,577	42,577	41,705	18,239	18,239
LG-Caltex Oil Corp.	18.85	111,231	617,066	617,066	111,231	572,983	572,983
LG-EDS system Inc.	10.00	360	7,073	7,073	360	4,663	4,663
LG. Philips LCD Co., Ltd.	50.00	726,169	727,447	727,447	726,169	735,501	735,501
LG IBM PC Co., Ltd.	49.00	11,907	16,913	16,913	11,907	8,679	8,679
LG Cable Ltd.	5.95	29,313	51,338	51,338	-	-	-
LG Micron Ltd.	27.41	32,376	50,320	50,320	-	-	-
LG Hitachi Ltd.	49.00	6,060	7,137	7,137	-	-	-
Dacom System Technology, Inc.	50.00	15,000	17,990	17,990	14,990	15,470	15,470
LG Information & communications, Ltd.(*5)	-	-	-	-	352,013	404,069	404,069
Kukdong City Gas Inc.	-	-	-	-	17,088	12,937	12,937
<u>Overseas affiliates</u>							
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECT)	50.00	22,953	15,987	15,987	22,953	17,045	17,045
Compania Minera(*1)	22.36	4,552	-	-	4,552	256	256
Thailand Mico	20.00	260	2,069	2,069	260	2,094	2,094
Vietnam Korea Exchange Ltd. (V.K.X)	40.00	1,734	1,941	1,941	-	-	-
PT Video Display Glass Indonesia Co., Ltd. (V.G.I.)	36.00	12,156	8,546	8,546	12,156	8,092	8,092
Samhuan Lucky New Material Inc.	-	-	-	-	2,002	1,798	1,798
LG Hotline CPT Ltd. (LGEHL) (*1)	50.00	10,561	-	-	10,561	-	-
HLDS(*2)	49.00	7,684	7,684	7,684	-	-	-
		<u>₩1,574,914</u>	<u>₩2,043,821</u>	<u>₩2,043,821</u>	<u>₩1,865,230</u>	<u>₩2,352,977</u>	<u>₩2,352,977</u>

Continued;

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

7. Investments, Continued:

Investments in affiliates, Continued:

	Percentage of Ownership (%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition Cost	Net Asset Value	Carrying Value	Acquisition Cost	Net Asset Value	Carrying Value
<Cost method>							
<u>Domestic affiliates</u>							
ROKEOTEL(*2)	45.00	₩ 1,272	₩ 493	₩ 1,272	₩ 1,272	₩ 426	₩ 1,272
Simmani Inc.(*2)	72.50	2,600	9,691	2,600	2,700	2,858	2,700
Other	-	2,414	2,620	2,414	1,825	1,474	1,825
<u>Overseas affiliates</u>							
LG Electronics Design Tech, Ltd. (LGEDT) (*2)	100.00	1,002	1,002	1,002	1,002	1,002	1,002
LG-MECA Electronics Haiphong, Inc. (LGEMH) (*2)	70.00	1,690	1,598	1,598	1,690	1,690	1,690
LG Electronics Sweden AB (LGESW) (*2)	100.00	5,668	5,658	5,658	2,319	2,319	2,319
LG. Philips LCD Taiwan Co., Ltd. (LGPLT) (formerly, LGETW) (*4)	-	-	-	-	4,281	4,281	4,281
LG Electronics Ukraine Co., Ltd. (LGEUR) (*2)	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics Argentina S.A. (LGEAR) (*2)	100.00	1,111	1,111	1,111	-	-	-
LG Electronics Columbia, Ltda. (LGECEB) (*2)	60.00	5,847	5,847	5,847	-	-	-
LG Electronics Morocco S.A.R.L (LGEMC) (*2)	85.00	2,774	2,774	2,774	-	-	-
Dalian LG Industrial Systems Co., Ltd. (*3)	-	-	-	-	6,460	8,011	6,690
LG Industrial Systems USA, Inc. (*3)	-	-	-	-	9,832	747	387
LG Industrial Systems America Inc. (*3)	-	-	-	-	12,669	12,061	12,294
Taiwan Goldstar Industrial Systems Co., Ltd. (*3)	-	-	-	-	1,186	489	1,186
LG Industrial Systems DE Colombia S.A.(*3)	-	-	-	-	2,856	1,303	2,856
LG Vina Industrial Systems Co., Ltd. (*2)	55.00	1,224	1,201	1,224	1,224	1,507	1,224
DACOM America Inc.(*2)	100.00	5,112	6,830	5,112	-	-	-
DACOM Japan Inc.(*2)	100.00	1,048	1,048	1,048	-	-	-
Escort Communication Ltd.(*2)	100.00	6,400	6,400	6,400	-	-	-
Dalian LG Electronic Equipment Co., Ltd. (*2)	90.00	3,025	3,025	3,025	-	-	-
Other	-	7,270	4,705	4,705	28,996	30,809	30,772
		49,498	55,044	46,831	79,353	70,018	71,539
Investments in affiliates total		₩1,624,412	₩2,098,865	₩2,090,652	₩1,944,583	₩2,422,995	₩2,424,516

Continued;

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

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) These investments were sold to LG-OTIS Elevator Company pursuant to the business transfer agreement dated November 3, 1999.
- (*4) Investment in LGPLT was sold to LG. Philips LCD Co., Ltd. on May 31, 2000.
- (*5) It was merged into LGE on September 1, 2000.

