

# **LG ELECTRONICS INC. AND SUBSIDIARIES**

## **AUDIT REPORT 2002**

As of December 31, 2002 and  
for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of LG Electronics Inc. ("LGE") and its subsidiaries (collectively the "Company") as of December 31, 2002, and the related consolidated statements of income and changes in shareholders' equity for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002, 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 audit. We did not audit the financial statements of LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries of LGE, the financial statements of which reflect total assets amounting to ₩9,293,784 million as of December 31, 2002, and sales amounting to ₩16,347,354 million for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002. Additionally, we did not audit the financial statements of LG.Philips Displays Holding B.V. and certain other equity-method investees. The Company's investment in these investees amounted to ₩809,386 million as of December 31, 2002, and the Company's share in the net loss of these investees are ₩188,866 million for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002. The aforementioned financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned subsidiaries and equity-method investees, is based solely on the reports of the other auditors.

We conducted our audit 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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. and its subsidiaries as of December 31, 2002, and the results of their operations and the changes in their shareholders' equity for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002, in conformity with financial accounting standards generally accepted in the Republic of Korea.

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Without qualifying our opinion, we draw attention to the following matters.

As discussed in Notes 1 and 24 to the accompanying consolidated financial statements, the Company was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002. The electronics, and information and communications businesses were transferred from LG Electronics Investment Ltd. to the Company.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company made an early adoption of Statement of Korean Financial Accounting Standards (“SKFAS”) No. 6 on subsequent events for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002. Accordingly, the plan of appropriation for dividends prior to the resolution by the Company’s shareholders was not recognized as liabilities in the balance sheet as of December 31, 2002. The effect of this early adoption of SKFAS No. 6 was to decrease liabilities and increase retained earnings as of December 31, 2002 by ₩157,431 million.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position and results of operations in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
March 19, 2003

<p>This report is effective as of March 19, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>
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**LG ELECTRONICS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2002**  
**(In millions of Korean Won)**

ASSETS

Current assets:

Cash and cash equivalents	₩	902,877
Short-term financial instruments (Note 3)		35,118
Marketable securities (Note 4)		4,470
Trade accounts and notes receivable (Notes 5 and 22)		3,444,878
Inventories (Note 6)		3,640,180
Short-term loans (Note 5)		2,812
Other accounts receivable (Note 5)		598,830
Prepaid expenses		116,975
Accrued income (Note 5)		150,145
Advances (Note 5)		221,234
Prepaid income taxes (Note 19)		116,161
Derivatives transaction debit (Note 14)		15,271
Other current assets		267,979

Total current assets		9,516,930
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Property, plant and equipment, net of accumulated depreciation (Note 8)		7,393,223
Long-term financial instruments (Note 3)		19,598
Investment securities (Note 7)		1,074,674
Refundable deposits		397,327
Long-term loans (Note 5)		47,753
Long-term prepaid expenses		105,834
Deferred income tax assets (Note 19)		411,466
Intangible assets (Note 9)		1,066,866
Other non-current assets		34,005

Total assets	₩	20,067,676
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The accompanying notes are an integral part of these consolidated financial statements

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**LG ELECTRONICS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET, Continued**  
**December 31, 2002**  
**(In millions of Korean Won)**

LIABILITIES AND  
SHAREHOLDERS' EQUITY

Current liabilities:

Short-term borrowings (Note 10)	₩	3,767,173
Current maturities of long-term debt (Note 10)		898,256
Trade accounts and notes payable (Note 22)		3,173,784
Other accounts payable		2,243,186
Accrued expenses		823,977
Advances from customers		345,221
Withholdings		84,405
Income taxes payable (Note 19)		188,567
Derivatives transaction credit (Note 14)		606
Other current liabilities		393,985

Total current liabilities	11,919,160
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Debentures, net of current maturities

and discounts on debentures (Note 11)	3,654,176
Long-term debt, net of current maturities (Note 11)	201,010
Accrued severance benefits, net (Note 13)	209,116
Product warranty provision	82,951
Deferred income tax liabilities (Note 19)	15,795
Other long-term liabilities	42,138

Total liabilities	16,124,346
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Commitments and contingencies (Note 14)

Shareholders' equity:

Capital stock (Note 15)	783,961
Capital surplus (Note 16)	1,697,161
Retained earnings (Note 17)	344,072
Capital adjustments (Note 18)	12,135
Minority interest in consolidated subsidiaries	1,106,001

Total shareholders' equity	3,943,330
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₩	20,067,676
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The accompanying notes are an integral part of these consolidated financial statements.

**LG ELECTRONICS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**

**For the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002**  
**(In millions of Korean Won except for Earnings Per Share amounts)**

Sales (Note 22)	₩ 22,318,092
Cost of sales (Note 22)	<u>17,303,739</u>
Gross profit	5,014,353
Selling and administrative expenses	<u>4,102,369</u>
Operating income	<u>911,984</u>
Non-operating income:	
Interest and dividend income	67,554
Rental income	8,256
Foreign exchange gains	568,380
Gain on disposal of investments (Note 7)	20,272
Gain on disposal of property, plant and equipment	8,074
Gain on derivatives transactions (Note 14)	23,285
Gain on valuation of derivatives (Note 14)	20,586
Refund of income taxes	2,641
Reversal of bad debt allowance	7,948
Others	<u>413,994</u>
	<u>1,140,990</u>
Non-operating expenses:	
Interest expense	319,417
Foreign exchange losses	460,160
Loss on valuation of inventories	54,140
Loss from transfer of trade accounts and notes receivable	75,377
Loss from disposal of property, plant and equipment	75,960
Loss on impairment of property, plant and equipment	2,227
Loss from disposal of investments	14,626
Loss from redemption of debentures	1,302
Equity in losses of affiliates, net (Note 7)	184,852
Other bad debt expense	8,948
Donations	6,825
Loss on derivatives transactions (Note 14)	11,506
Loss on valuation of derivatives (Note 14)	5,502
Additional payment of income taxes	7,252
Others	<u>179,476</u>
	<u>1,407,570</u>

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

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**LG ELECTRONICS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME, Continued**  
**For the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002**  
**(In millions of Korean Won except for Earnings Per Share amounts)**

Ordinary income	₩	645,404
Extraordinary gains		-
Extraordinary losses		-
Income before income taxes		645,404
Income tax expense (Note 19)		<u>179,261</u>
Income before minority interests		466,143
Minority interest in income of consolidated subsidiaries, net		<u>(123,683)</u>
Net income	₩	<u>342,460</u>
Earnings per share (in Won) (Note 20)	₩	<u>2,181</u>
Ordinary income per share (in Won) (Note 20)	₩	<u>2,181</u>

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

**LG ELECTRONICS INC. AND SUBSIDIARIES**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
(In millions of Korean Won)

