

**LG ELECTRONICS INC.**

**AUDIT REPORT 2001**

**FOR THE YEARS ENDED DECEMBER 31, 2001 and 2000**

## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying non-consolidated balance sheets of LG Electronics Inc. (the "Company") as of December 31, 2001 and 2000, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. as of December 31, 2001 and 2000, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 22 to the accompanying financial statements, for the years ended December 31, 2001 and 2000, the Company entered into various transactions with affiliated companies such as LG Electronics U.S.A. Inc., including sales of ₩7,303,044 million and ₩7,028,871 million, respectively, and purchases of ₩1,544,047 million and ₩1,504,114 million, respectively. As of December 31, 2001 and 2000, related accounts receivable approximate ₩792,994 million and ₩806,155 million, respectively, and related accounts payable approximate ₩533,769 million and ₩425,381 million, respectively.

Continued;

As discussed in Note 27 to the accompanying financial statements, upon a resolution of the board of directors on November 15, 2001 and upon a resolution of shareholders on December 28, 2001, the Company is scheduled to carve out its electronics and information & communications businesses and establish a new company, and convert its remaining business into a holding company on April 1, 2002. Accordingly, the Company will be split into two companies, a divesting company, tentatively named LG Electronics Investment Inc., to engage in the operation of investment in subsidiaries and affiliates which are not related to the spun off businesses and a divested company, tentatively named LG Electronics Inc., to engage in the electronics and information & communications businesses.

As discussed in Note 26 of the accompanying financial statements, pursuant to the resolution by the board of directors on June 11, 2001, the Company established a joint venture (LG Philips Displays Holding B.V.) relating to its Cathode Ray Tubes ("CRT") business with Koninklijke Philips Electronics N.V. on June 29, 2001. The Company transferred the assets and liabilities of the CRT business to LG Philips Displays Korea Co., Ltd., a subsidiary wholly owned by the joint venture, on June 30, 2001. As a result, the Company recognized ₩1,358,760 million of gain on business transfer.

As discussed in Note 15 to the accompanying financial statements, pursuant to the resolution by the board of directors on June 25, 2001, the Company redeemed ₩542,952 million (32,000,000 shares) of redeemable preferred stock which were issued in December 2000.

As discussed in Notes 7 and 14 to the accompanying financial statements, on September 21, 2001, the Company sold 4,563 thousand shares of its investment in Dacom Corporation for ₩80,993 million and incurred a loss from disposal of investments amounting to ₩374,969 million.

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

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries and jurisdictions. Accordingly, this report and the accompanying financial statements are not intended for use by those who are not informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
January 28, 2002

**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2001 and 2000**  
**(In millions of Korean Won)**

	2001	2000
<b>ASSETS</b>		
Current Assets :		
Cash and cash equivalents (Note 5)	₩ 49,963	₩ 170,829
Short-term financial instruments (Note 3)	1,540	6,750
Marketable securities (Note 7)	4,328	1,895
Trade accounts and notes receivable, net (Notes 4, 5 and 22)	1,072,604	799,601
Other accounts receivable, net (Notes 4 and 5)	130,280	164,141
Inventories (Note 6)	957,961	1,191,879
Prepaid expenses	48,719	48,145
Accrued income (Notes 4 and 5)	76,247	191,539
Advances (Note 4)	134,091	158,780
Other current assets (Note 4)	9,291	6,845
Total current assets	2,485,024	2,740,404
Property, plant and equipment, less accumulated depreciation (Notes 8 and 12)	2,923,487	3,337,088
Long-term financial instruments (Note 3)	10,961	13,091
Investments (Note 7)	4,177,960	4,210,506
Refundable deposits (Note 5)	338,247	167,668
Long-term trade accounts receivable (Note 4)	333	4,502
Long-term prepaid expenses	59,023	37,769
Deferred tax assets, net (Note 19)	284,971	159,609
Long-term loans (Notes 4, 5 and 22)	110,729	116,977
Derivatives transactions debit (Note 14)	131,080	-
Intangible assets (Note 9)	1,071,170	1,092,512
Total assets	₩ 11,592,985	₩ 11,880,126

Continued;

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

**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED BALANCE SHEETS, Continued**  
**As of December 31, 2001 and 2000**  
**(In millions of Korean Won)**

	2001	2000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities :</b>		
Short-term borrowings (Note 10)	₩ 51,870	₩ 658,355
Current maturities of long-term debt (Note 10)	1,487,325	1,663,716
Trade accounts and notes payable (Notes 5 and 22)	1,381,976	1,390,900
Other accounts payable (Note 5)	851,941	797,178
Income taxes payable (Note 19)	97,353	94,327
Accrued expenses (Note 5)	424,163	310,896
Withholdings	37,066	50,239
Advances from customers	137,810	159,808
Dividends payable (Note 21)	138,976	144,948
Derivatives transactions credit (Note 14)	5,605	25,644
<b>Total current liabilities</b>	<b>4,614,085</b>	<b>5,296,011</b>
Debentures, net of current maturities and discounts (premiums) on debentures (Note 11)	2,421,462	1,848,203
Long-term debt, net of current maturities (Note 11)	88,237	543,047
Long-term other accounts payable (Note 11)	17,013	2,287
Accrued severance benefits, net (Note 13)	155,217	181,211
Product warranty provision	31,221	-
Other long-term liabilities	514	1,725
<b>Total liabilities</b>	<b>7,327,749</b>	<b>7,872,484</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>Shareholders' Equity :</b>		
Capital stock (Note 15)	1,031,068	1,031,068
Capital surplus :		
Additional paid-in capital	1,984,275	1,985,154
Gain on merger (Note 16)	29,732	29,732
Revaluation surplus (Note 16)	339,619	339,619
<b>Total capital surplus</b>	<b>2,353,626</b>	<b>2,354,505</b>
<b>Retained earnings (Note 17) :</b>		
Legal reserve	69,888	55,999
Other reserves	1,382,084	1,618,203
Unappropriated retained earnings carried forward	19	24
<b>Total retained earnings</b>	<b>1,451,991</b>	<b>1,674,226</b>
Capital adjustments (Note 18)	(571,449)	(1,052,157)
<b>Total shareholders' equity</b>	<b>4,265,236</b>	<b>4,007,642</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 11,592,985</b>	<b>₩ 11,880,126</b>

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

**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED INCOME STATEMENTS**  
**for the years ended December 31, 2001 and 2000**  
(In millions of Korean Won except for EPS amounts)

	2001	2000
Sales (Note 22)	₩ 16,600,971	₩ 14,835,674
Cost of sales (Note 22)	12,914,998	11,820,761
Gross profit	3,685,973	3,014,913
Selling and administrative expenses	2,890,007	2,093,828
Operating income	795,966	921,085
Non-operating income :		
Interest income	62,987	66,933
Dividends income	2,627	299
Foreign exchange gains	186,040	185,552
Gain on disposal of property, plant and equipment	2,357	2,359
Gain on disposal of investments (Note 7)	112,192	254,910
Equity in earnings of affiliates, net (Note 7)	-	287,368
Royalty income	92,380	56,154
Gain on business transfer (Note 26)	1,358,760	-
Gain on valuation of security stabilization fund	10,972	-
Gain on transaction of derivatives (Note 14)	21,474	-
Gain on valuation of derivatives (Note 14)	66,908	-
Other	228,369	188,145
	2,145,066	1,041,720
Non-operating expenses :		
Interest expense	392,519	436,870
Foreign exchange losses	268,643	275,389
Loss from transfer of trade accounts and notes receivable	132,743	196,222
Loss from disposal of property, plant and equipment	57,422	24,675
Loss from disposal of investments (Note 7)	386,015	83,865
Loss from redemption of debentures	8,750	664
Equity in losses of affiliates, net (Note 7)	901,473	-
Donations	6,797	6,875
Other bad debt expenses	37,101	53,657
Loss on transaction of derivatives (Note 14)	40,662	-
Loss on valuation of derivatives (Note 14)	3,073	-
Other	132,134	156,052
	2,367,332	1,234,269

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

Continued;

**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED INCOME STATEMENTS, Continued**  
**for the years ended December 31, 2001 and 2000**  
(In millions of Korean Won except for EPS amounts)

	2001	2000
Ordinary income	573,700	728,536
Extraordinary gains	-	188
Extraordinary losses	-	-
Income before income tax expenses	573,700	728,724
Income tax expenses (Note 19)	66,418	226,541
Net income	₩ 507,282	₩ 502,183
Ordinary income and earnings		
per share (Note 20) (in Korean Won)		
- Basic ordinary income per share	₩ 3,527	₩ 4,430
- Basic earnings per share	₩ 3,527	₩ 4,431
- Diluted ordinary income per share	₩ 3,527	₩ 4,367
- Diluted earnings per share	₩ 3,527	₩ 4,368

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

**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED STATEMENTS OF**  
**APPROPRIATIONS OF RETAINED EARNINGS**  
**for the years ended December 31, 2001 and 2000**  
**Dates of appropriations : March 14, 2002 and March 9, 2001**  
**(In millions of Korean Won)**