Other investments --

	Percentage of Ownership (%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition Cost	Market Value	Carrying Value	Acquisition Cost	Market Value	Carrying Value
<Marketable equity securities>							
Hyundai Electronics Industries Co., Ltd.	0.38	₩ 24,298	₩ 7,569	₩ 7,569	₩ 28,221	₩ 52,634	₩ 52,634
Korea stock market stabilization fund	2.41	22,987	12,108	12,108	26,769	26,322	26,322
Hanaro Telecom Inc.	12.14	262,693	49,624	49,624	253,779	506,079	506,079
Korean Telecom M.Com	0.13	1,277	1,842	1,842	26,893	193,492	193,492
Daum Communications Corp.	-	-	-	-	157	89,514	89,514
Treasury Stock Fund	-	20,817	7,439	7,439	26,539	15,821	15,821
Other	-	2,928	1,184	1,194	336	1,258	1,258
		₩ 335,000	₩ 79,766	₩ 79,776	₩ 362,694	₩ 885,120	₩ 885,120

Continued;

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

7. Investments, Continued:

Other investments, Continued:

	Percentage of Ownership (%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition Cost	Net Asset Value	Carrying Value	Acquisition Cost	Net Asset Value	Carrying Value
<Non-marketable equity securities>							
<u>Domestic Companies</u>							
Lotis Co., Ltd.	14.01	₩ 1,900	₩ 1,060	₩ 1,900	₩ 1,900	₩ 1,900	₩ 1,900
LG-OTIS Elevator Company	19.90	89,550	87,890	89,550	89,550	89,550	89,550
Airmedia	-	119	119	119	1,068	119	119
Ilshin&Dacom Investment Partnership	-	3,000	3,000	3,000	1,000	1,000	1,000
Korea Defense Industry Association	-	2,750	3,217	2,750	1,370	1,370	1,370
KICA (Korea Information Certification Authority)	10.00	1,852	1,841	1,852	2,000	2,000	2,000
Carrier-LG (Limited)	-	4,500	4,500	4,500	4,500	4,500	4,500
Gigalink Co., Ltd.	-	12,759	7,699	12,759	-	-	-
Nara Mold & Die Co., Ltd.	19.90	812	648	812	-	-	-
Dreamwiz Inc.	10.00	11,111	1,513	11,111	-	-	-
Linux one Inc.	-	2,000	1,141	2,000	-	-	-
STIC	94.00	28,200	28,829	28,200	-	-	-
Syswave	-	1,002	1,087	1,002	-	-	-
Shinsegi Telecomm	1.64	4,514	4,514	4,514	-	-	-
E-PowerGate Inc.	25.23	1,620	545	1,620	-	-	-
QMTel Co., Ltd.	9.53	1,200	1,200	1,200	-	-	-
Kiwoom.com Securities Co., Ltd. Information & Communication Financial Cooperative	5.00	2,500	2,031	2,500	-	-	-
Other	-	12,613	8,650	12,613	7,899	8,276	7,899
<u>Overseas Companies</u>							
TAISTAR	11.85	760	990	760	760	995	760
GEMFIRE	4.41	1,835	170	1,835	1,835	191	1,835
Mainstreet Networks (formerly, eT Communications)	-	-	-	-	1,468	-	1,468
APV Technology Partners	-	2,235	7,571	2,235	1,494	3,112	1,494
Nakhodka FEZ Telecommunication Co., Ltd	5.00	129	129	129	-	-	-
NICE TELECOM	15.00	105	105	105	-	-	-
Erlang Technology	8.40	1,129	1,129	1,129	-	-	-
Athena Venture	-	12,597	10,909	10,909	-	-	-
CMEA	-	6,789	6,789	6,789	-	-	-
iTV Corporation (*1)	13.08	1,957	-	-	1,957	-	1,957
Other		2,101	2,081	2,101	3,017	1,639	2,110
		<u>₩ 214,229</u>	<u>₩ 191,390</u>	<u>₩ 210,584</u>	<u>₩ 119,818</u>	<u>₩ 114,652</u>	<u>₩ 117,962</u>

(*1) Acquisition cost was written off due to negative net book value of the investment as of December 31, 2000.