	<u>Capital Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Capital Adjustments</u>	<u>Minority Interests</u>	<u>Total</u>
Balance at April 1, 2002	₩ 783,961	₩ 1,699,129	₩ -	₩ 130,716	₩ 996,689	₩ 3,610,495
Net income	-	-	342,460	-	-	342,460
Acquisition of treasury stock	-	-	-	(11,651)	-	(11,651)
Loss on valuation of investments, net	-	-	-	(12,647)	-	(12,647)
Overseas operations translation adjustments	-	-	-	(97,985)	-	(97,985)
Changes in minority interest	-	-	-	-	109,312	109,312
Adjustment for changes in ownership, net	-	(1,968)	-	-	-	(1,968)
Others	-	-	1,612	3,702	-	5,314
Balance at December 31, 2002	<u>₩ 783,961</u>	<u>₩ 1,697,161</u>	<u>₩ 344,072</u>	<u>₩ 12,135</u>	<u>₩ 1,106,001</u>	<u>₩ 3,943,330</u>

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



LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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1. The Consolidated Companies:

The Controlling Company -

As discussed in Note 24, LG Electronics Inc. (“LGE”), the controlling company, was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002, to engage in the manufacture and sale of electronic, and information and communication products.

As of December 31, 2002, LGE has its manufacturing facilities in Kuro, Pyeongtaek, Chongju, Gumi, Changwon, etc. LGE is a member of the LG Group, which comprises affiliated companies under common management direction.

As of December 31, 2002, LGE has outstanding capital stock amounting to ₩783,961 million, including non-voting preferred stock. LGE’s stock was listed on the Korean Stock Exchange on April 22, 2002, and its depository receipts (“DRs”) were listed on the London Stock Exchange in September 2002.

As of December 31, 2002, affiliated companies comprised of the LG Group, including LG Electronics Investment Ltd., which owns a total of 36.1% of LGE’s common stock, and financial institutions, foreign investors and others, which own the rest of LGE’s common stock.

Consolidated Subsidiaries and Equity-Method Investees -

Consolidated subsidiaries and equity-method investees as of December 31, 2002 are as follows:

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
<u>Domestic subsidiaries</u>					
LG.Philips LCD Co., Ltd.	145,000,000	72,500,000	-	72,500,000	50.00
LG Sports Ltd.	1,200,000	471,000	-	471,000	39.25
LG Innotek Co., Ltd.	8,620,800	6,017,400	-	6,017,400	69.80
Hi Plaza Inc.	1,440,000	1,440,000	-	1,440,000	100.00
<u>Domestic equity-method investees</u>					
LG IBM PC Co., Ltd.	4,860,000	2,381,400	-	2,381,400	49.00
LG Micron Ltd.	5,800,000	1,000,000	589,860	1,589,860	27.41
LG Investments Security Inc.	122,116,369	10,180,531	-	10,180,531	8.34
<u>Overseas subsidiaries</u>					
LG Electronics Alabama, Inc. (LGEAI)	266	266	-	266	100.00
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)(*)	-	-	-	-	100.00
LG Electronics Antwerp Logistics N.V. (LGEAL)(*)	-	-	-	-	100.00

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LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002

1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued -

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
<u>Overseas subsidiaries, Continued</u>					
LG Electronics Australia PTY, Ltd. (LGEAP)	2,685,000	2,685,000	-	2,685,000	100.00
LG Electronics Klima Sanayi ve Ticaret P.S. (LGEAT)	120,000	60,000	-	60,000	50.00
LG Electronics Da Amazonia Ltda. (LGEAZ)(* )	-	-	-	-	100.00
LG Electronics Colombia Ltda. (LGECEB)(* )	-	-	-	-	100.00
LG Electronics China Co., Ltd. (LGECH)(* )	-	-	-	-	100.00
LG Electronics Canada, Inc. (LGECEI)	42,900	42,900	-	42,900	100.00
LG Collins Electronics Manila Inc. (LGECEM)	739,036	681,776	-	681,776	92.25
Taizhou LG Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECE)(* )	-	-	-	-	100.00
LG Electronics Deutschland GmbH (LGEDG)(* )	-	-	-	-	100.00
PT LG Electronics Display Devices Indonesia (LGEDI)	41,240	41,240	-	41,240	100.00
LG Electronics Egypt Cairo S.A.E. (LGECEC)	13,510	13,510	-	13,510	100.00
LG Electronics Egypt S.A.E. (LGECEG)	120,000	93,600	-	93,600	78.00
LG Electronics Espana S.A. (LGEES)	53,000	53,000	-	53,000	100.00
LG Goldstar France S.A.R.L. (LGEFS)	37,050,000	-	37,050,000	37,050,000	100.00
LG Electronics Gulf FZE (LGEGF)	11	11	-	11	100.00
LG Electronics HK Limited (LGEHK)	2,852,825	2,852,825	-	2,852,825	100.00
LG Electronics Huizhou Inc. (LGEHZ)(* )	-	-	-	-	80.00
LG Electronics India PVT Ltd. (LGEIL)	112,649,459	112,649,459	-	112,649,459	100.00
PT LG Electronics Indonesia Ltd. (LGEIN)	40,700	31,200	9,500	40,700	100.00
LG Electronics Italy S.P.A. (LGEIS)	17,010,131	17,010,131	-	17,010,131	100.00
LG Electronics Japan Inc. (LGEJP)	1,380,000	1,380,000	-	1,380,000	100.00
LG Electronics Mlawa SP.Zo.O. (LGEEMA)(* )	-	-	-	-	100.00
LG Electronics Morocco S.A.R.L. (LGECEM)	315,213	315,213	-	315,213	100.00
LG-Meca Electronics Haiphong, Inc. (LGECEM)(* )	-	-	-	-	70.00
LG Electronics Magyar Kft (LGECEM)(* )	-	-	-	-	100.00
LG Electronics Monterrey Mexico S.A. DE C.V. (LGECEM)	16,160	15,998	-	15,998	99.00
LG Electronics Mexico S.A. DE C.V. (LGECEM)	19,800	19,800	-	19,800	100.00
LG MITR Electronics Co., Ltd. (LGECEM)	5,076,000	4,453,800	-	4,453,800	87.74
LG Electronics Mexicali S. A. DE C.V. (LGECEM)	513,626	-	513,626	513,626	100.00
LG Electronics North of England Ltd. (LGECEM)	9,000,000	9,000,000	-	9,000,000	100.00
Nanjing LG-Tontru Color Display System Co., Ltd. (LGECEM)(* )	-	-	-	-	70.00
LG Electronics Polska SP.Zo. O. (LGECEM)(* )	-	-	-	-	100.00
Nanjing LG Panda Appliances Co., Ltd. (LGECEM)(* )	-	-	-	-	70.00
LG Electronics Peru S.A. (LGECEM)	5,296,822	5,296,822	-	5,296,822	100.00
LG Electronics Panama S.A. (LGECEM)	21,000	21,000	-	21,000	100.00
LG Electronics Reynosa S.A. DE C.V. (LGECEM)	70,576,292	-	70,576,292	70,576,292	100.00
LG Electronics Qinhuangdao Co., Ltd. (LGECEM)(* )	-	-	-	-	100.00