	2001	2000
Unappropriated retained earnings before appropriations :		
Unappropriated retained earnings		
carried over from prior year	₩ 24	₩ 44
Adjustments of retained earnings due to		
equity method of accounting	58,079	2,074
Net income for the year	507,282	502,183
	565,385	504,301
Reversal of other reserves		
Reserve for business rationalization	-	115,115
Reserve for technological development	391,280	407,237
Reserve for export losses	-	14,000
Reserve for redemption of redeemable preferred stock	544,000	-
	1,500,665	1,040,653
Appropriations of retained earnings (Note 17) :		
Legal reserve	13,889	14,500
Reserve for business rationalization	150,000	70,000
Reserve for technological development	549,162	141,400
Reserve for redemption of redeemable preferred stock	-	544,000
Redemption of redeemable preferred stock	544,000	-
Loss from disposal of treasury stock	104,704	125,868
Cash dividends (Note 21)	138,891	144,861
	1,500,646	1,040,629
Unappropriated retained earnings to be		
carried forward to subsequent year	₩ 19	₩ 24

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



**LG ELECTRONICS INC.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the years ended December 31, 2001 and 2000**  
**(In millions of Korean Won)**

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES :		
Net income	₩ 507,282	₩ 502,183
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	625,221	524,050
Amortization of discounts and premiums on debentures	21,231	27,234
Provision for severance benefits	141,296	127,087
Bad debt expense	38,452	117,546
Foreign currency translation losses, net	48,482	85,460
Loss (gain) on disposal of investments, net	273,823	(171,045)
Loss on disposal of property, plant and equipment, net	55,065	22,317
Loss on redemption of debentures	8,750	664
Equity in losses (earnings) of affiliates, net	901,473	(287,368)
Loss (gain) on valuation of derivatives, net	(63,835)	21,473
Loss on transaction of derivatives, net	19,188	-
Product warranty provision	31,221	-
Gain on business transfer	(1,358,760)	-
Others	(9,154)	7,956
Changes in assets and liabilities :		
Decrease (increase) in trade accounts and notes receivable	(344,309)	272,942
Decrease in other accounts receivable	1,962	4,116
Decrease (increase) in inventories	150,626	(265,654)
Decrease (increase) in prepaid expenses	(22,986)	28,654
Decrease (increase) in advances	16,727	(90,079)
Decrease (increase) in other current assets	9,842	(24,598)
Decrease (increase) in deferred income tax assets	(107,217)	134,249
Increase in trade accounts and notes payable	98,368	121,455
Increase in other accounts payable	91,164	199,956
Increase in accrued expenses	109,104	54,286
Increase (decrease) in advances from customers	(21,551)	58,660
Increase (decrease) in income taxes payable	3,026	(457,980)
Decrease in withholdings	(9,564)	(7,523)
Payment of severance benefits	(148,131)	(85,046)
Decrease in contribution to national pension fund	4,857	6,709
Other	4,778	(2,210)
Net cash provided by operating activities	₩ 1,076,431	₩ 925,494

Continued;

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

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

	2001	2000
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>		
Decrease in short-term financial instruments	₩ 5,206	₩ 7,152
Proceeds from disposal of marketable securities	2,574	453
Proceeds from disposal of investments	298,433	576,897
Proceeds from disposal of property, plant and equipment	31,903	26,887
Decrease in severance insurance funds	-	19,796
Decrease in long-term other accounts receivable	-	54,766
Decrease (increase) in refundable deposits	(171,281)	122,232
Decrease (increase) in long-term financial instruments	1,853	(2,752)
Increase in severance insurance deposits	(7,915)	(6,249)
Acquisition of investments	(623,278)	(282,127)
Acquisition of property, plant and equipment	(700,725)	(755,821)
Acquisition of intangible assets	(102,979)	(98,250)
Acquisition of derivatives	(98,986)	-
Decrease (increase) in short and long-term loans	21,701	(73,123)
Increase in cash by merger	-	178,700
Proceeds from disposal of CRT division	1,358,760	-
Others	2,022	2,594
Net cash provided by (used in) investing activities	17,288	(228,845)
<b>CASH FLOWS FROM FINANCING ACTIVITIES :</b>		
Decrease in short-term borrowings	(606,681)	(677,062)
Increase in debentures	1,826,541	1,100,672
Increase in long-term debt	54,950	296,843
Payment of current maturities of long-term debt	(1,674,207)	(1,485,652)
Payment of debentures	(33,096)	(20,704)
Payment of long-term debt	(322,435)	-
Payment of dividends	(144,863)	(127,349)
Proceeds from disposal of treasury stock	230,085	136,400
Acquisition of treasury stock	-	(377,859)
Issuance of redeemable preferred stock	-	542,952
Redemption of redeemable preferred stock	(544,000)	-
Other	(879)	(26)
Net cash used in financing activities	(1,214,585)	(611,785)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(120,866)	84,864
<b>CASH AT BEGINNING OF THE YEAR (Note 24)</b>	170,829	85,965
<b>CASH AT END OF THE YEAR (Note 24)</b>	₩ 49,963	₩ 170,829

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

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2001 and 2000

-----

1. The Company:

LG Electronics Inc. (the "Company") was incorporated in 1959 under the Commercial Code of the Republic of Korea to manufacture and sell electronic products. The Company is a member of the LG Group, which comprises affiliated companies under common management direction. In 1970, the Company offered its shares for public ownership. As of December 31, 2001, the Company has outstanding capital stock of ~~₩~~1,031,068 million, including non-voting preferred stock of ~~₩~~95,478 million (see Note 15). The Company's common shares are listed on the Korean stock exchange and its depositary receipts ("DRs") are listed on the London and Luxembourg stock exchanges.

The Company 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 the Company effective September 1, 2000.

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

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below.

Basis of Financial Statement Presentation -

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

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

2. Summary of Significant Accounting Policies, Continued:

Basis of Financial Statement Presentation, Continued -

Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

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

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 in Debt and Equity Securities -

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.

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.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

2. Summary of Significant Accounting Policies, Continued:

Marketable Securities and Investments in Debt and Equity Securities, Continued -

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over 5 years using the straight-line method, except for investees in the telecommunications industry, which are amortized over 10 years reflecting the industry's longer term of realizing its profit. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Unrealized profit arising from sales by the Company to the equity-method investees is fully eliminated. Unrealized profit arising from sales by the equity-method investees to the Company or sales between equity-method investees is also eliminated by percentage of ownership.

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.

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 are determined using the specific identification method.

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

2. Summary of Significant Accounting Policies, Continued:

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 following estimated useful lives of the assets.

	Estimated Useful Life (years)
Buildings	20 - 40
Structures	20 - 40
Machinery and equipment	5 - 10
Tools	5
Furniture and fixtures	5
Vehicles	5

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 financing costs for the year ended December 31, 2001 and 2000 were approximately ₩21,901 million and ₩20,643 million, respectively.

Lease Transactions -

Lease agreements that include a bargain purchase option, result in the transfer of ownership at the end of the lease term, have a term longer than 75 percent of the estimated economic life of the leased property, or have a present value of the minimum lease payments at the beginning of the lease term more than 90 percent of the fair value of the leased property are accounted for as capital leases. Leases that do not meet these criteria are accounted for as operating leases, of which the total minimum lease payments are charged to expense over the lease period on a straight-line basis.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

2. Summary of Significant Accounting Policies, Continued:

Research and Development Costs -

Research costs are expensed as 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.

Intangible Assets -

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from five to ten years.

Discounts (Premiums) on Debentures -

Discounts (premiums) 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 are 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.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

2. Summary of Significant Accounting Policies, Continued:

Product Warranty Provision -

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

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 the Company, 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.

Contributions made under the National Pension Plan and severance insurance deposits are deducted from accrued severance benefits. Contributed amounts are refunded from the National Pension Plan and the insurance companies to employees on their retirement.

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.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

2. Summary of Significant Accounting Policies, Continued:

Sale of Accounts and Notes Receivables -

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.

Foreign Currency Translation -

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

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

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

Derivative Financial Instruments -

The Company utilizes several derivative financial instruments ("derivatives") such as forward exchanges, swaps 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 the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations.

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

3. Restricted Financial Instruments :

As of December 31, 2000, short-term financial instruments of ₩3,012 million and as of December 31, 2001 and 2000, long-term financial instruments of ₩10,528 million and ₩10,749 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).

4. Receivables :

Receivables, including trade accounts and notes receivable, as of December 31, 2001 and 2000 comprise the following (Millions of Won) :

	2001				2000			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value	Original amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value
Trade accounts and notes receivable	₩1,161,165	₩ 88,255	₩ 306	₩1,072,604	₩ 896,516	₩ 94,208	₩ 2,707	₩ 799,601
Other accounts receivable	169,220	38,940	-	130,280	185,700	21,559	-	164,141
Accrued income	82,002	5,755	-	76,247	225,637	34,098	-	191,539
Advances	135,464	1,373	-	134,091	160,225	1,445	-	158,780
Other current assets	9,351	60	-	9,291	6,910	65	-	6,845
Long-term trade accounts receivable	336	3	-	333	4,547	45	-	4,502
Long-term loans	133,474	22,745	-	110,729	148,082	31,105	-	116,977
	<u>₩1,691,012</u>	<u>₩157,131</u>	<u>₩ 306</u>	<u>₩1,533,575</u>	<u>₩1,627,617</u>	<u>₩182,525</u>	<u>₩ 2,707</u>	<u>₩1,442,385</u>

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

4. Receivables, Continued :

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 or composition are rescheduled and the receivables are discounted to record present value. Future annual maturities of such receivables outstanding as of December 31, 2001 are as follows :

For the year ending December 31,	Millions of Won		
	Amount to be collected	Present value (*)	Discount
2002	₩ 992	₩ 793	₩ 199
2003	448	375	73
2004	90	68	22
2005	15	11	4
2006 and thereafter	23	15	8
	₩ 1,568	₩ 1,262	₩ 306

(\*) Weighted average interest rate of long-term debt of the Company for the year when a corporate reorganization commenced (8.4 - 12.5%) is used to calculate discounted present value.