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

7. Investments, Continued:

Other investments, Continued:

	Percentage of Ownership (%) at December 31, 2000	Millions of Won					
		2000			1999		
		Acquisition Cost	Net Asset Value	Carrying Value	Acquisition Cost	Net Asset Value	Carrying Value
<Debt securities>							
Bonds issued by government	-	₩ 39,818	₩ 31,625	₩ 31,625	₩ 73,458	₩ 61,111	₩ 61,111
Subordinated bonds	-	15,500	15,500	15,500	-	-	-
Corporate bond	-	25,000	25,000	25,000	-	-	-
Beneficiary certificates	-	13,328	5,980	5,980	-	-	-
Other	-	52	52	52	4,855	4,855	4,855
		<u>93,698</u>	<u>78,157</u>	<u>78,157</u>	<u>78,313</u>	<u>65,966</u>	<u>65,966</u>
Other investments total		<u>642,927</u>	<u>349,313</u>	<u>368,517</u>	<u>560,825</u>	<u>1,065,738</u>	<u>1,069,048</u>
Investment total		<u>₩2,267,339</u>	<u>₩2,448,178</u>	<u>₩2,459,169</u>	<u>₩2,505,408</u>	<u>₩3,488,733</u>	<u>₩3,493,564</u>

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

	Millions of Won				
	Capital Surplus	Capital adjustment	Retained earnings	Net income	Total
Acquisition Cost					₩1,574,914
Adjustment :					
Capital surplus	₩ 222,970	₩ -	₩ -	₩ -	222,970
Capital adjustments	-	(35,213)	-	-	(35,213)
Prior years' cumulative net income	-	-	328,224	-	328,224
Current year's net income	-	-	-	330,941	330,941
Elimination of unrealized profit	-	-	(408,397)	41,035	(367,362)
Dividends income	-	-	(10,653)	-	(10,653)
Carrying Value					<u>₩2,043,821</u>

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

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

Continued;

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

7. Investments, Continued:

Pursuant to a joint venture agreement with Koninklijke Philips Electronics N.V. ("Philips") dated July 24, 1999, the Company transferred certain of the Company's stock rights in LG. Philips LCD CO., Ltd. (formerly, LG LCD Co., Ltd.) to Philips. As a result, the Company reduced its ownership in LG. Philips LCD Co., Ltd. to 50% and recognized a gain on disposal of investment of ₩247,800 million and ₩1,179,939 million for the years ended December 31, 2000 and 1999, respectively.

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

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

8. Property, Plant and Equipment:

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

	Millions of Won	
	2000	1999
Buildings	₩ 2,812,638	₩ 2,769,918
Structures	252,470	249,215
Machinery and equipment	4,012,644	3,731,304
Vehicles	126,774	49,454
Other	1,929,625	1,779,938
	9,134,151	8,579,829
Accumulated depreciation	(3,136,914)	(3,000,681)
	5,997,237	5,579,148
Land	1,631,592	1,480,696
Construction in progress	571,339	337,709
	₩ 8,200,168	₩ 7,397,553

As of December 31, 2000 and 1999, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩1,305,346 million and ₩1,230,521 million, respectively.

As of December 31, 2000, property, plant and equipment, other than land and certain construction in progress, are insured against fire and other casualty losses up to approximately ₩11,017,793 million.

A substantial portion of property, plant and equipment as of December 31, 2000 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately ₩1,277,823 million (see Notes 10 and 11).

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

9. Intangible Assets :

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

	Millions of Won	
	2000	1999
Development costs	₩ 171,625	₩ 150,858
Goodwill	1,259,438	1,601,450
Negative goodwill	(6,237)	(64,182)
Organization costs	8,279	9,634
Industrial property rights	612,596	19,196
Other	120,230	105,610
	₩ 2,165,931	₩ 1,822,566

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

	Millions of Won	
	2000	1999
Capitalized	₩ 105,845	₩ 97,052
Expensed	328,583	248,221
	₩ 434,428	₩ 345,273

As a result of the merger with LG Information & Communications, Ltd., the Company recognized goodwill of ₩393,820 million and acquired industrial property rights of ₩578,788 million. Related amortization expenses of goodwill and industrial property rights approximate ₩21,275 million and ₩38,180 million, respectively, for the year ended December 31, 2000 (Note 22).

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

10. Short-Term Borrowings:

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

	Annual interest rate (%) as of December 31, 2000	In Millions	
		2000	1999
<u>Bank overdrafts</u>	10.5 – 12.00	<u>₩ 1,877</u>	<u>₩ 18,867</u>
<u>Won currency loans :</u>			
General term loans	7.5 – 11.36	447,997	137,001
Loans from insurance companies	8.5 – 9.8	55,500	29,500
Notes discounted	5.85 – 10.00	<u>724,700</u>	<u>721,290</u>
		<u>1,228,197</u>	<u>887,791</u>
<u>Foreign currency loans</u>			
Bank loans	LIBOR+1-1.5	943,750	826,150
Trade notes receivable discounted	LIBOR+0.6-2.0	<u>2,339,933</u>	<u>1,157,175</u>
		<u>3,283,683</u>	<u>1,983,325</u>
		<u>(US\$2,607)</u>	<u>(US\$1,732)</u>
<u>Trade loans</u>	1.48 – 9.3	<u>133,741</u>	<u>-</u>
		<u>₩ 4,647,498</u>	<u>₩ 2,889,983</u>

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

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

	Millions of Won	
	2000	1999
Debentures	<u>₩ 1,970,500</u>	<u>₩ 2,227,450</u>
Discount on debentures, net	(16,170)	(25,152)
Long-term debt	375,817	411,453
Long-term other accounts payable	<u>32,136</u>	<u>23,485</u>
	<u>₩ 2,362,283</u>	<u>₩ 2,637,236</u>