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LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002

1. The Consolidated Companies, Continued:

Consolidated Subsidiaries and Equity-Method Investees, Continued --

	Total issued and outstanding shares	Shares owned by			Ownership (%)
		LGE	Subsidiaries	Total	
LG Electronics S.A. Pty Ltd. (LGESA)	18,500,000	18,500,000	-	18,500,000	100.00
LG Electronics Service Europe Netherlands B.V. (LGESE) (*)	-	-	-	-	100.00
Shanghai LG Electronics Co., Ltd. (LGESH)(*)	-	-	-	-	70.00
LG Electronics de Sao Paulo Ltda. (LGESP)(*)	-	-	-	-	100.00
LG SEL Electronics Vietnam Inc. (LGEVN) (formerly LGESV)(*)	-	-	-	-	100.00
LG Electronics Sweden AB (LGESW)	44,345	44,345	-	44,345	100.00
LG Electronics Shenyang Inc. (LGESY)(*)	-	-	-	-	78.87
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)(*)	-	-	-	-	80.00
LG Electronics Thailand Co., Ltd. (LGETH)	2,050,000	1,004,500	1,045,500	2,050,000	100.00
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	19,492,542	13,048,493	-	13,048,493	66.94
LG Electronics United Kingdom Ltd. (LGEUK)	76,000	76,000	-	76,000	100.00
LG Electronics U.S.A., Inc. (LGEUS)	22,016	22,016	-	22,016	100.00
LG Electronics Wales Ltd. (LGEWA)	519,000	519,000	-	519,000	100.00
LG I&C Thailand (LGICTH)	76,000	45,600	-	45,600	60.00
LG Electronics LG Infocomm, U.S.A. (LGICUS)	55,000	55,000	-	55,000	100.00
LG Innotek Indonesia (LGITIN) (*)	-	-	-	-	100.00
LG Precision Huizhou Inc. (LGPHZ) (*)	-	-	-	-	100.00
LG Precision U.S.A. Inc. (LGPUS)	20,000	-	20,000	20,000	100.00
LG Electronics System India, Ltd. (LGSYS)	36,904,200	36,904,200	-	36,904,200	100.00
LG Holdings (HK) Ltd.	60,000,000	19,090,000	-	19,090,000	31.82
LG TOPS (*)	-	-	-	-	40.00
Zenith Electronics Corporation (Zenith)	1,000	1,000	-	1,000	100.00
LG.Philips LCD America, Inc.	5,000,000	-	5,000,000	5,000,000	100.00
LG.Philips LCD Japan Co., Ltd.	1,900	-	1,900	1,900	100.00
LG.Philips LCD Germany GmbH	960,000	-	960,000	960,000	100.00
LG.Philips LCD Taiwan Co., Ltd.	11,550,000	-	11,549,994	11,549,994	100.00
LG.Philips LCD Nanjing Co., Ltd. (*)	-	-	-	-	100.00
<u>Overseas equity-method investees</u>					
Hitachi-LG Data Storage Inc. (HLDS)	30,000	14,700	-	14,700	49.00
LG.Philips Displays Holding B.V.	49,998	18,749	6,250	24,999	50.00
Vietnam Korea Exchange, Ltd. (V.K.X.)(*)	-	-	-	-	40.00
EIC PROPERTIES PTE LTD.	34,170,000	13,052,940	-	13,052,940	38.20
Athena Venture Fund II LP (*)	-	-	-	-	20.00

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

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LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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1. The Consolidated Companies, Continued:

A summary of financial data of major consolidated subsidiaries, prior to eliminating intercompany transactions, is as follows:

Condensed Balance Sheets -

	As of December 31, 2002 (Millions of Korean Won)							
	LG.Philips	LG Innotek						
	LCD Co., Ltd.	Co., Ltd.	LGETA	LGEUS	Zenith	LGEDI	Others	Total
Current assets	₩1,034,118	₩186,013	₩288,426	₩497,929	₩114,553	₩301,798	₩6,053,433	₩ 8,476,270
Investments	113,758	64,358	-	3,242	3,953	13,502	532,950	731,763
Property, plant and equipment	3,234,264	206,802	238,378	20,495	4,263	40,609	664,607	4,409,418
Intangible assets	255,185	6,513	9,892	-	-	-	42,068	313,658
Total assets	4,637,325	463,686	536,696	521,666	122,769	355,909	7,293,058	13,931,109
Current liabilities	1,334,653	240,402	351,850	481,229	219,008	284,514	6,030,517	8,942,173
Non-current liabilities	1,436,781	55,706	34,780	6,226	178,683	1,332	268,797	1,982,305
Total liabilities	2,771,434	296,108	386,630	487,455	397,691	285,846	6,299,314	10,924,478
Capital stock	1,450,000	43,104	82,261	23,879	-	32,085	854,182	2,485,511
Capital surplus	-	56,243	(49)	775	690,676	-	171,310	918,955
Retained earnings (deficit)	416,957	76,968	46,154	7,524	(1,040,152)	34,420	(76,617)	(534,746)
Capital adjustments	(1,066)	(8,737)	21,700	2,033	74,554	3,558	44,869	136,911
Total shareholders' equity	1,865,891	167,578	150,066	34,211	(274,922)	70,063	993,744	3,006,631
Total liabilities and shareholders' equity	₩4,637,325	₩463,686	₩536,696	₩521,666	₩122,769	₩355,909	₩7,293,058	₩13,931,109

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LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002

1. The Consolidated Companies, Continued:

Condensed Income Statements -

For the nine-month period from April 1, 2002 (date of spin-off)  
 to December 31, 2002 (Millions of Korean Won)

	LG.Philips LCD Co., Ltd.	LG Innotek Co., Ltd.	LGETA	LGEUS	Zenith	LGEDI	Others	Total
Sales	₩2,769,544	₩593,217	₩651,094	₩944,007	₩238,491	₩700,966	₩13,219,579	₩19,116,898
Cost of sales	2,473,978	540,352	515,397	910,890	203,534	633,652	11,963,263	17,241,066
Gross profit	295,566	52,865	135,697	33,117	34,957	67,314	1,256,316	1,875,832
Selling and administrative expenses	104,664	32,752	110,778	38,108	71,672	68,573	1,292,201	1,718,748
Operating income (loss)	190,902	20,113	24,919	(4,991)	(36,715)	(1,259)	(35,885)	157,084
Non-operating income	223,439	14,569	2,593	11,925	72,296	22,256	442,126	789,204
Non-operating expenses	184,669	37,295	11,075	4,844	27,600	17,072	308,845	591,400
Ordinary income (loss)	229,672	(2,613)	16,437	2,090	7,981	3,925	97,396	354,888
Extraordinary gains	-	-	-	-	-	-	-	-
Extraordinary losses	-	-	-	-	-	-	-	-
Income tax expense	310	444	1,229	-	-	-	31,754	33,737
Net income (loss)	₩ 229,362	₩ (3,057)	₩ 15,208	₩ 2,090	₩ 7,981	₩ 3,925	₩ 65,642	₩ 321,151