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

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

5. Assets and Liabilities Denominated in Foreign Currencies:

As of December 31, 2001 and 2000, monetary assets and liabilities denominated in foreign currencies, other than those disclosed in Notes 10 and 11, are as follows:

	2001		2000	
	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)
Cash and cash equivalents	USD 11	<del>₩</del> 14,715	USD 69	<del>₩</del> 86,723
	EUR 6	7,553	EUR -	-
	JPY 133	1,345	JPY 439	4,833
	ESP -	-	ESP 168	1,195
	AUD 1	822	AUD 2	1,456
	GBP 1	1,149	GBP 1	1,624
	ITL -	-	ITL 1,447	887
	Others	2,910	Others	20,780
		<u>28,494</u>		<u>117,498</u>
Trade accounts receivable	USD 28	302,236	USD 235	296,564
	EUR 17	19,877	EUR -	-
	DEM 4	2,242	DEM 6	3,386
	JPY 87	876	JPY 259	2,854
	HKD -	26	HKD 118	19,082
	Others	8,846	Others	12,488
		<u>334,103</u>		<u>334,374</u>
Accrued income	USD 31	40,625	USD 55	69,788
	GBP 1	1,429	GBP 1	1,830
		<u>42,054</u>		<u>71,618</u>
Other accounts receivable	USD 6	7,428	USD 1	210
	ITL -	-	ITL 436	267
	FRF 4	680	FRF 10	1,812
	Others	3	Others	3
		<u>8,111</u>		<u>2,292</u>
Refundable deposits	JPY 58	582	JPY 26	289
	USD 2	2,313	USD 1	1,755
	Others	2	Others	-
		<u>2,897</u>		<u>2,044</u>
Long-term loans	USD 60	<del>₩</del> 79,566	USD 85	<del>₩</del> 107,069

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

5. Assets and Liabilities Denominated in Foreign Currencies, Continued :

	2001		2000	
	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)	Foreign currencies (In Millions)	Won Equivalent (Millions of Won)
Trade accounts payable	USD 300	₩ 398,310	USD 445	₩ 561,083
	JPY 12,446	125,633	JPY 9,280	102,231
	DEM -	96	DEM 4	2,507
	ITL 140	85	ITL 416	255
	EUR 2	1,953	EUR 1	1,032
	Others	64	Others	16
		526,141		667,124
Other accounts payable	USD 180	238,126	USD 114	144,205
	EUR 28	32,921	EUR -	-
	DEM 9	5,476	DEM 38	23,050
	ESP 64	452	ESP 293	2,091
	JPY 1,089	10,994	JPY 863	9,507
	Others	19,448	Others	11,736
		307,417		190,589
Accrued expenses	USD 39	52,170	USD 33	41,684
	EUR 1	1,499	EUR -	-
	AUD -	-	AUD 8	5,902
	DEM -	242	DEM 1	638
	Others	1,281	Others	1,145
		₩ 55,192		₩ 49,369

6. Inventories:

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

	Millions of Won	
	2001	2000
Merchandise	₩ 22,646	₩ 33,517
Finished products	390,461	474,415
Work in process	132,349	172,231
Raw materials	324,837	406,664
Parts and supplies	87,668	105,052
	₩ 957,961	₩ 1,191,879

See Note 8 for inventories insured against various property risks.

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

7. Investments :

Marketable securities as of December 31, 2001 and 2000 consist of government and municipal bonds which are due within one year.

Investments as of December 31, 2001 and 2000 are as follows :

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
<u>Domestic Companies</u>							
LG Construction Co., Ltd.	8.56	₩ 35,148	₩ 73,542	₩ 73,542	₩ 35,148	₩ 61,091	₩ 61,091
LG Micron Ltd.	17.24	5,000	30,854	30,854	5,000	29,040	29,040
LG Department Store Co., Ltd.	57.70	72,706	41,056	41,056	72,706	46,933	46,933
LG Industrial Systems Co., Ltd.	63.51	286,015	154,784	154,784	286,015	224,600	224,600
LG International Corp.	3.20	20,253	17,819	17,819	20,253	18,527	18,527
LG Sports Ltd.	39.25	2,204	1,935	1,935	2,204	1,949	1,949
LG Mart Co., Ltd.	50.00	283,672	381,235	381,235	283,672	340,178	340,178
LG Innotek Co., Ltd.	53.41	31,135	87,929	87,929	31,135	79,062	79,062
LG Cable Ltd.	-	-	-	-	29,313	52,724	52,724
LG Card Co., Ltd. (formerly, LG Capital Co., Ltd.)	6.17	24,651	91,021	91,021	24,651	54,810	54,810
LG Investments Security Inc.	8.56	262,432	150,091	150,091	262,432	170,177	170,177
LG TeleCom Ltd.	35.64	397,421	242,807	242,807	165,641	42,293	42,293
LG Hitachi Ltd.	49.00	6,060	6,408	6,408	6,060	7,275	7,275
LG-Caltex Oil Corp.	3.07	50,004	105,587	105,587	50,004	102,350	102,350
LG CNS Inc. (formerly, LG-EDS Systems Inc.)	35.00	48,506	55,128	55,128	360	6,469	6,469
LG Philips LCD Co., Ltd.	50.00	726,169	533,377	533,377	726,169	759,815	759,815
LG IBM PC Co., Ltd.	49.00	11,907	11,469	11,469	11,907	15,971	15,971
Dacom Corporation	30.00	794,946	200,316	200,316	1,299,943	991,139	991,139
Hankuk Electric Glass Co., Ltd.	20.00	92,428	103,293	103,293	-	-	-
LG N-Sys Inc.	100.00	9,900	9,899	9,899	-	-	-
<u>Overseas Companies</u>							
Goldstar Electronics Tailand Co., Ltd. (G.S.T.) (*2)	49.00	36	36	36	36	36	36
Hitachi/LG Data Storage Inc. (HLDS)	49.00	7,684	364	364	7,684	7,684	7,684
LG Electronics Alabama, Inc. (LGEAI)	100.00	63,940	42,520	42,520	63,940	52,020	52,020
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)	100.00	3,746	7,016	7,016	3,746	3,584	3,584
LG Electronics Antwerp Logistics N.V. (LGEAL)	100.00	967	533	533	967	315	315
LG Electronics Australia PTY, Ltd. (LGEAP) (*1)	100.00	1,558	-	-	1,558	-	-
LG Electronics Argentina S.A. (LGEAR) (*2)	100.00	7,410	7,410	7,410	1,111	1,111	1,111
Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT)	50.00	14,718	6,766	6,766	14,718	7,874	7,874

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG Electronics da Amazonia Ltda. (LGEAZ)	100.00	₩ 46,652	₩ 19,562	₩ 19,562	₩ 34,663	₩ 18,773	₩ 18,773
Beijing LG Electronics Components Co., Ltd. (LGEBJ)	-	-	-	-	4,269	7,205	7,205
LG Electronics Colombia, Ltda. (LGEGB)	60.00	3,330	2,561	2,561	3,330	3,330	3,330
LG Electronics (China) Co., Ltd. (LGECH)	100.00	37,614	37,156	37,156	37,614	49,923	49,923
LG Electronics Canada, Inc. (LGECI)	100.00	13,779	14,397	14,397	13,779	13,470	13,470
LG Collins Electronics Manila Inc. (LGECEM)	92.25	20,302	7,915	7,915	20,302	8,235	8,235
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGECT)	50.00	15,287	16,526	16,526	22,953	21,153	21,153
LG Electronics Deutschland GMBH (LGEDG)	100.00	26,938	10,877	10,877	26,938	14,652	14,652
PT LG Electronics Display Devices Indonesia (LGEDI)	100.00	40,643	77,240	77,240	79,543	133,099	133,099
LG Electronics Design Tech, Ltd. (LGEDT) (*2)	100.00	1,002	1,002	1,002	1,002	1,002	1,002
LG Electronics Egypt Cairo S.A.E.(LGECE)(*2)	100.00	4,382	4,382	4,382	-	-	-
LG Electronics Egypt S.A.E (LGECEG)	66.00	2,175	3,201	3,201	1,577	2,825	2,825
LG Electronics Espana S.A. (LGEES) (*1)	100.00	3,374	-	-	3,374	-	-
LG Electronics Gulf FZE (LGEGF)	100.00	2,489	1,271	1,271	2,489	1,803	1,803
LG Electronics HK Limited (LGEHK)	100.00	4,316	3,965	3,965	4,316	748	748
LG Hotline CPT Ltd. (LGEHL)	-	-	-	-	10,561	-	-
LG Electronics (Huizhou) Inc. (LGEHZ)	80.00	1,277	13,262	13,262	1,277	6,037	6,037
LG Electronics India PVT Ltd. (LGEIL)	100.00	32,076	65,653	65,653	32,076	49,776	49,776
PT LG Electronics Indonesia (LGEIN)	100.00	29,431	9,011	9,011	29,431	11,058	11,058
LG Electronics Italy S.P.A. (LGEIS)	100.00	14,136	789	789	14,136	5,712	5,712
LG Electronics Japan Inc. (LGEJP)	100.00	12,978	2,094	2,094	12,978	885	885
LG Electronics Mlawa SP.Zo.O.(LGEWA)	100.00	7,066	9,041	9,041	7,066	5,323	5,323
LG Electronics Morocco S.A.R.L (LGEML)	100.00	3,352	2,448	2,448	2,774	2,774	2,774
LG Electronics Middle East Co., Ltd. (LGEEM) (*2)	100.00	462	462	462	462	440	440