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

11. Long-Term Debt :

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

	Annual interest rate (%) at December 31, 2000	In Millions	
		2000	1999
<u>Debentures</u>			
Public, guaranteed payable through 2001	7.0 – 25.0	₩ 360,500	₩ 2,320,200
Private, non-guaranteed payable through 2005	7.2 – 16.5	620,000	491,000
Public, non-guaranteed payable through 2003	6.0 – 12.0	3,665,000	1,925,000
Floating rate notes in foreign currency, payable through 2002	LIBOR+0.6-1.4	354,079	150,920
		(HK\$ - CNY 100 US\$ 269)	(HK\$ 550 CNY 100 US\$ 50)
Zenith's senior secured notes, payable through 2009 (*1)	8.19	62,984	57,270
		(US\$ 50)	(US\$ 50)
		<u>5,062,563</u>	<u>4,944,390</u>
<u>Convertible Bonds</u>			
Foreign currency, issued in 1991 (*2)	-	-	40
		(US\$ -)	(US\$ -)
Foreign currency, issued in 1996 (*3)	1.25	33,096	33,096
		(US\$ 40)	(US\$ 40)
Foreign currency, issued in 1997 (*4) by LG Industrial Systems Co., Ltd.	0.25	31,920	31,920
		(US\$ 35)	(US\$ 35)
Won currency, issued in 1998	-	-	100,000
		<u>65,016</u>	<u>165,056</u>
<u>Exchangeable Bonds (*5)</u>			
Foreign currency, issued in 1997	0.25	66,623	66,623
		(US\$ 75)	(US\$ 75)
		5,194,202	5,176,069
Less : treasury debentures		(17,171)	(117,171)
current maturities		(1,970,500)	(2,227,450)
discount on debentures		(80,280)	(115,626)
premium on debentures		306	7,589
adjustments for conversion rights		(11,762)	(13,027)
		<u>₩ 3,114,795</u>	<u>₩ 2,170,384</u>

Continued;

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

11. Long-Term Debt, Continued:

	Annual interest rate (%) at December 31, 2000	In Millions																					
		2000	1999																				
<u>Won currency loans</u>																							
Korea Development Bank	5.0 - 10.7	₩ 205,229	₩ 166,901																				
Kookmin Bank	5.0 - 10.5	276,469	24,911																				
Korea Technology Banking Corporation Housing and Commercial Bank	3.0 - 7.0	17,558	9,377																				
Hana Bank	3.0	843	-																				
Hanvit Bank	5.5 - 9.8	49,893	29,071																				
Shinhan Bank	7.0 - 8.08	30,890	74,390																				
Chohung Bank	6.5 - 7.5	7,384	4,858																				
Nonghyup	5.0 - 5.5	574	-																				
Yonhap Capital Co., Ltd.	3.5	190	-																				
Korea Informatics Telesis Inc.	5.5	1,870	1,870																				
Korea First Bank	8.5 - 12.9	9,349	20,673																				
Korea Development Capital Corporation	7.5	100	-																				
Korea Network Research Association	5.5 - 7.0	3,904	2,500																				
Other	7.0	467	-																				
	6.5 - 9.5	5,566	2,039																				
		610,286	336,590																				
<u>Foreign currency loans</u>																							
Korea First Bank	LIBOR+0.9 - 1.5	18,793	16,417																				
Korea Development Bank	LIBOR+0.5 - 2.95	116,064	114,030																				
Hanvit Bank	LIBOR+0.4 - 2.5	12,437	68,396																				
Chohung Bank	LIBOR+0.6 - 0.875	34,463	97,395																				
Korea Exchange Bank	LIBOR+0.45 - 2.0	200,527	192,077																				
Kookmin Bank	LIBOR+0.75 - 2.5	3,103	12,686																				
Export-Import Bank of Korea	LIBOR+0.625 - 1.175	7,115	4,503																				
Hana Bank	LIBOR+0.7	786	3,008																				
KorAm Bank	10.26	2,351	2,137																				
Korea Resources Corporation	5.0	3,880	3,528																				
Korea Informatics Telesis Inc.	-	-	282																				
Sanwa Bank Limited	LIBOR+0.85	2,574	3,605																				
Bank of Tokyo-mitsubishi	LIBOR+0.75	10,128	10,808																				
CITI Bank	LIBOR+0.85	1,684	21,522																				
BANQUE PARIBAS	LIBOR+0.7	8,257	9,384																				
TOKYO Bank	LIBOR+0.74	13,479	1,626																				
SOCIETE Bank	LIBOR+0.6	18,443	21,905																				
SUMITOMO Bank	LIBOR+0.65	11,389	14,903																				
BANK ONE	LIBOR+1.4 - 2.5	9,245	11,472																				
NOVASCOTIA Bank	LIBOR+1.5	26,626	-																				
Development Bank of Singapore	LIBOR+1.6	12,507	-																				
Other	-	325,154	214,550																				
		839,005	824,234																				
		<table style="margin-left: 20px;"> <tr><td>USD</td><td>688</td></tr> <tr><td>CNY</td><td>594</td></tr> <tr><td>TRL</td><td>14,009</td></tr> <tr><td>GBP</td><td>41</td></tr> <tr><td>INR</td><td>413</td></tr> </table>	USD	688	CNY	594	TRL	14,009	GBP	41	INR	413	<table style="margin-left: 20px;"> <tr><td>USD</td><td>577</td></tr> <tr><td>JPY</td><td>646</td></tr> <tr><td>CNY</td><td>917</td></tr> <tr><td>GBP</td><td>8</td></tr> <tr><td>IDR</td><td>981</td></tr> </table>	USD	577	JPY	646	CNY	917	GBP	8	IDR	981
USD	688																						
CNY	594																						
TRL	14,009																						
GBP	41																						
INR	413																						
USD	577																						
JPY	646																						
CNY	917																						
GBP	8																						
IDR	981																						
		1,449,291	1,160,824																				
		(375,817)	(411,453)																				
		₩1,073,474	₩749,371																				