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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1. The Consolidated Companies, Continued:

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

Condensed Balance Sheets -

	As of December 31, 2002 (Millions of Korean Won)					
	LG Micron Ltd.		LG IBM PC Co., Ltd.		LG.Philips Displays Holding B.V.	
	₩		₩		₩	
Current assets	123,453		101,429		1,725,312	
Investments	27,944		7,148		41,149	
Property, plant and equipment	245,668		6,222		2,944,037	
Intangible assets	13,922		-		1,101,730	
Total assets	<u>410,987</u>		<u>114,799</u>		<u>5,812,228</u>	
Current liabilities	90,952		76,800		1,865,727	
Non-current liabilities	111,694		1,885		2,328,041	
Total liabilities	<u>202,646</u>		<u>78,685</u>		<u>4,193,768</u>	
Capital stock	29,000		24,300		57	
Capital surplus	45,357		-		2,980,038	
Retained earnings (deficit)	134,960		11,814		(1,411,067)	
Capital adjustments	(976)		-		49,432	
Total shareholders' equity	<u>208,341</u>		<u>36,114</u>		<u>1,618,460</u>	
Total liabilities and shareholders' equity	<u>₩ 410,987</u>		<u>₩ 114,799</u>		<u>₩ 5,812,228</u>	

Condensed Income Statements -

	For the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002 (Millions of Won)					
	LG Micron Ltd.		LG IBM PC Co., Ltd.		LG.Philips Displays Holding B.V.	
	₩		₩		₩	
Sales	361,245		297,032		4,452,637	
Cost of sales	298,506		260,913		4,096,306	
Gross Profit	62,739		36,119		356,331	
Selling and administrative expenses	15,446		26,517		307,441	
Operating income	47,293		9,602		48,890	
Non-operating income	11,586		3,075		173,118	
Non-operating expenses	25,267		990		694,450	
Ordinary income (loss)	33,612		11,687		(472,442)	
Extraordinary gains	-		-		-	
Extraordinary losses	-		-		-	
Income tax expense	8,175		3,687		(3,358)	
Net income (loss)	<u>₩ 25,437</u>		<u>₩ 8,000</u>		<u>₩ (469,084)</u>	

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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2. Summary of Significant Accounting Policies:

The significant accounting policies followed by LGE and its subsidiaries (collectively referred to as the "Company") in the preparation of the accompanying consolidated financial statements are summarized as follows:

Basis of Financial Statement Presentation -

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

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

Principles of Consolidation -

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

The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30% of its issued share capital is held by the other company and that company is the largest shareholder. Investments in 20% to 50% owned affiliated companies or investments in affiliated companies over which the Company exerts a significant influence are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share in the undistributed earnings or losses of these companies.

All significant intercompany transactions and balances with consolidated subsidiaries have been eliminated in consolidation.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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2. Summary of Significant Accounting Policies, Continued:

Principles of Consolidation, Continued -

To eliminate the investment account of the controlling company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied, depending on the nature of the transaction. In using the purchase method, when the Company has a control over a subsidiary, the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, which is amortized over five years using the straight-line method. When the Company has a significant influence over equity-method investees, differences between the initial investment accounts and corresponding capital accounts of equity-method investees are also amortized over five years using the straight-line method.

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

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

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.

Continued;



LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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2. Summary of Significant Accounting Policies, Continued:

Marketable Securities and Investments -

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

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

For investments accounted for using the equity method of accounting, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments, capital surplus or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate 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 adjustments 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, with cost being determined using the weighted-average method, except for inventory in-transit which is determined using the specific identification method.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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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 the revaluation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or significantly 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 nine-month period from April 1, 2002 to December 31, 2002 amounted to approximately ₩7,962 million.

Intangible Assets -

Intangible assets are stated at cost, net of accumulated amortization. The excess of the price paid over the acquired company's net book value is recorded as goodwill. Amortization is computed using the straight-line method over five years for goodwill, and over the estimated useful lives for other intangible assets.

Research and Development Cost -

Research costs are expensed when incurred. Development costs directly relating to a 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 the commercial production of the 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.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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2. Summary of Significant Accounting Policies, Continued:

Derivative Financial Instruments -

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

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 Stock -

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

Foreign Currency Translation -

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

The exchange rate used to translate U.S. Dollar denominated monetary assets and liabilities as of December 31, 2002 is ₩1,200.4: US\$1.

Translation of Foreign Currency Statements -

Foreign currency financial statements of consolidated subsidiaries are translated into Korean Won using the basic exchange rates in effect at the balance sheet date for assets and liabilities, and average monthly exchange rates for income and expenses. Any resulting translation gain or loss is included in shareholders’ equity.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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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 consolidated balance sheet as a product warranty provision.

Accrued Severance Benefits -

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

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

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

Long-Term Accounts Receivable and Payable -

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

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 amounting to 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. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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2. Summary of Significant Accounting Policies, Continued:

Income Taxes -

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial accounting and income tax purposes. Deferred income 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 income tax assets are recognized to the extent that it is certain that such deferred income 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 income tax assets and liabilities.

Tax credits for investments and development of research 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 income tax assets, subject to realizability as stated above, are recognized for the carry-forward amount.

Sale of Accounts and Notes Receivable -

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

Early Adoption of the Statements of Korean Financial Accounting Standards -

On December 27, 2001, the Korean Accounting Standards Board ("KASB") published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 became effective for the Company on January 1, 2003, and the Company plans to adopt these statements in its financial statements for the year ending December 31, 2003, except for SKFAS No. 6 on subsequent events, of which the Company made an early adoption for the nine-month period from April 1, 2002 to December 31, 2002, in accordance with the addendum of SKFAS No. 6. Accordingly, the plan of appropriation for dividends prior to the resolution by the Company's shareholders was not recognized as liabilities in the balance sheet as of December 31, 2002. The effect of this early adoption of SKFAS No. 6 was to decrease liabilities and increase retained earnings as of December 31, 2002 by ₩157,431 million.

Absence of the Consolidated Statement of Cash Flows -

LGE was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002. According to Addendum 3 of the financial accounting standards for consolidated financial statements in the Republic of Korea, the consolidated statement of cash flows is not required to be prepared, since the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002 is the initial fiscal year for the consolidated financial statements.