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG-MECA Electronics Haiphong, Inc. (LGEMH)	70.00	₩ 1,690	₩ 1,449	₩ 1,449	₩ 1,690	₩ 1,598	₩ 1,598
LG Electronics Magyar Kft. (LGEMK)	100.00	5,575	7,891	7,891	5,575	6,680	6,680
LG Electronics (M) SDN. BHD (LGEML) (*2)	100.00	11	11	11	11	11	11
LG Electronics Monterrey Mexico S.A de C.V. (LGEMM)	100.00	19,800	21,787	21,787	8,906	8,906	8,906
LG Electronics Mexico S.A.de C.V. (LGEMS)	100.00	1,936	9,219	9,219	1,936	2,859	2,859
LG MITR Electronics Co., Ltd. (LGEMT)	87.74	15,925	9,393	9,393	15,925	4,590	4,590
LG Electronics North of England Ltd. (LGENE)	100.00	11,229	12,237	12,237	11,229	12,060	12,060
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	70.00	9,367	6,702	6,702	14,571	6,654	6,654
LG Electronics Polska SP.Zo.O. (LGEPL)	100.00	4,117	9,614	9,614	4,117	5,167	5,167
Nanjing LG Panda Appliances Co., Ltd. (LGEPN)	60.00	3,737	8,437	8,437	3,737	6,467	6,467
LG Electronics Peru S.A. (LGEPR)	100.00	1,879	1,734	1,734	1,879	-	-
LG Electronics Panama S.A. (LGEPS)	100.00	2,333	2,133	2,133	2,333	4,077	4,077
LG Electronics (Qinhuangdao) Co., Ltd. (LGEQH)	100.00	3,284	5,961	5,961	3,284	4,788	4,788
Triveni (formerly, LGERCA) (*2)	100.00	899	899	899	899	899	899
LG Electronics Russia Inc. (LGERI) (*2)	95.00	391	391	391	391	391	391
LG Electronics S.A. Pty Ltd. (LGESA) (*1)	100.00	3,382	-	-	3,382	270	270
LG Electronics Service Europe Netherlands B.V. (LGESE)	100.00	3,978	2,020	2,020	3,978	-	-
Shuguang LG Electronics Co., Ltd. (LGESG)	-	-	-	-	81,105	73,618	73,618
Shanghai LG Electronics Co., Ltd. (LGESH)	70.00	2,719	5,515	5,515	3,021	4,585	4,585
LG Electronics de Sao Paulo Ltda. (LGESP)	100.00	28,481	-	-	28,481	15,503	15,503
LG SEL Electronics Vietnam Ltd. (LGESV)	55.00	1,711	4,165	4,165	1,711	4,150	4,150
LG Electronics Sweden AB (LGESW)	100.00	5,668	3,842	3,842	5,668	5,658	5,658

Continued;



LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<Equity method of accounting>							
LG Electronics (Shenyang) Inc. (LGESY)	70.00	₩ 11,165	₩ 11,382	₩ 11,382	₩ 12,822	₩ 14,673	₩ 14,673
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	80.00	42,948	96,270	96,270	42,948	76,619	76,619
LG Electronics Thailand Co., Ltd. (LGETH)	93.75	3,407	12,759	12,759	3,407	7,263	7,263
LG Taistar Electronics Taiwan Co., Ltd. (LGETT) (*2)	66.94	5,609	5,609	5,609	760	990	760
LG Electronics United Kingdom Ltd. (LGEUK) (*1)	100.00	10,486	-	-	10,486	-	-
LG Electronics Ukraine Co., Ltd. (LGEUR) (*2)	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics U.S.A., Inc. (LGEUS)	100.00	37,985	29,262	29,262	37,985	25,236	25,236
LG Electronics Wales Ltd. (LGEWA)	100.00	101,813	55,151	55,151	101,813	67,313	67,313
Langchao LG(Yantai) Digital Mobile Technology Research & Development Co., Ltd. (LGEYT) (*2)	49.00	824	824	824	-	-	-
LG Soft India PVT, Ltd. (LGSII) (*2)	88.00	2,920	2,920	2,920	2,920	2,920	2,920
EIC Properties PTE., Ltd.	38.20	9,636	9,283	9,283	-	-	-
Zenith Electronics Corporation (Zenith) (*1)	100.00	236,860	-	-	236,860	-	-
LG Infocomm U.S.A. Inc. (LGICUS)	100.00	4,673	14,818	14,818	4,673	9,045	9,045
LG Infocomm Thailand, Inc. (LGICTH)	60.00	3,246	4,131	4,131	3,246	3,148	3,148
Vietnam Korea Exchange, Ltd.(VKX)	40.00	1,734	1,972	1,972	1,734	1,760	1,760
LG Tops (*2)	40.00	2,699	2,699	2,699	1,799	1,799	1,799
LG Electronics System India, Ltd. (LGSYS) (formerly, Escorts Communication Ltd.)(*2)	100.00	6,400	6,400	6,400	6,400	6,400	6,400
Electromagnetica Goldstar S.R.L.(*2)	50.00	508	508	508	508	508	508
LG Telecom Corp. (*2)	75.00	369	369	369	369	369	369
SLD TELECOM Pte. Ltd. (*2)	44.00	4,390	4,390	4,390	250	250	250
LG.Philips Displays Holding B.V.	50.00	933,155	706,662	706,662	-	-	-
LG(Yantai) Information & Communication Technology Co., Ltd. (*2)	100.00	2,720	2,720	2,720	-	-	-
Investments applying for the equity method of accounting total		<u>₩5,136,377</u>	<u>₩3,748,580</u>	<u>₩3,748,580</u>	<u>₩4,447,133</u>	<u>₩3,823,515</u>	<u>₩3,823,285</u>

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Net asset / fair value	Carrying value	Acquisition cost	Net asset / fair value	Carrying value
<Marketable equity securities>							
Korea stock market stabilization fund	2.48	₩ 16,441	₩ 17,549	₩ 17,549	₩ 20,841	₩ 10,977	₩ 10,977
Hynix Semiconductor Inc. (formerly, Hyundai Electronics Industries Co., Ltd.)	0.38	24,298	4,551	4,551	24,298	7,569	7,569
Hanaro Telecom Inc.	4.46	147,546	55,763	55,763	147,546	25,591	25,591
Other	-	3,740	5,634	5,634	3,740	3,832	1,996
		<u>192,025</u>	<u>83,497</u>	<u>83,497</u>	<u>196,425</u>	<u>47,969</u>	<u>46,133</u>
<Non-marketable equity securities>							
<u>Domestic Companies</u>							
LG OTIS Elevator Co., Ltd.	19.90	89,550	88,755	89,550	89,550	87,890	89,550
DreamWiz Inc.	10.00	11,111	1,463	11,111	11,111	1,513	11,111
Lotis Co., Ltd.	18.57	3,029	1,327	3,029	1,900	1,060	1,900
Media Valley Inc.	1.81	300	187	300	300	187	300
Innopla Co., Ltd. (formerly, Sunhan Tech Co., Ltd.)	19.90	245	645	245	245	682	245
Castec Korea Co., Ltd.	5.00	150	489	150	150	414	150
Msoltech Co., Ltd.	10.00	635	242	635	635	635	635
AL Tech Inc.	10.00	589	245	589	589	589	589
Korea Information Certificate Authority Inc.	10.00	1,852	1,860	1,852	1,852	1,841	1,852
STIC Co., Ltd.	94.00	28,200	29,320	28,200	28,200	28,829	28,200
Association of Electronics Environment	40.80	388	208	388	183	23	183
Megaround Co., Ltd.	19.90	318	315	318	119	117	119
MS Tech	-	-	-	-	298	307	298
TEMKO Korea Co., Ltd.	13.04	1,200	1,200	1,200	-	-	-
Other	-	2,589	2,728	2,589	8,530	8,669	8,530
<u>Overseas Companies</u>							
Gemfire Corp.	4.41	1,835	170	1,835	1,835	170	1,835
Erlang Technology Inc.	8.40	1,129	187	1,129	1,129	1,129	1,129
Mainstreet Networks(*3)	5.45	1,468	-	-	1,468	-	-
iTV Corporation(*3)	13.08	1,957	-	-	1,957	-	-
Pocket Science(*3)	4.42	473	-	-	473	-	-
Neopoint Inc.(*3)	16.62	1,604	-	-	1,604	-	-
E2OPEN.COM	6.25	9,744	3,606	9,744	-	-	-
Cenix Inc.	2.07	3,272	958	3,272	-	-	-
Monet Mobile Networks	1.90	1,299	871	1,299	-	-	-
SUNPOWER.INC	10.35	1,257	219	1,257	-	-	-
Other	-	247	247	247	233	233	233
		<u>₩ 164,441</u>	<u>₩ 135,242</u>	<u>₩ 158,939</u>	<u>₩ 152,361</u>	<u>₩ 134,288</u>	<u>₩ 146,859</u>