Less : current maturities

Continued;

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

11. Long-Term Debt, Continued:

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

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

(*1) As a result of Zenith's prepackaged plan of reorganization, in 1999, Zenith's US\$103.5 million of 6.25% subordinated debentures due 2011 and related accrued interest were exchanged for ₩62,984 million (US\$ 50.0 million) of 8.19% senior debentures maturing in November 2009, whose fair value was ₩49,254 million (US\$ 39.1 million). As of December 31, 2000 the difference between par value and fair value of senior debentures, ₩12,892 million (US\$ 10.2 million), was treated as discount on debentures.

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

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

Continued;

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

11. Long-Term Debt, Continued:

- (*4) 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, 2000 is ~~₩~~10,967 per share. The fixed rate of exchange applicable to the exercise of the conversion rights is ~~₩~~912 per US\$1.00. The bonds will mature on December 31, 2007 at par value, unless previously converted or redeemed. Any bondholder may redeem all or some of the bonds held on September 23, 2002 at 139.624% of the principal amount of such bonds, together with interest accrued to date of redemption. The bonds may be redeemed at the option of the Company, in whole or in part, on or at any time after September 23, 1998 at their principal amount together with guaranteed return and interest accrued to date of redemption, provided that the bonds may not be so redeemed on or before September 23, 2002 unless the closing market price of common share has been at least 140 percent of the conversion price then in effect for each of 30 consecutive trading days.
- (*5) In 1997, the Company issued foreign currency denominated exchangeable bonds totaling US\$ 75 million bearing interest at 0.25% per annum. The bonds are exchangeable into common stock of Hyundai Electronics Industries Co., Ltd. ("Hyundai Electronics," formerly "LG Semicon Co., Ltd.") through November 2007, unless previously redeemed. Each bond can be exchanged for 250 shares of Hyundai Electronics common stock with a par value of ~~₩~~5,000. The exchange price was initially determined to be ~~₩~~35,430 per share based on a fixed exchange rate for U.S. dollars of US\$1.00 = ~~₩~~888.30. The terms and conditions of the exchangeable bonds are as follows :
- Basic exchange price for each share of Hyundai Electronics common stock :
US\$ 39.88 (~~₩~~35,430 / ~~₩~~888.30)
 - Payment of interest : At the end of each year
 - Final redemption :
Unless previously redeemed, purchased or exchanged, the bonds will be redeemed on December 31, 2007 at their principal amount, plus accrued interest.

Continued;

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

11. Long-Term Debt, Continued:

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

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

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

For the year ending December 31,	Millions of Won		
	Long-term debt	Debentures and Convertible bonds (*)	Total
2002	₩ 593,670	₩ 2,049,079	₩ 2,642,749
2003	188,658	890,000	1,078,658
2004	80,692	80,000	160,692
2005	118,607	72,985	191,592
2006 and thereafter	91,847	114,467	206,314
	<u>₩ 1,073,474</u>	<u>₩ 3,206,531</u>	<u>₩ 4,280,005</u>

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

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

12. Leases:

The Company has acquired certain machinery and equipment under capital lease agreements. At December 31, 2000 the acquisition cost of machinery under capital leases is ₩ 163,052 million, and related depreciation expenses recognized in 2000 is ₩ 29,443 million.

As of December 31, 2000, future minimum lease payments under capital leases which are recorded as long-term other accounts payable or current maturities of long-term debt are as follows:

For the year ending December 31,	Millions of Won
2001	₩ 38,761
2002	31,255
2003	31,913
2004	34,006
Total minimum lease payments	135,935
Less : interest portion	(21,222)
current portion	(30,383)
Long-term capital lease obligations	₩ 84,330

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, 2000, future lease payments under operating lease agreements are as follows:

For the year ending December 31,	Millions of Won
2001	₩ 48,340
2002	18,970
2003	8,370
2004	4,879
2005 and thereafter	3,494
	₩ 84,053