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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3. Restricted Financial Instruments:

As of December 31, 2002, short-term financial instruments amounting to ₩32 million and long-term financial instruments amounting to ₩8,363 million 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. Marketable Securities:

Marketable securities as of December 31, 2002 comprise the following:

	Millions of Won
<u>Equity securities</u>	₩ 4,430
<u>Debt securities</u>	
Bonds issued by the government	40
	₩ 4,470

5. Receivables:

Receivables, including trade accounts and notes receivable, as of December 31, 2002 comprise the following (Millions of Won):

	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
Trade accounts and notes receivable	₩3,623,359	₩178,390	₩ 91	₩3,444,878
Short-term loans	2,827	15	-	2,812
Other accounts receivable	650,931	52,101	-	598,830
Accrued income	152,794	2,649	-	150,145
Advances	225,976	4,742	-	221,234
Long-term loans	69,553	21,800	-	47,753
	₩4,725,440	₩259,697	₩ 91	₩4,465,652

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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6. Inventories:

Inventories as of December 31, 2002 comprise the following:

	Millions of Won
Merchandise	₩1,000,964
Finished products	1,140,881
Semi-finished products and work-in-process	289,394
Raw materials and supplies	585,019
Materials in-transit	565,447
Other	58,475
	₩3,640,180

7. Investment Securities:

Investments in affiliates and other investments as of December 31, 2002 are as follows:

Investments in affiliates -

	Percentage of ownership (%) at December 31, 2002	Millions of Won		
		Acquisition cost	Net asset value	Carrying value
<Equity method>				
<u>Domestic affiliates</u>				
LG Investments Security Inc.	8.34	₩ 262,432	₩ 145,270	₩ 145,270
LG IBM PC Co., Ltd.	49.00	11,907	15,133	15,133
LG Micron Ltd.	27.41	32,376	60,999	60,999
<u>Overseas affiliates</u>				
LG.Philips Displays Holding B.V.	50.00	1,222,322	569,710	569,710
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	18,094	18,094
EIC PROPERTIES PTE LTD.	38.20	9,636	8,618	8,618
Vietnam Korea Exchange Ltd. (V.K.X.)	40.00	1,736	2,316	2,316
Athena Venture Fund II LP	20.00	12,016	4,379	4,379
		₩ 1,560,109	₩ 824,519	₩ 824,519

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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7. Investment Securities, Continued:

Investments in affiliates, Continued:

	Percentage of ownership (%) at December 31, 2002	Millions of Won		
		Acquisition cost	Net asset value	Carrying value
<Cost method>				
<u>Domestic affiliates</u>				
LG Mart Co., Ltd.	0.30	₩ 3,331	₩ 1,268	₩ 1,895
<u>Overseas affiliates</u>				
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)(*1)	49.00	36	36	36
LG Electronics Austria GmbH (LGEAG)	100.00	116	116	116
LG Electronics Argentina S.A. (LGEAR)(*1)	100.00	7,410	-	-
LG Electronics Design Tech, Ltd. (LGEDT)(*1)	100.00	1,002	1,002	1,002
LG Electronics Hellas S.A. (LGEHS)(*1)	100.00	6,063	6,063	6,063
LG Electronics Middle East Co., Ltd. (LGEME)(*1)	100.00	462	462	462
LG Electronics (M) SDN.BHD (LGEML)	100.00	11	11	11
Triveni Digital Inc.	100.00	899	899	899
LG Electronics Russia Inc. (LGERI)	95.00	391	391	391
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd. (LGEYT)(*1)	49.00	824	824	824
LG Electronics Ukraine Co., Ltd. (LGEUR)(*1)	100.00	1,041	1,041	1,041
Langchao LG Digital Mobile Communication Co., Ltd.	49.00	9,669	9,669	9,669
LG Soft India PVT, Ltd. (LGSi)	88.00	2,920	2,920	2,920
SLD Telecom Pte. Ltd. (*1)	44.00	10,042	10,042	10,042
Electromagnetica Goldstar S.R.L.	50.00	508	508	508
LG (Yantai) Information & Communication Technology Co., Ltd.	100.00	2,720	2,720	2,720
COMMIT Incorporated	100.00	4,990	4,990	4,990
Chemicals and Materials Enterprise Associates II, L.P.	-	4,081	2,855	2,855
		56,516	45,817	46,444
Investments in affiliates total		₩ 1,616,625	₩ 870,336	₩ 870,963

(\*1) Investments in small-sized subsidiaries and affiliates whose total assets as of the previous year-end amounted to less than ₩7,000 million or which are newly established in the current period are stated at cost, in accordance with financial accounting standards generally accepted in the Republic of Korea.

Continued;



LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002

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7. Investment Securities, Continued:

Other investments -

	Percentage of ownership (%) at December 31, 2002	Millions of Won		
		Acquisition cost	Market value or net asset value	Carrying value
<Marketable equity securities>				
Hynix Semiconductor Inc.	0.38	₩ 24,298	₩ 527	₩ 527
KT Corp.	0.76	127,441	119,653	119,653
LG Card Co., Ltd.	0.46	1,820	10,842	10,842
NARA MOLD & DIE Co., Ltd.	12.34	812	3,570	3,570
Voiceware Co., Ltd.	13.08	206	1,844	1,844
Vodavi Technology Inc.	19.86	2,928	1,853	1,853
		157,505	138,289	138,289
<Non-marketable equity securities>				
<u>Domestic Companies</u>				
Innopla Co., Ltd.	19.90	245	645	245
Castec Korea Co., Ltd.	5.00	150	489	150
Msoltech	10.00	635	242	635
Airlinktek	10.00	589	245	589
Korea Information Certificate Authority Inc.	9.35	1,852	1,774	1,852
STIC VENTURES Co., Ltd.	94.00	28,200	29,959	28,200
Association of Electronics Environment	36.04	4,349	1,795	4,349
Megaround Co., Ltd.	19.90	318	315	318
TEMCO, Inc.	13.04	1,200	1,200	1,200
Netgenetech. Co., Ltd.	15.01	176	176	176
MACHI	9.50	150	150	150
Manager Society, Inc.	3.70	200	200	200
Mobisys Telecom	11.63	279	279	279
Thermo Metrix Technology	19.90	158	158	158
WOWLINUX	8.33	100	100	100
Standard Lazar Systems	1.54	250	250	250
Seil AGIC	0.00	2	-	-
DIGITAL WORLD	1.27	180	180	180
Korean Defense Industry Development Association	-	3,171	3,171	3,171
Information & Communication Financial Cooperative	-	36	36	36
Others	-	952	952	952

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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7. Investment Securities, Continued:

Other investments, Continued:

	Percentage of ownership (%) at December 31, 2002	Millions of Won		
		Acquisition cost	Market value or net asset value	Carrying value
<u>Overseas Companies</u>				
Gemfire Corp.	4.41	₩ 1,835	₩ 170	₩ 1,835
Erlang Technology Inc.	8.40	1,129	187	1,129
Mainstreet Networks (*2)	5.45	1,468	-	-
iTV Corporation (*2)	13.08	1,957	-	-
Pocket Science (*2)	4.42	473	-	-
Neopoint Inc. (*2)	16.62	1,604	-	-
E2OPEN.COM	6.25	12,751	3,606	12,751
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
Others	-	346	346	346
		<u>70,583</u>	<u>48,673</u>	<u>65,079</u>
 <Debt securities>				
Bonds issued by the government		301	299	299
Others		44	44	44
		<u>345</u>	<u>343</u>	<u>343</u>
Other investments total		<u>228,433</u>	<u>187,305</u>	<u>203,711</u>
Investment securities total		<u>₩ 1,845,058</u>	<u>₩ 1,057,641</u>	<u>₩ 1,074,674</u>

(\*2) Acquisition cost was written off due to the negative net book value of the investment as of December 31, 2002.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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7. Investment Securities, Continued:

For the nine-month period ended December 31, 2002, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are as follows:

	Millions of Won			
	April 1, 2002	Addition	Amortization	December 31, 2002
<u>Domestic Company</u>				
LG Investments Security Inc.	₩ 36,707	₩ -	₩ (11,136)	₩ 25,571
<u>Overseas Companies</u>				
LG.Philips Displays Holding B.V.	(213,519)	-	37,680	(175,839)
Hitachi-LG Data Storage Inc. (HLDS)	113	-	(7)	106
Vietnam Korea Exchange Ltd. (V.K.X.)	173	(37)	(12)	124
	₩ (176,526)	₩ (37)	₩ 26,525	₩(150,038)

For the nine-month period ended December 31, 2002, the details of the elimination of unrealized gain or loss arising from the equity method accounting are as follows:

	Millions of Won			
	Inventories	Property, plant and equipment	Intangible assets	Total
<u>Domestic Companies</u>				
LG Micron Ltd.	₩ (212)	₩ -	₩ -	₩ (212)
LG IBM PC Co., Ltd.	1,293	-	-	1,293
<u>Overseas Companies</u>				
LG.Philips Displays Holding B.V.	559	-	-	559
Hitachi-LG Data Storage Inc. (HLDS)	23	-	-	23
Vietnam Korea Exchange Ltd. (V.K.X.)	(64)	-	-	(64)
	₩ 1,599	₩ -	₩ -	₩ 1,599

(\* ) In the above table, positive numbers represent equity in earnings of affiliates and negative numbers represent equity in losses of affiliates.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
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7. Investment Securities, Continued:

Changes in investments in affiliates accounted for using the equity method for the nine-month period ended December 31, 2002 are as follows:

	Millions of Won			December 31, 2002
	April 1, 2002	Equity in earnings (losses) of affiliates, net	Others	
<u>Domestic Companies</u>				
LG Investments Security Inc.	₩ 151,959	₩ (4,232)	₩ (2,457)	₩ 145,270
LG IBM PC Co., Ltd.	11,120	4,013	-	15,133
LG Micron Ltd.	54,559	12,215	(5,775)	60,999
LG Card Co., Ltd.	7,183	-	(7,183)	-
<u>Overseas Companies</u>				
LG.Philips Displays Holding B.V.	643,664	(196,343)	122,389	569,710
LG Electronics Argentina S.A. (LGEAR)	7,410	(7,410)	-	-
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	13,554	1,147	(14,701)	-
Hitachi-LG Data Storage Inc. (HLDS)	8,866	9,165	63	18,094
EIC PROPERTIES PTE LTD	9,283	(332)	(333)	8,618
Vietnam Korea Exchange Ltd. (V.K.X.)	2,123	221	(28)	2,316
Athena Venture Fund II LP	7,675	(3,296)	-	4,379
	<u>₩ 917,396</u>	<u>₩(184,852)</u>	<u>₩ 91,975</u>	<u>₩ 824,519</u>

In June 2002, LG.Philips Displays Holding B.V. increased its capital stock, and the Company contributed US\$125 million (₩153,275 million) equivalent to its existing percentage of ownership (50%).

During the nine-month period ended December 31, 2002, the Company purchased 2,360,018 shares of common stock of KT Corp. for ₩127,441 million.

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8. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2002 comprise the following:

	Millions of Won
Buildings	₩ 1,989,459
Structures	234,645
Machinery and equipment	5,667,525
Vehicles	44,647
Others	2,081,262
	10,017,538
Accumulated depreciation	(4,374,453)
	5,643,085
Land	940,788
Construction in-progress	809,350
	₩ 7,393,223

As of December 31, 2002, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩744,388 million.

As of December 31, 2002, property, plant and equipment, other than land and certain construction in-progress, and inventories are insured against fire and other casualty losses up to approximately ₩19,496,950 million.

A substantial portion of property, plant and equipment as of December 31, 2002 is pledged as collateral for various loans from banks, including Korea Development Bank, up to a maximum Won equivalent amount of approximately ₩722,593 million (see Notes 10 and 11).

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9. Intangible Assets:

Intangible assets as of December 31, 2002 comprise the following:

	Millions of Won
Development costs	₩ 189,744
Goodwill	334,055
Negative goodwill	(11,813)
Industrial property rights	417,027
Others	137,853
	₩ 1,066,866

Details of research and development costs incurred for the nine-month period ended December 31, 2002 are as follows:

	Millions of Won
Capitalized	₩ 62,056
Expensed	610,525
	₩ 672,581

As a result of LG Electronics Investment Ltd.'s (formerly LG Electronics Inc.) merger with LG Information & Communications, Ltd. in September 2000, LG Electronics Investment Ltd. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to LGE. Related amortization expenses of goodwill and industrial property rights approximate ₩29,535 million and ₩57,269 million, respectively, for the nine-month period ended December 31, 2002.

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10. Short-Term Borrowings:

Short-term borrowings as of December 31, 2002 comprise the following:

	<u>Annual interest rate (%) at December 31, 2002</u>	<u>Millions of Won</u>
<u>Bank overdrafts</u>	6.10 - 7.10	₩ 40,976
<u>Won currency loans:</u>		
General term loans	5.05 - 5.74	88,000
<u>Foreign currency loans:</u>		
Bank loans	LIBOR + 0.6 - 1.2	1,464,053
Trade notes receivable discounted	LIBOR + 0.6 - 2.0	1,921,270
Loans for operating fund	0.56 - 2.50	34,809
Documents against acceptance loans	LIBOR + 0.075 - 0.085	167,431
		3,587,563
		(US\$ 2,989)
 <u>USANCE</u>	 0.40 - 1.90	 50,634
		(¥ 5,045)
		₩ 3,767,173

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

Current maturities of long-term debt as of December 31, 2002 comprise the following:

	<u>In Millions of Won</u>
Debentures	₩ 715,040
Discount on debentures, net	(2,475)
Long-term debt	182,938
Long-term other accounts payable	2,753
	₩ 898,256