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

7. Investments, Continued:

	Percentage of Ownership(%) at December 31, 2001	Millions of Won					
		2001			2000		
		Acquisition cost	Fair value	Carrying value	Acquisition cost	Fair value	Carrying value
<Debt securities>							
Bonds issued by government	-	₩ 46,286	₩ 19,400	₩ 19,400	₩ 29,990	₩ 21,799	₩ 21,799
Senior secured note issued by Zenith	-	132,600	153,800	153,800	135,195	148,686	148,686
ABS subordinated bond	-	13,700	13,700	13,700	13,700	13,700	13,700
Corporate bond	-	-	-	-	10,000	10,000	10,000
Other	-	44	44	44	44	44	44
		<u>192,630</u>	<u>186,944</u>	<u>186,944</u>	<u>188,929</u>	<u>194,229</u>	<u>194,229</u>
Other investments total		<u>549,096</u>	<u>405,683</u>	<u>429,380</u>	<u>537,715</u>	<u>376,486</u>	<u>387,221</u>
Investments total		<u>₩5,685,473</u>	<u>₩4,154,263</u>	<u>₩4,177,960</u>	<u>₩4,984,848</u>	<u>₩4,200,001</u>	<u>₩4,210,506</u>

- (\*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) Acquisition cost was written off due to negative net book value of the investment as of December 31, 2001.
- (\* ) The equity method of accounting is applied based on most recent unaudited financial statements of subsidiaries and affiliates. Net book values of non-marketable equity securities are recorded based on most recent unaudited financial statements.

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

	Millions of Won
Balance at January 1, 2001	₩ 3,822,525
Acquisitions during the year	1,536,709
Reclassification	760
Increase in retained earnings	86,514
Increase in capital adjustments	60,392
Equity in loss of affiliates, net	(862,421)
Elimination of unrealized profit	(39,051)
Dividend received	(119,868)
Disposal of investment securities	(736,980)
Balance at December 31, 2001	<u>₩ 3,748,580</u>

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

7. Investments, Continued:

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

A senior secured note issued by Zenith outstanding on December 31, 2001 and 2000 was converted from the Company's receivables from Zenith according to the reorganization plan of Zenith approved by the court in the United States of America on November 5, 1999 (see Note 14). The note's terms and conditions are as follows :

Interest : Effective August 1, 2000, terms were changed from LIBOR+6.5% on a quarterly basis to LIBOR+3.0% on an annual basis  
Maturity of principal : November 1, 2009

In February, 2001, the Company sold 1,915,900 shares of LG Cable Ltd. in exchange for ₩22,449 million and recognized loss on disposal of investment of ₩7,456 million.

On June 29, 2001, the Company contributed its investments in Beijing LG Electronics Components Co., Ltd. ("LGEBJ") and LG Shuguang Electronics Co., Ltd. ("LGESG") to the CRT joint venture with Koninklijke Philips Electronics N.V.(see Note 26).

In September 2001, the Company sold 4,563 thousand shares of its investment in Dacom Corporation for ₩ 80,993 million and incurred a loss from disposal of investments amounting to ₩ 374,969 million (see Note 14).

In 2001, the Company purchased 45,146,767 shares of common stock of LG TeleCom Ltd. for ₩231,780 million.

In December 2001, the Company purchased 218,845 shares of common stock of LG CNS Co., Ltd. for ₩48,146 million.

In December 2001, PT LG Electronics Display Devices Indonesia ("LGEDI") executed stock redemption, reducing investment stocks of the Company by 50,000 shares. As a result, the Company recognized gain on disposal of investment amounting to ₩21,576 million.

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

8. Property, Plant and Equipment:

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

	Millions of Won	
	2001	2000
Buildings	₩ 1,002,446	₩ 1,095,616
Structures	89,215	107,578
Machinery and equipment	1,027,145	1,282,603
Tools	726,384	776,989
Furniture and fixtures	479,525	484,019
Vehicles	24,113	27,099
	3,348,828	3,773,904
Accumulated depreciation	(1,279,316)	(1,500,218)
	2,069,512	2,273,686
Land	773,525	794,384
Construction in progress	70,302	218,694
Machinery in transit	10,148	50,324
	₩ 2,923,487	₩ 3,337,088

As of December 31, 2001 and 2000, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩639,124 million and ₩655,189 million, respectively.

As of December 31, 2001, property, plant and equipment, other than land and certain construction in progress, and inventories are insured against various property risks including fire and other casualty losses up to approximately ₩5,059,245 million.

A substantial portion of property, plant and equipment as of December 31, 2001 and 2000 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately ₩325,782 million and ₩649,139 million, respectively (see Notes 10 and 11).

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

9. Intangible Assets :

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

	Millions of Won	
	2001	2000
Goodwill	₩ 336,329	₩ 375,170
Development costs	189,338	120,557
Industrial property rights	484,902	558,702
Other	60,601	38,083
	₩ 1,071,170	₩ 1,092,512

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

	Millions of Won	
	2001	2000
Capitalized	₩ 119,086	₩ 76,836
Expensed	471,658	295,776
	₩ 590,744	₩ 372,612

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 ₩39,382 million and ₩76,359 million, respectively, for the year ended December 31, 2001 (see Note 25).

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

10. Short-Term Borrowings:

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

	Annual Interest Rates (%) as of December 31, 2001	In Millions	
		2001	2000
<u>Bank overdrafts</u>	7.0 – 9.0	₩ 37,155	₩ 430
<u>Won currency loans :</u>			
General term loans	4.8 – 4.9	7,500	171,500
Notes discounted	-	-	357,100
		<u>7,500</u>	<u>528,600</u>
<u>Foreign currency loans</u>	-	-	11,849
		( US\$ - )	( US\$ 9 )
<u>Trade loans</u>	1.0 – 5.5	7,215	117,476
		[ US\$ 5 ]	[ US\$ 91 ]
		[ ¥ 28 ]	[ ¥ 250 ]
		<u>₩ 51,870</u>	<u>₩ 658,355</u>

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

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

	Millions of Won	
	2001	2000
Debentures	₩ 1,291,892	₩ 1,410,500
Discount on debentures, net	(5,193)	(11,263)
Long-term debt	200,626	261,197
Long-term other accounts payable	-	3,282
	<u>₩ 1,487,325</u>	<u>₩ 1,663,716</u>

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

11. Long-Term Debt :

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

	Annual interest rate (%) at December 31, 2001	In Millions	
		2001	2000
<u>Debentures</u>			
Public, guaranteed payable	-	₩ -	₩ 55,500
Private, non-guaranteed payable through 2006	7.3 – 16.5	660,000	460,000
Public, non-guaranteed payable through 2006	5.0 – 9.0	2,475,000	2,410,000
Floating rate notes in foreign currency, payable through 2006 (*1)	LIBOR+1.2-1.9	558,288	278,394
		(US\$ 421)	(US\$ 221)
		<u>3,693,288</u>	<u>3,203,894</u>
<u>Convertible Bond</u>			
Foreign currency, issued in 1996 (*2)	-	-	33,096
		(US\$ -)	(US\$ 40)
		<u>-</u>	<u>33,096</u>
<u>Exchangeable Bond</u>			
Foreign currency, issued in 1997 (*3)	0.25	73,824	66,623
		(US\$ 56)	(US\$ 75)
		<u>3,767,112</u>	<u>3,303,613</u>
Less : treasury debentures		(-)	(17,171)
current maturities		(1,291,892)	(1,410,500)
discount on debentures		(53,758)	(28,045)
premium on debentures		-	306
		<u>₩ 2,421,462</u>	<u>₩ 1,848,203</u>

Continued;



LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

11. Long-Term Debt, Continued:

	Annual Interest Rate (%) at December 31, 2001	In Millions	
		2001	2000
<u>Won currency loans</u>			
Kookmin Bank	3.0 – 6.0	₩ 3,801	₩ 95,571
Korea Development Bank	5.0 – 5.75	11,817	196,659
Hana Bank	5.5 – 6.5	1,774	2,694
Hanvit Bank	–	-	30,000
Korea Technology Banking Corporation	4.75 – 6.5	10,068	15,061
Korea Development Capital Corporation	6.5	960	1,280
Korea Network Research Association	–	-	467
		28,420	341,732
<u>Foreign currency loans</u>			
Korea Development Bank	LIBOR + 1.95 – 2.15	58,052	105,318
Korea Exchange Bank	LIBOR + 0.45	132,610	189,930
Hanvit Bank	LIBOR + 0.4 – 0.425	4,193	11,111
Korea First Bank	LIBOR + 1.5	15,875	15,080
Export-Import Bank of Korea	LIBOR + 0.625	4,994	7,115
Chohung Bank	–	-	34,012
Development Bank of Singapore	LIBOR + 1.6	13,166	12,507
Novascotia	–	-	26,626
Banque Paribas	LIBOR + 0.7	6,519	8,257
Societe General	LIBOR + 0.6	13,868	18,443
Sumitomo Bank	–	-	11,389
Bank One	LIBOR + 1.4	2,652	9,245
Bank of Tokyo-Mitsubishi	LIBOR + 0.74	8,514	13,479
		260,443	462,512
		(US\$ 196)	(US\$ 367)
		288,863	804,244
Less : current maturities		(200,626)	(261,197)
		₩ 88,237	₩ 543,047

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

11. Long-Term Debt, Continued:

Treasury debentures of ₩17,171 million held by the Company as of December 31, 2000 make up a portion of exchangeable bonds, which were cancelled in 2001.