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

13. Accrued Severance Benefits:

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

	Millions of Won	
	2000	1999
Beginning balance	₩ 656,136	₩ 533,320
Severance payments	(143,595)	(258,346)
Transfer-in from affiliated companies	2,280	20,029
Transfer-in by merger	66,263	27,862
Decrease by business transfer	(2,175)	(25,404)
Increase (Decrease) by changes in consolidated entities	(16,799)	197,790
Provisions	182,270	148,978
Additional provisions	-	11,907
Other	5,997	-
	750,377	656,136
Contribution to National Pension Fund	(54,517)	(62,803)
Severance insurance deposits	(424,649)	(347,155)
	₩ 271,211	₩ 246,178

The severance benefits are funded approximately 60.2% and 62.7 % at December 31, 2000 and 1999, respectively, through group severance insurance plans and employees severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies. The amounts funded under group severance insurance plans are recorded as long-term financial instruments (see Note 3) and the amounts funded under employees severance insurance plans (severance insurance deposits) are presented as deduction from accrued severance benefits.

All employees of Zenith in the U.S.A are eligible to participate in noncontributory defined contribution retirement plans after completing one full year of service. Based upon the employees' contribution plans, Zenith has recognized ₩2,487 million (US\$2.2 million) and ₩ 4,494 million (US\$ 3.8 million) as retirement plan expenses in 2000 and 1999, respectively.

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

14. Commitments and Contingencies:

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

At December 31, 2000, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩531,600 million.

Zenith, a subsidiary, entered into a three-year US\$150 million exit financing facility with a bank group which Citicorp North America was the agent in 1999, and decreased the facility to US\$80 million as of December 31, 2000.

At December 31, 2000, the outstanding balance of domestic trade notes receivable and export trade accounts receivable sold at discount to various financial institutions with recourse is ₩1,591,150 million (including US\$ 588 million) and the outstanding balance of factored accounts receivable is ₩ 114,416 million.

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

At December 31, 2000, the Company was contingently liable for guarantees approximating ₩ 293,424 million on indebtedness of its subsidiaries and affiliates, and has received guarantees approximating ₩ 461,864 million from various banks for the repayment of certain debentures of the Company.

Continued;

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

14. Commitments and Contingencies, Continued:

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

(1) Treasury stock sales

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

(2) Call option contract

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

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

Continued;

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

14. Commitments and Contingencies, Continued :

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

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

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

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

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

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

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

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

Continued;

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

14. Commitments and Contingencies, Continued :

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

In order to stabilize raw material and inventory costs, LG Industrial Systems Co., Ltd., a subsidiary, entered into future contracts for commodities, such as electrolytic copper, with certain financial institutions. At December 31, 2000, outstanding contracts and their conditions are as follows :

Counterpart	Exercise Date	Position	Delivery Price (US\$/MT)	Quantity (unit : MT)
MG	January 3, 2001	Buying	1,812.0-1,963.5	975
MG	February 2, 2001	Buying	1,819.0-1,963.5	1,225
MG	March 2, 2001	Buying	1,826.0-1,963.5	1,225
MG	April 3, 2001	Buying	1,829.5-1,963.5	1,225
MG	May 2, 2001	Buying	1,829.5-1,963.5	650
MG	June 4, 2001	Buying	1,828.3-1,963.5	300
MG	July 3, 2001	Buying	1,826.0-1,963.5	175

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

At December 31, 2000, 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 ₩7,269 million in 10 cases and ₩18,891 million in 28 cases, respectively, as of December 31, 2000. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

Continued;

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

14. Commitments and Contingencies, Continued :

In December 1999, an executive officer of Dacom Corporation ("Dacom"), a subsidiary, issued 3 promissory notes without authorization maturing in March 2000, which total ₩8,600 million, by allegedly fraudulently using the company's name and chop. These notes were discounted into cash with a financial institution and misappropriated by certain third parties. As of the date of this report, the Company is in litigation with the bank as a defendant over the Company's dishonor of the matured notes presented by the bank. Management believes that the final outcome of this case will not significantly affect the financial position of the Company and, accordingly, the Company did not recognize any loss related to this litigation.

A Dacom's executive officer allegedly committed fraud by providing access to the Company's bank deposits to certain financial institutions as collateral for certain third party bank borrowings. Company's bank deposits amounting to ₩24,000 million provided as collateral as of December 31, 1999, were offset against the above mentioned unauthorized extension of collateral in 2000 by the financial institutions concerned. The Company filed a lawsuit against the financial institutions for the return of its bank deposits, and as of the date of this report, both parties' pleadings are in process. Considering the opinion of the Company's legal counsel, the Company recorded extraordinary loss and other current liability of approximately ₩16,800 million in 1999 in connection with the case, and recorded ₩7,200 million, net of offset against other current liability of ₩16,800 million, as long-term financial instruments at December 31, 2000.

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

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, the Company owns 100% of equity in the restructured Zenith.