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11. Long-Term Debt:

Long-term debt as of December 31, 2002 comprises the following:

	Annual interest rate (%) at December 31, 2002	In Millions
<u>Debentures</u>		
Public, guaranteed payable through 2003	6.00	₩ 5,000
Private, non-guaranteed payable through 2006	7.40 - 16.50	415,000
Public, non-guaranteed payable through 2006	5.00 - 9.00	1,820,000
Public, non-guaranteed payable through 2007	5.00 - 7.00	800,000
Floating rate notes in foreign currency, payable through 2006	LIBOR + 0.5 - 1.9	1,390,692
		(US\$ 1,159)
		<u>4,430,692</u>
Less: Current maturities		(715,040)
Discount on debentures		(61,476)
		<u>₩ 3,654,176</u>

Continued;



LG ELECTRONICS INC. AND SUBSIDIARIES  
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11. Long-Term Debt, Continued:

	Annual interest rate (%) at December 31, 2002	In Millions
<u>Won currency loans</u>		
Kookmin Bank	3.00	₩ 249
Shinhan Bank and others	5.00 - 5.42	5,331
Hana Bank and others	7.25 - 9.96	30,000
Chohung Bank and others	5.00 - 5.50	184
Korea Development Bank	1.00 - 10.40	17,555
		53,319
 <u>Foreign currency loans</u>		
Woori Bank	LIBOR + 0.40	976
Korea First Bank	LIBOR + 1.50	2,620
Export-Import Bank of Korea	LIBOR + 0.625 - 1.175	43,776
Banque Paribas	LIBOR + 0.70	3,934
Societe General	LIBOR + 0.60	7,532
Bank of Tokyo-Mitsubishi	LIBOR + 0.74	2,568
Wachovia Securities	7.05 - 7.70	6,365
Barclays Bank	8.25	59,957
ICICI Ltd.	14.00	41,035
Bank of China	4.94 - 5.22	3,426
Others	5.94 - 6.96	158,440
		330,629
		USD 233
		INR 249
		MXP 361
		CNY 24
		383,948
Less: Current maturities		(182,938)
		₩ 201,010

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

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
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11. Long-Term Debt, Continued:

The maturities of long-term debt outstanding as of December 31, 2002 are as follows:

For the year ending December 31,	Millions of Won		
	Long-term debt	Debentures	Total
2004	₩ 57,109	₩ 1,904,852	₩ 1,961,961
2005	104,257	630,120	734,377
2006	11,487	870,040	881,527
2007	16,439	300,000	316,439
2008 and thereafter	11,718	10,640	22,358
	₩ 201,010	₩ 3,715,652	₩ 3,916,662

12. Leases:

The Company has entered into a lease agreement to acquire machinery and equipment, of which acquisition cost amounted to ₩111,246 million, and related depreciation amounted to ₩26,452 million for the nine-month period ended December 31, 2002. The Company accounts for these leases as capital leases under which future lease payments are recorded as current maturities of long-term debt, until these are paid.

As of December 31, 2002, future lease payments under capital lease agreements are as follows:

Period	Millions of Won
January 1, 2003 ~ December 31, 2003	₩ 2,995
Less: Interest portion	(242)
Current portion	(2,753)
	₩ -

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, 2002, future lease payments under operating lease agreements are as follows:

Period	Millions of Won
January 1, 2003 ~ December 31, 2003	₩ 14,147
January 1, 2004 ~ December 31, 2004	2,097
January 1, 2005 ~ December 31, 2005	11,765
2006 and thereafter	603
	₩ 28,612

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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13. Accrued Severance Benefits:

Changes in accrued severance benefits for the nine-month period ended December 31, 2002 are as follows:

	Millions of Won
Balance as of April 1, 2002	₩ 568,227
Severance payments	(93,586)
Transfer-out to affiliated companies, net	(3,816)
Provisions	129,284
	600,109
Severance insurance deposits	(25,870)
Contributions to the National Pension Fund	(365,123)
	₩ 209,116

As of April 1, 2002 (date of spin-off), ₩483,591 million of accrued severance benefits for all employees of LGE was transferred from LG Electronics Investment Ltd.

As of December 31, 2002, the severance benefits are funded at approximately 60.8% through employee severance insurance plans with Kyobo Life Insurance Co., Ltd. and other life insurance companies. The amounts funded under employee severance insurance plans (severance insurance deposits) are presented as a deduction from accrued severance benefits.

14. Commitments and Contingencies:

As of December 31, 2002, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of December 31, 2002, the Company has entered into bank overdraft facility agreements with various banks amounting to ₩597,200 million.

As of December 31, 2002, the outstanding balance of export trade accounts receivable sold at a discount to various financial institutions with recourse amounted to ₩923,300 million.

As of December 31, 2002, the Company was a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of December 31, 2002, the Company was contingently liable for guarantees approximating ₩249,509 million on indebtedness of its affiliates, and has received guarantees approximating ₩347,401 million from various banks for the repayment of certain debentures of the Company.

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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14. Commitments and Contingencies, Continued:

In order to reduce the impact of changes in exchange rates on future cash flows, LGE has entered into foreign currency forward contracts. As of December 31, 2002, LGE has outstanding forward contracts with Deutsche Bank and others for selling US dollars amounting to US\$28 million (contract rates: ₩1,204.15: US\$1 ~ ₩1,220.00: US\$1, contract due dates: January through March 2003).

As of December 31, 2002, LGE has outstanding forward contracts with Credit Lyonnais for selling Euro and buying Yen amounting to € 2 million (contract rates: ¥ 114.29: € 1, contract due dates: February 2003).

As of December 31, 2002, LGE has outstanding forward contracts with Bank of Tokyo-Mitsubishi for selling Euro and buying US Dollars amounting to US\$10 million (contract rates: € 1.0084: US\$1~ € 1.0223: US\$1, contract due dates: February through June 2003).

As a result of the above foreign currency forward contracts, an unrealized valuation gain amounting to ₩492 million and an unrealized valuation loss amounting to ₩534 million were credited and charged to current operations, respectively, for the nine-month period ended December 31, 2002.