(\*1) In 2000 and 2001, the Company issued U.S. Dollar denominated floating rate notes aggregating US\$ 421 million, of which US\$ 221 million is due in 2002, US\$ 100 million in 2003, and US\$100 million in 2006.

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

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

- Basic exchange price for each share of Hynix common stock :  
US\$ 37.54 (₩33,345 / ₩888.30)
- Payment of interest : At the end of each year
- Final redemption :  
Unless previously redeemed, purchased or exchanged, the bonds will be redeemed on December 31, 2007 at their principal amount, plus accrued interest.
- Redemption at the option of the Company :  
The Company may redeem any or all of the bonds at their principal amount, plus accrued interest. However, no such redemption can be made before July 9, 2002, unless the closing price (converted into U.S. dollars at the prevailing exchange rate) for each of the 30 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which the notice of redemption is published, has been at least 135% of the exchange price in effect on each such trading day converted into U.S. Dollars at a fixed exchange rate of US\$1.00 : ₩888.30.

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

11. Long-Term Debt, Continued:

- Redemption at the option of the bondholders :  
 The bondholders may require the Company to redeem any or all (in multiples of US\$ 10,000) of the bonds held by such holders on July 8, 2002 at 133.67% of the principal amount of such bonds, plus accrued interest.
- Exchange by bondholder  
 Each bond is exchangeable for a pro rata share of the exchange property until November 30, 2007. As of December 31, 2001, the exchange property comprises 1,997,976 common shares of Hynix, calculated by dividing the aggregate principal amount (converted into Won at a fixed exchange rate of US\$1.00 : ₩888.30) by the exchange price, but is subject to change as a result of any adjustment to the exchange price or an offer made for the common shares.
- As of December 31, 2001, the bonds are translated using exchange rate as of balance sheet date and reclassified to current maturities of long-term debt as the Company estimates that bondholders will request to redeem the bonds early in 2002.

As of December 31, 2001 and 2000, the Company has outstanding long-term other accounts payable amounting to ₩17,013 million and ₩2,287 million, respectively. Long-term other accounts payable as of December 31, 2000 was related to a land purchase for the Bundang research center and was repaid out in 2001. Long-term other accounts payable as of December 31, 2001 includes ₩16,897 million of payable in relation to the option premium of treasury stock sales.

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, 2001 are as follows:

For the year ending December 31,	Millions of Won			
	Debentures and convertible bonds	Long-term debt	Long-term other accounts payable	Total
2003	₩ 742,610	₩ 35,697	₩ 17,013	₩ 795,320
2004	850,000	23,172	-	873,172
2005	-	17,234	-	17,234
2006	882,610	8,827	-	891,437
2007 and thereafter	-	3,307	-	3,307
	<u>₩ 2,475,220</u>	<u>₩ 88,237</u>	<u>₩ 17,013</u>	<u>₩2,580,470</u>

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

12. Leases:

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

As of December 31, 2001, future lease payments under operating lease agreements are as follows :

For the year ending December 31,	Millions of Won
2002	₩ 10,336
2003	3,344
2004	824
	₩ 14,504

The Company acquired certain machinery and equipment under capital lease agreements. At December 31, 2001, the acquisition cost of machinery and equipment under capital leases was ₩ 385 million and related depreciation expense recognized in 2001 was ₩ 77 million.

As of December 31, 2001, future minimum lease payments under capital lease obligations are as follows :

Year ending December 31,	Millions of Won
2002	₩ 172
2003	116
	₩ 288

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

13. Accrued Severance Benefits:

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

	Millions of Won	
	2001	2000
Beginning balance	₩ 551,237	₩ 434,842
Severance payments	(148,131)	(85,046)
Transfer-out to the CRT joint venture	(69,415)	-
Transfer-in by merger	-	66,263
Transfer-in from affiliated companies	3,448	238
Provisions	142,817	128,943
Conversion to severance insurance deposit	-	5,997
	479,956	551,237
Contribution to National Pension Fund	(27,214)	(39,196)
Severance insurance deposits	(297,525)	(330,830)
	₩ 155,217	₩ 181,211

On December 31, 2001 and 2000, the severance benefits are funded approximately 62% and 60%, respectively, through employees severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies. The amounts funded under employees severance insurance plans (severance insurance deposits) is presented as deduction from accrued severance benefits.

14. Commitments and Contingencies:

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

On December 31, 2001, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩320,200 million.

On December 31, 2001, the outstanding balance of export trade accounts receivable sold at discount to various financial institutions with recourse is ₩2,332,362 million.

On December 31, 2001, the Company has entered into factoring agreements for domestic trade accounts receivable with Hana Bank and Shinhan Bank. However, in relation to the agreements, at December 31, 2001, there is no outstanding balance of factored accounts receivable.

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

14. Commitments and Contingencies, Continued :

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

On December 31, 2001, the Company has entered into sales contracts with several companies, which comprise approximately ₩ 20,033 million of sales to LG TeleCom, Ltd., ₩ 10,920 million of sales to Korea Telecom Corp., ₩ 1,257 million of sales to SK Telecom Co., and ₩ 29,956 million of sales to Hanaro Telecom, Inc. and others.

On December 31, 2001 and 2000, the Company was contingently liable for guarantees approximating ₩1,569,184 million and ₩1,594,887 million, respectively, on indebtedness of its subsidiaries and affiliates as follows :

	Millions of Won	
	2001	2000
<u>Domestic companies</u>		
LG TeleCom, Ltd.	₩ 132,610	₩ 125,970
Other	14,278	26,465
	146,888	152,435
<u>Overseas companies</u>		
LG Electronics Wales Ltd.	173,404	252,225
PT LG Electronics Display Devices Indonesia	78,240	130,829
LG Electronics Alabama Inc.	183,002	205,331
LG Electronics U.S.A., Inc.	169,741	144,865
LG Electronics North of England Ltd.	61,761	40,847
Shuguang LG Electronics Co., Ltd.	36,335	78,605
LG Electronics Tianjin Appliances Co., Ltd.	90,451	50,388
Zenith Electronics Corporation	53,044	12,597
Other	576,318	526,765
	1,422,296	1,442,452
Total	₩ 1,569,184	₩ 1,594,887

On December 31, 2001, the Company has no guarantees received, and on December 31, 2000, the Company has received guarantees approximating ₩58,767 million from various banks for the repayment of certain debentures of the Company.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

14. Commitments and Contingencies, Continued :

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

(1) Contract with CSFB

Treasury stock sales

- Trade date: December 21, 2000
- Number of shares: 11,000,000 shares of common stock
- Sales price: the closing trade price on the trade date per share (~~₩~~12,400 per share)
- Price adjustment:  
On March 19, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period which was determined based on CSFB’s executions. As a result, the Company recognized a gain on transaction of derivatives amounting to ~~₩~~19,095 million.

Call option contract

- Call option buyer : the Company
- Call option seller: CSFB
- Effective date : March 19, 2001
- Termination date: September 17, 2004
- Initial share price : ~~₩~~14,140.62
- Call option contract amounts: ~~₩~~155,547 million (US\$120 million)
- Call option premium: 17.34% of call option contract amounts
- Exercise of call options:  
Call option buyer has the right to exercise the call options on the expiry date, which is the fifth business day immediately preceding the termination date. On the termination date, the call options exercised shall be cash settled and the call option seller shall pay an amount per the call options exercised equal to: Max(final share price minus initial share price, 0), subject to a maximum of 30.0% of initial share price.
- Final share price :  
equal to the arithmetic average of the seven interim share prices, calculated based on the closing trade prices during the period from 36 months following the effective date through the expiry date.