Continued;

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

14. Commitments and Contingencies, Continued :

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

Pursuant to the reorganization plan, Zenith intends to become a sales, distribution, and technology company by discontinuing substantially all of its manufacturing operations, outsourcing substantially all components and products, selling certain assets and focusing on the development of its technologies, patent rights, parts and service operations and accessory business. As a result, Zenith recorded a ~~₩~~ 20,573 million (US\$ 18.2 million) and ~~₩~~ 23,195 million (US\$ 19.5 million) charges in 2000 and 1999, respectively, primarily related to costs associated with consulting legal fee, severance costs and plant closure costs.

Under the approved reorganization plan, all Zeniths' stock options granted to its employees and LGE was cancelled. In relation to the cancellation, the Company recognized an extraordinary loss of ~~₩~~48,262 million in 1999.

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

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

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

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

15. Capital Stock :

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

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

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

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

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

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

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

Continued;

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

15. Capital Stock, Continued :

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

The terms and conditions of the RPS are as follows :

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

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

16. Capital Surplus:

At December 31 , 2000 and 1999, capital surplus is as follows;

	Millions of Won	
	2000	1999
LGE' s Capital surplus		
Capital Reserve	₩ 2,014,886	₩ 523,240
Revaluation Surplus	339,619	339,676
	2,354,505	862,916
LGE' s share of subsidiaries' capital surplus	(690,853)	377,049
LGE' s share of equity method investees' capital surplus	68,931	26,192
	₩ 1,732,583	₩ 1,266,157

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, 2000 and 1999, the revaluation increments of ₩339,619 million and ₩339,676 million, respectively, net of tax, transfer to capital stock and offset against deferred foreign currency translation losses, are credited to revaluation surplus.

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

17. Retained Earnings :

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

	Millions of Won	
	2000	1999
LGE' s retained earnings		
Legal reserve (*1)	₩ 55,999	₩ 41,499
Reserve for business rationalization (*2)	281,065	326,180
Reserve for improvement of financial structure (*3)	84,458	84,458
Reserve for technological development (*4)	708,680	974,516
Reserve for export loss (*4)	-	14,000
Reserve for redemption of redeemable preferred stock	544,000	-
Unappropriated retained earnings carried over to subsequent year	24	44
	1,674,226	1,440,697
LGE' s share of subsidiaries' retained earnings	(254,107)	(173,535)
LGE' s share of equity method investees' retained earnings	256,805	91,461
	₩ 1,676,924	₩ 1,358,623

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

(*2) Pursuant to the Tax Exemption and Reduction Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through appropriate resolution by the Company's shareholders.

Continued;

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

17. Retained Earnings, Continued :

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

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

18. Capital Adjustments:

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

	Millions of Won	
	2000	1999
Treasury stock	₩ (875,604)	₩ -
Loss on valuation of investment securities	(382,401)	(38,821)
Discounts on stock issuance	-	(519)
Loss on sale of treasury stock	-	(2,539)
Overseas operations translation credit	162,965	181,358
Overseas operations translation debt	(29,315)	(37,093)
Gain (Loss) on valuation of derivatives	(1,091)	276
Other	1,023	15,602
	₩ (1,124,423)	₩ 118,264

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 LGIC. As of December 31, 2000, the Company retains treasury stocks amounting to 29,729,300 shares of common stock and 1,508,876 shares of preferred stock. The Company has intention to sell the treasury stock in the future.

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

19. Income Taxes:

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

	Millions of Won	
	2000	1999
Current income taxes	₩ 316,564	₩ 607,935
Deferred income taxes	25,348	(23,368)
	₩ 341,912	₩ 584,567

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

	Millions of Won	
	Deferred income tax assets (liabilities)	
	December 31, 2000	December 31, 1999
Deferred foreign exchange loss	₩ 21,166	₩ 35,911
Deferred foreign exchange gain	(4,568)	(12,403)
Loss from sales of receivables	45,570	33,130
Accrued income	(4,558)	(4,571)
Bad debt expenses	75,858	59,258
Reserve for technology development	(104,133)	(8,783)
Development costs	(33,323)	(27,431)
Marketable securities	(938)	1,972
Investments in equity-method investees	136,914	112,099
Tax credits carried-forward	6,507	4,525
Increase by adoption of revised accounting standards and the changes in consolidated entities	(76,692)	6,137
Other	846	16,415
	₩ 62,649	₩ 216,259

In 2000, 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.

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

20. Earnings Per Share:

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

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

	Millions of Won (except for EPS data)	
	2000	1999
<u>Basic earnings per share</u>		
Net income as reported on the statement of income	₩ 402,476	₩ 2,069,542
Less : Preferred stock dividends	(19,472)	(20,050)
Net income allocated to common stock	383,004	2,049,492
Weighted average number of common shares outstanding	108,942,560	107,327,666
Basic earnings per share	<u>₩ 3,516</u>	<u>₩ 19,096</u>

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

	Millions of Won (except for EPS data)	
	2000	1999
<u>Basic ordinary income per share</u>		
Net income allocated to common stock	₩ 383,004	₩ 2,049,492
Less : extraordinary gains	(35,922)	(37,285)
Add: income tax (*)	17,625	8,212
Ordinary income allocated to common stock	364,707	2,020,419
Weighted average number of common shares outstanding	108,942,560	107,327,666
Basic ordinary income per share	<u>₩ 3,348</u>	<u>₩ 18,825</u>