An unrealized gain on valuation of derivatives in the amount of ~~₩~~20,849 million in excess of the option premium cost of ~~₩~~26,947 million was recognized for the year ended December 31, 2001.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

14. Commitments and Contingencies, Continued :

(2) Contract with BOA

Treasury stock sales

- Trade date: May 24, 2001
- Number of shares: 9,149,920 shares of common stock  
1,023,180 shares of preferred stock
- Sales price: the closing trade price on the trade date per share (common stock :  
₩ 18,200 per share, preferred stock : ₩ 8,340 per share)
- Price adjustment:  
On September 7, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period determined based on BOA's executions. As a result, the Company incurred a loss on transaction of derivatives amounting to ₩ 25,267 million.

Call option contract

- Call option buyer : the Company
- Call option seller: BOA
- Effective date : September 7, 2001
- Termination date: 3 years after effective date (September 7, 2004)
- Initial share price : common stock ₩ 15,517, preferred stock ₩ 7,660
- Call option contract amounts: common stock ₩141,979 million (US\$110 million),  
preferred stock ₩7,838 million (US\$6 million)
- Call option premium: 15% of call option contract amounts
- Exercise of call options:  
Call option buyer has the right to exercise the call options. On the termination date, the call options exercised shall be cash settled and the call option seller shall pay an amount per the call options exercised equal to: Max (final share price minus initial share price, 0), subject to a maximum of 30.0% of initial share price.
- Final share price :  
Determined as the average of twelve monthly closing prices for the twelve months up to and including the termination date, where each " monthly closing price" is taken as the arithmetic average of the official closing price of the five business day period ending in and including the monthly anniversary date relative to the termination date of each month.

An unrealized gain on valuation of derivatives in the amount of ₩ 23,761 million in excess of the option premium cost of ₩22,477 million was recognized for the year ended December 31, 2001.

Continued;



LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

14. Commitments and Contingencies, Continued :

As of December 31, 2001, the Company has entered into Dacom Corporation stock sales and derivatives contracts for its share in Dacom Corporation with Credit Suisse First Boston International ("CSFB"). The terms and conditions of the contracts are as follows :

Sales of Shares in Dacom Corporation

- Trade date : September 21, 2001
- Number of shares : 4,563,000 shares of common stock
- Sales price : the closing trade price on the trade date per share (~~₩~~ 17,750 per share)
- Price adjustment :  
On November 5, 2001, sales price was adjusted to the weighted average trade price during the initial valuation period determined based on CSFB's executions.  
As a result, the Company incurred a gain on transaction of derivatives amounting to ~~₩~~ 212 million.

Call option contract

- Call option buyer : the Company
- Call option seller : CSFB
- Effective date : November 5, 2001
- Termination date : 3 years after effective date (November 5, 2004)
- Initial share price : ~~₩~~17,796.40
- Call option contract amounts : ~~₩~~80,687 million
- Call option premium : 18.3% of call option contract amounts
- Exercise of call option :  
Final call option buyer has the right to exercise the final call options on the termination date. On the date two business days after the termination date, the final call options exercised shall be cash settled and the final call option seller shall pay the final call option buyer an amount equal to : (final share price – initial share price) X number of final call options.
- Final share price :  
Determined as the average of all daily closing prices from the first business day following effective date to the termination date subject to a minimum of initial share price.
- Upper limit of daily closing price :  
Starting on the first business day following the effective date at 170% of initial share price and decreasing linearly on each subsequent business day down to 130% of initial share price on the termination date.

An unrealized gain on valuation of derivatives in the amount of ~~₩~~ 22,189 million in excess of the option premium cost of ~~₩~~14,857 million was recognized for the year ended December 31, 2001.

Continued;

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

14. Commitments and Contingencies, Continued :

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

As of December 31, 2001, the Company has outstanding forward contracts with Bank of Tokyo-Mitsubishi for selling US dollars and buying Japanese Yen amounting to US\$ 4 million (contract rates : ¥ 121.11 : US\$1 ¥ 122.47 : US\$1, contract due dates : January through February 2002).

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

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

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

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

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

14. Commitments and Contingencies, Continued :

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

	Option Type	Amount (In millions)	Exercising price	Contract due date
Citibank	Put	US\$ 9.0	₩ 1,280.0/US\$	2002.3.11
	Call	US\$ 9.0	₩ 1,343.5/US\$	2002.3.11
	Put	US\$ 5.0	₩ 1,285.0/US\$	2002.1.14
	Call	US\$ 10.0	₩ 1,285.0/US\$	2002.1.14
	Put	US\$ 5.0	₩ 1,295.0/US\$	2002.2.26
	Call	US\$ 10.0	₩ 1,295.0/US\$	2002.2.26
Deutsche Bank	Put	US\$ 10.0	₩ 1,280.0/US\$	2002.3.11
	Call	US\$ 10.0	₩ 1,343.0/US\$	2002.3.11
	Put	US\$ 10.0	₩ 1,290.0/US\$	2002.4.12
	Call	US\$ 10.0	₩ 1,337.0/US\$	2002.4.12
	Put	US\$ 2.0	¥ 121.1/US\$	2002.6.4
UBS Warburg	Call	US\$ 2.0	¥ 124.5/US\$	2002.6.4
	Put	US\$ 10.0	₩ 1,280.0/US\$	2002.6.5
Credit Lyonnais	Call	US\$ 10.0	₩ 1,305.0/US\$	2002.6.5
	Put	US\$ 10.0	₩ 1,300.0/US\$	2002.6.18
Standard Chartered Bank	Call	US\$ 10.0	₩ 1,329.0/US\$	2002.6.18
	Put	US\$ 2.0	¥ 117.0/US\$	2002.4.9
Credit Lyonnais	Call	US\$ 2.0	¥ 120.05/US\$	2002.4.9
	Put	EURO 4.0	¥ 117.0/	2002.3.14
	Call	EURO 4.0	¥ 120.05/	2002.3.14

As a result of the above derivatives contracts, a gain of ₩2,167 million and a loss of ₩15,395 million were recognized for the year ended December 31, 2001.

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, and in 2001 the Company repurchased a substantial portion of leasehold deposits for ₩119,898 million.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

14. Commitments and Contingencies, Continued :

As of December 31, 2001, the Company has ₩13,700 million of subordinated bond issued by the SPC and ₩3,300 million of long-term loan due from the SPC. 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.

On December 31, 2001, the Company is named as the defendant in legal actions which were brought against the Company by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company 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 ₩193 million in 9 cases and ₩4,447 million in 7 cases, respectively, as of December 31, 2001. 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 financial statements.

Zenith Electronics Corporation ("Zenith"), a subsidiary, has experienced significant financial difficulties resulting from continuous losses. Zenith filed a pre-packaged plan of reorganization under Chapter 11 of the Bankruptcy Code of the United States of America, and the reorganization plan was approved by the court in November 1999. As a result of the reorganization plan, the Company owns 100% of equity in the restructured Zenith. However due to continuous losses and accumulated deficits, as of December 31, 2001 Zenith's total liabilities are greater than its total assets by ₩311,773 million (US\$235 million). As of December 31, 2001, the Company has ₩153,800 million (US\$116 million) of senior secured notes issued by Zenith, ₩79,566 million (US\$60 million) of loans to Zenith, and ₩53,044 million (US\$40 million) of guarantees provided to Zenith (see Note 7).

In order to recover its accumulated deficits, Zenith has reduced costs through reduction of number of employees and disposal of production lines, and changed to become a research & development and marketing company instead of a manufacturing company. The Company's management expects that royalty income to be incurred from VSB technology patents for digital TV owned by Zenith will significantly contribute to the recovery of Zenith in the future.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

14. Commitments and Contingencies, Continued :

Based on above mentioned factors, the Company's management believes that a reserve related to the collectibility of the senior secured notes and loans to Zenith is not required and that the possible exercise of the guarantee obligation for indebtedness of Zenith is a remote possibility.

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 continues to experience 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 consolidation and significant uncertainty exists with regard to the continued availability of financing. The Company may be either directly or indirectly affected by the situation described above. In addition, the Company has investments in, and receivables from affiliates located in Asia Pacific region. The Company also has outstanding guarantees on the debt obligations of these affiliates. These affiliates have been affected, and may continue to be affected, by the unstable economic situation in the Asia Pacific region.

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

15. Capital Stock :

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

	2001			2000		
	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	155,118,070	₩ 5,000	₩ 775,590
Preferred stock(*1)	19,095,547	5,000	95,478	19,095,547	5,000	95,478
Redeemable preferred stock(*2)	-	5,000	160,000	32,000,000	5,000	160,000
	<u>174,213,617</u>		<u>₩1,031,068</u>	<u>206,213,617</u>		<u>₩1,031,068</u>

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

(\*1) As of December 31, 2001 and 2000, 19,095,547 shares of non-voting preferred stock are issued and outstanding. The preferred shareholders have no voting rights and are entitled to non-participating and non-cumulative preferred dividends at a rate of one percentage point over those for common stock. This preferred dividend rate is not applicable to stock dividends.

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

16. Capital Surplus:

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.

The Company revalued a substantial portion of its property, plant and equipment, effective January 1, 1981 and 1993, and October 1, 1998, in accordance with the Korean Asset Revaluation Law and obtained relevant governmental approval. As of December 31, 2001, the revaluation increments of ₩339,619 million, net of tax, transfer to capital stock and offset against deferred foreign currency translation losses, are credited to revaluation surplus.