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

Continued;

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

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, 2000 and 1999 are calculated as follows:

	Millions of Won(except for EPS data)	
	2000	1999
Net income allocated to common stock	₩ 383,004	₩ 2,049,492
Add : interest expenses on convertible bonds, net of tax	2,070	1,906
Redeemable preferred stock dividends	1,006	-
Diluted net income allocated to common stock	386,080	2,051,398
Weighted average number of common shares and diluted securities outstanding	111,224,159	108,820,224
Diluted earnings per share	₩ 3,471	₩ 18,851

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

	Millions of Won(except for EPS data)	
	2000	1999
Diluted net income allocated to common stock	₩ 386,080	₩ 2,051,398
Less : extraordinary gains	(35,922)	(37,285)
Add: income tax (*)	17,625	8,212
Diluted ordinary income allocated to common stock	367,783	2,022,325
Weighted average number of common shares and diluted securities outstanding	111,224,159	108,820,224
Diluted ordinary income per share	₩ 3,307	₩ 18,584

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

Continued;

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

20. Earnings Per Share, Continued :

The diluted securities outstanding for the year ended December 31, 2000 are as follows :

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

21. Dividends :

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

Dividends

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

Dividend Payout Ratio

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

Dividend Yield Ratio

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

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

22. Merger :

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

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

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

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

Changes in goodwill are as follows :

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

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

Condensed balance sheets -

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

Continued :

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

22. Merger, Continued :

Condensed income statements -

	For the eight-month period ended August 31, 2000	For the year ended December 31, 1999
Sales	₩ 2,006,376	₩ 2,768,022
Cost of sales	1,436,022	2,025,206
Gross profit	570,354	742,816
Selling and administrative expenses	327,183	511,005
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 :

LG Industrial Systems Co., Ltd. ("LGIS"), a subsidiary, disposed its Copper Smelting & Refining Division to LG Nikko Copper Inc. at ₩674,011 million on August 31, 1999. As a result, LGIS recorded ₩266,458 million as gain on disposal of business divisions in 1999.

LGIS also disposed its Building Facilities Division to LG-OTIS Elevator Company at ₩810,821 million on December 28, 1999 and recorded ₩386,195 million as gain on disposal of business divisions in 1999.

In addition, LGIS disposed its Vending Machine Division to Carrier-LG (Limited) at ₩55,500 million on November 30, 1999 and recorded ₩12,650 million as loss from disposal of business divisions in 1999.

On July 31, 2000, LGIS disposed its Copper Leaf Division to LG Cable Ltd. at ₩68,467 million and recorded ₩447 million as loss from disposal of business divisions.

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

24. Transactions with Related Parties:

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies during 2000 and 1999 and the related account balances at December 31, 2000 and 1999 are summarized as follows:

Transactions between LGE and its consolidated subsidiaries --

	Millions of Won	
	2000	1999
Receivables	₩ 2,854,539	₩ 1,462,141
Payables	128,719	140,961
Sales and other income	5,175,291	3,590,131
Purchases and other expenses	958,679	395,793
Guarantees	1,382,759	1,341,654

Transactions between consolidated subsidiaries -

	Millions of Won	
	2000	1999
Receivables and payables	₩ 718,464	₩ 383,478
Sales, purchases and others	1,461,441	1,193,259
Guarantees	50,246	69,510

Transactions between the Company and equity-method investees-

	Millions of Won	
	2000	1999
Receivables and payables	₩ 628,492	₩ 370,916
Sales, purchases and others	2,052,916	1,380,784
Guarantees	161,360	199,671

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

25. Segment Information:

LGE has organized four reportable business divisions: digital display division, digital appliances division, digital multimedia 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.

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

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

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

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

Continued;

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25. Segment Information, Continued :

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

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

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, 2000 and 1999 are as follows :

	Millions of Won	
	2000	1999
Transfer to property, plant and equipment from construction in progress	₩ 190,766	₩ 590,354
Reclassify current maturities of long-term debt	211,691	296,359
Reclassify current maturities of debenture	1,819,339	1,521,232
Increase in assets by changes in consolidated subsidiaries	(128,653)	4,320,910
Increase in liabilities by changes in consolidated subsidiaries	(46,982)	2,386,663
Increase in assets by merger	3,060,233	1,377,360
Increase in liabilities by merger	2,534,043	2,169,006
Transfer to capital surplus from consolidation adjustment	382,909	-

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27. Subsequent Events:

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

Through a resolution by the board of directors on February 14, 2001, Dacom corporation, a subsidiary, has determined to issue foreign currency denominated bonds with warrants amounting to US\$100 million which will mature in 2003.

Through a resolution by the shareholders on January 30, 2001, Dacom Multimedia Internet Inc. (“DMI”), a subsidiary, has determined to discontinue Channel i service and focus on multimedia contents design. As a result, DMI wrote down ~~₩~~24,381 million of goodwill, ~~₩~~1,056 million of property, plant and equipment and ~~₩~~1,773 million of intangible assets as a loss from discontinued operations and charges to operations in 2000.