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

17. Retained Earnings :

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

	Millions of Won	
	2001	2000
<u>Legal reserve (*1)</u>	<u>₩ 69,888</u>	<u>₩ 55,999</u>
<u>Other reserves</u>		
Reserve for business rationalization (*2)	431,065	281,065
Reserve for improvement of financial structure (*3)	84,458	84,458
Reserve for technological development (*4)	866,561	708,680
Reserve for redemption of redeemable preferred stock	-	544,000
	1,382,084	1,618,203
Unappropriated retained earnings carried forward to subsequent year	19	24
	<u>₩ 1,451,991</u>	<u>₩ 1,674,226</u>

(\*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.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

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. This reserve is not available for dividends until used for the specified purposes or reversed.

18. Capital Adjustments:

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

	Millions of Won	
	2001	2000
Treasury stock	₩ (494,235)	₩ (875,604)
Loss on valuation of investment securities	(74,682)	(175,462)
Loss on valuation of derivative financial instruments (Note 14)	(2,532)	(1,091)
	₩ (571,449)	₩ (1,052,157)

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



LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

19. Income Taxes:

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

	Millions of Won	
	2001	2000
Current income taxes	₩ 173,650	₩ 196,960
Deferred income taxes	(107,232)	29,581
	₩ 66,418	₩ 226,541

In 2001 and 2000, the statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%. Effective in 2002, the statutory income tax rate applicable to the Company will be reduced to 29.7% from 30.8%, and 29.7% is applied to calculate deferred income tax in 2001. The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company :

	Millions of Won	
	2001	2000
Income before taxes	₩ 573,700	₩ 728,724
Statutory tax rate	30.8%	30.8%
Expected taxes at statutory rate	176,686	224,447
Permanent differences	2,827	33,267
Tax exemption and tax credits	(123,649)	(31,173)
Effect of tax rate reduction	10,554	-
Actual taxes	₩ 66,418	₩ 226,541
Effective tax rate	11.6%	31.1%

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

19. Income Taxes, Continued :

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

	Millions of Won			
	December 31, 2000	Increases	Decreases	December 31, 2001
<u>Deferred tax assets</u>				
Deferred foreign exchange loss, net	₩ 10,159	₩ -	₩ 5,761	₩ 4,398
Losses from sales of receivables	45,569	-	45,569	-
The equity method of accounting	170,092	303,338	42,432	430,998
Bad debt expenses	67,172	44,991	56,058	56,105
Product warranty provision	-	9,273	-	9,273
Other	21,387	289,534	362,537	(51,616)
Deferred tax assets	314,379	647,136	512,357	449,158
<u>Deferred tax liabilities</u>				
Amortization of intangible assets	(32,635)	(31,930)	(10,141)	(54,424)
Gain on valuation of investments	(12,518)	-	(5,136)	(7,382)
Custom duty drawback	(4,644)	(4,211)	(4,644)	(4,211)
Reserve for technological development	(98,313)	-	(4,045)	(94,268)
Other	(6,660)	(3,902)	(6,660)	(3,902)
Deferred tax liabilities	(154,770)	(40,043)	(30,626)	(164,187)
Net deferred tax assets	₩ 159,609	₩ 607,093	₩ 481,731	₩ 284,971

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.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

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, 2001 and 2000 are calculated as follows:

<u>Basic earnings per share</u>	<u>Millions of Won (except for EPS data)</u>	
	<u>2001</u>	<u>2000</u>
Net income as reported on the statements of income	₩ 507,282	₩ 502,183
Less : Preferred stock dividends	(35,397)	(19,472)
Net income allocated to common stock	471,885	482,711
Weighted average number of common shares outstanding	133,804,678	108,942,560
Basic earnings per share	<u>₩ 3,527</u>	<u>₩ 4,431</u>

Basic ordinary income per share for the year ended December 31, 2001 is the same as basic earnings per share, because there were no extraordinary gains or losses, and basic ordinary income per share for the year ended December 31, 2000 is ₩4,430.

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.

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

20. Earnings Per Share, Continued;

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

	Millions of Won (except for EPS data)	
	2001	2000
Net income allocated to common stock	<del>₩</del> 471,885	<del>₩</del> 482,711
Add : Interest expenses on convertible bonds, net of tax	-	2,070
Redeemable preferred stock dividends	-	1,006
	471,885	485,787
Weighted average number of common shares and diluted securities outstanding	133,804,678	111,224,159
Diluted earnings per share	<del>₩</del> 3,527	<del>₩</del> 4,368

Diluted earnings per share for the year ended December 31, 2001 is same as basic earnings per share because there are no diluted securities outstanding as of December 31, 2001. Diluted ordinary income per share for the year ended December 31, 2000 is ~~₩~~4,367.

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000  
-----

21. Dividends:

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

Dividends

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

Dividend Payout Ratio

	Millions of Won			
	2001		2000	
Total dividends (A)	₩	138,891	₩	144,861
Net income (B)		507,282		502,183
Dividend payout ratio ((A)/(B))		27.38%		28.85%

Dividend Yield Ratio

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

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

22. Transactions with Related Parties:

Significant transactions entered into in the ordinary course of business with related parties for the years ended December 31, 2001 and 2000 and the related account balances outstanding at December 31, 2001 and 2000 are summarized as follows.

		Millions of Won			
		Sales	Purchases	Receivables	Payables
	LG Electronics U.S.A., Inc.	₩ 1,325,732	₩ 38,266	₩ 8,662	₩ 30,106
	LG Electronics Alabama, Inc.	235,923	24,870	3,130	9,697
	LG Electronics Service Europe				
	Netherlands B.V.	436,066	4,509	6,686	28,104
	Hitachi-LG Data Storage Inc.	923,833	141,899	36,531	15,610
	Zenith Electronics Corporation	18,911	-	273,801	1,143
	LG.Philips Displays Holding B.V.	24,647	184,326	5,931	104,480
	LG International Corp.	445,637	26,719	9,711	4,080
	LG TeleCom Ltd.	302,226	20,374	161,666	3,862
	Other	3,590,069	1,103,084	286,876	336,687
	2001 Total	₩ 7,303,044	₩ 1,544,047	₩ 792,994	₩ 533,769
	2000 Total	₩ 7,028,871	₩ 1,504,114	₩ 806,155	₩ 425,381

23. Segment Information:

The Company has organized four reportable business divisions: digital display & media division, digital appliances division, display device division and information & communications division. Additionally, the Company has a centralized supporting division to provide general and administrative, marketing and sales and research and development services to each business division. The Company transferred the assets and liabilities of display device division to LG.Philips Displays Korea Co., Ltd. on June 30, 2001. Therefore, display device division does not exist as of December 31, 2001.

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

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

Continued;

LG ELECTRONICS INC.  
NOTES TO FINANCIAL STATEMENTS, Continued;  
for the years ended December 31, 2001 and 2000

-----

23. Segment Information, Continued;

Financial Data by Business Division (Millions of Won)

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

Financial Data by Geographic Area (Million of Won)

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

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

24. Supplemental Cash Flow Information :

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

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

	Millions of Won	
	2001	2000
Transfer to property, plant and equipment from construction in progress	₩ 245,626	₩ 75,196
Transfer to machinery and equipment from machinery in transit	164,865	86,596
Reclassify current maturities of debenture	1,283,892	1,275,736
Reclassify current maturities of long-term debt	199,948	223,923
Changes in retained earnings and capital adjustments by equity method of accounting on investments	218,778	304,103
Increase in investments by contribution of CRT division in kind	913,431	-
Increase in assets by merger of LGIC	-	3,060,233
Increase in liabilities by merger of LGIC	-	2,534,043

25. Merger :

Effective September 1, 2000, the Company merged with 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.

Continued;



LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000  
 -----

25. Merger, Continued :

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		
2001	(39,382)	
2000	(21,275)	(60,657)
Goodwill as of December 31, 2001		₩ 333,163

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

Condensed balance sheets -

	As of August 31, 2000	As of December 31, 1999
Current assets	₩ 1,221,105	₩ 894,135
Investment	1,571,884	1,473,054
Property, plant and equipment	228,085	198,261
Intangible assets	36,176	30,508
Total assets	₩ 3,057,250	₩ 2,595,958
Current 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.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

25. 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
Operating 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

26. Establishment of a joint venture related to Cathode Ray Tubes (“CRT”) business :

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

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

Continued :

LG ELECTRONICS INC.  
 NOTES TO FINANCIAL STATEMENTS, Continued;  
 for the years ended December 31, 2001 and 2000

-----

26. Establishment of a joint venture related to Cathode Ray Tubes (“CRT”) business,

Continued :

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

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

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

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

The price is subject to adjustment based on determination of assets and liabilities contributed and transferred to the joint venture.

27. Spin-off:

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

Condensed financial information as of September 30, 2001, of two companies after the split is, estimated according to the spin-off plan, as follows :

	Millions of Won (Post spin-off)		
	(Prior to spin-off)	LG Electronics Investment Inc.	LG Electronics Inc.
Assets	₩12,297,215	₩2,224,770	₩10,072,445
Liabilities	7,722,171	715,777	7,006,394
Equity	4,575,044	1,508,993	3,066,051