In order to reduce the impact of changes in exchange rates, LGE has entered into foreign currency option contracts. An unrealized valuation gain amounting to ₩1,618 million was credited to current operations for the nine-month period ended December 31, 2002. A summary of the terms of outstanding currency option contracts as of December 31, 2002 is as follows:

	Option type	Amount (In millions)	Exercise price	Contract due date
Citi Bank	Put	US\$ 8.0	₩ 1,150.0/US\$	January 23, 2003
	Call	US\$ 8.0	₩ 1,225.2/US\$	January 23, 2003
	Put	US\$ 10.0	₩ 1,212.0/US\$	February 20, 2003
	Call	US\$ 10.0	₩ 1,241.0/US\$	February 20, 2003
	Put	US\$ 10.0	₩ 1,190.0/US\$	February 25, 2003
	Call	US\$ 10.0	₩ 1,249.4/US\$	February 25, 2003
	Put	US\$ 10.0	₩ 1,205.0/US\$	May 30, 2003
	Call	US\$ 10.0	₩ 1,250.3/US\$	May 30, 2003
Deutsche Bank	Put	US\$ 10.0	₩ 1,150.0/US\$	January 22, 2003
	Call	US\$ 10.0	₩ 1,209.0/US\$	January 22, 2003
	Put	US\$ 10.0	₩ 1,190.0/US\$	January 28, 2003
	Call	US\$ 10.0	₩ 1,250.0/US\$	January 28, 2003
	Put	US\$ 10.0	₩ 1,255.0/US\$	April 15, 2003
Credit Lyonnais	Call	US\$ 10.0	₩ 1,310.0/US\$	April 15, 2003
	Put	US\$ 10.0	₩ 1,240.00/US\$	January 13, 2003
	Call	US\$ 10.0	₩ 1,294.25/US\$	January 13, 2003
	Put	US\$ 10.0	₩ 1,245.0/US\$	April 11, 2003
	Call	US\$ 10.0	₩ 1,303.5/US\$	April 11, 2003

Continued;

LG ELECTRONICS INC. AND SUBSIDIARIES  
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14. Commitments and Contingencies, Continued:

As a result of interest rate swap contracts settled during the nine-month period ended December 31, 2002 and the above derivatives contracts, a gain amounting to ₩23,222 million and a loss amounting to ₩11,506 million were recognized as non-operating income and expense.

LG.Philips LCD Co., Ltd., a subsidiary, enters into foreign currency forward contracts in order to reduce the impact of changes in exchange rates on future cash flows from investments, repayment of debts, purchase of raw materials and the export of finished goods. However, those contracts do not fulfill the financial reporting requisite of hedging cash flow risks. Therefore, the realized and unrealized gain and loss from the above foreign currency contracts were charged to the current operations. As of December 31, 2002, LG.Philips LCD Co., Ltd. has outstanding forward contracts for buying Japanese Yen, US dollars and Korean Won amounting to ¥12,800 million, US\$11 million and ₩369,593 million, respectively, and for selling Japanese Yen and US dollars amounting to ¥1,300 million and US\$408 million, respectively. As a result of the above foreign currency contracts, an unrealized valuation gain amounting to ₩11,289 million and an unrealized valuation loss amounting to ₩125 million, were credited and charged to current operations, respectively, for the nine-month period ended December 31, 2002.

As of December 31, 2002, ten overseas subsidiaries, including LGEMS, has entered into foreign currency forward contracts for buying US dollars and Euro dollars amounting to US\$85 million and €6 million, respectively, in order to reduce the impact of changes in exchange rates on future cash flows from the purchase of raw materials and finished goods. As of December 31, 2002, LGESP, an overseas subsidiary, has entered into foreign currency swap contracts for buying US\$87 million and selling BRL327 million in order to reduce the impact of changes in exchange rates on future cash flows from debts and related interest expense.

As of December 31, 2002, LGE is named as the defendant in legal actions which were brought against LGE by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, LGE is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of domestic claims as the defendant and the plaintiff amounted to approximately ₩314 million in eleven cases and ₩457 million in eight cases, respectively, as of December 31, 2002. The management of the Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

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14. Commitments and Contingencies, Continued:

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

15. Capital Stock:

Capital stock as of December 31, 2002 is as follows:

	Number of shares issued	Par value	Millions of Won
Common stock	139,606,263	₩ 5,000	₩ 698,031
Preferred stock (*)	17,185,992	5,000	85,930
	156,792,255		₩ 783,961

As of December 31, 2002, the number of shares authorized is 600,000,000 shares.

- (\*) As of December 31, 2002, 17,185,992 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.

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16. Capital Surplus:

Capital surplus as of December 31, 2002 is as follows :

	Millions of Won
LGE's capital surplus	
Additional paid-in capital	₩ 1,876,153
LGE's share in subsidiaries' and equity- method investees' capital surplus	(178,992)
	₩ 1,697,161

As a result of the spin-off, on April 1, 2002, ₩1,876,153 million was recorded as capital surplus representing the difference between net assets transferred from LG Electronics Investment Ltd. amounting to ₩2,815,707 million, and ₩939,554 million, comprising of capital stock amounting to ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. amounting to ₩155,593 million.

17. Retained Earnings:

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 the 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 an appropriate resolution by the Company's shareholders.

In accordance with the regulations regarding securities' issuance and disclosure, 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 the payment of 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.

Pursuant to the Special Tax Treatment Control Law, the Company is allowed to appropriate retained earnings as a reserve for research and manpower development. This reserve is not available for the payment of dividends until used for the specified purposes or reversed.

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18. Capital Adjustments:

Capital adjustments as of December 31, 2002 are as follows:

	<u>Millions of Won</u>
Treasury stock	₩ (11,850)
Loss on valuation of investment securities	(80,945)
Loss from disposal of treasury stock	(166)
Overseas operations translation credit	105,096
	<u>₩ 12,135</u>

As of December 31, 2002, LGE retains treasury stock consisting of 215,973 shares of common stock and 4,678 shares of preferred stock. LGE intends to give the treasury stock to employees as compensation or to sell these in the future.



LG ELECTRONICS INC. AND SUBSIDIARIES  
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19. Income Taxes:

Income tax expense for the nine-month period ended December 31, 2002 is as follows:

	Millions of Won
Current income taxes	₩ 210,049
Deferred income taxes	(30,788)
	₩ 179,261

Components of deferred income taxes as of April 1, 2002 and December 31, 2002 are as follows:

	Millions of Won	
	Deferred income tax assets (liabilities)	
	April 1, 2002	December 31, 2002
Depreciation	₩ 467	₩ 462
Inventories	(6,780)	(7,226)
Accrued severance benefits	1,845	1,845
Bad debt expense	53,005	62,407
Dividend income	2,061	2,857
Loss on valuation of marketable securities	2,026	49
Deferred foreign exchange loss	4,606	2,921
Deferred foreign exchange gain	(849)	(511)
Accrued interest income	(2,375)	(116)
Reserve for technological development	(86,323)	(62,489)
Amortization of conversion right adjustments	4,658	-
Customs duty drawback	(4,728)	(5,321)
Capitalized interest expense	(979)	-
Valuation of investment securities and deferred taxation of investments in kind	(89,815)	(89,815)
Loss on valuation of investments in debt securities	1,634	13,741
Loss (Gain) on valuation of derivatives	95	(468)
Product warranty provision	11,946	23,522
Amortization of intangible assets	(52,824)	(38,055)
Investments in equity-method investees	438,526	420,524
Loss carried forward	73,309	34,730
Tax credits carried forward	70,891	89,040
Others	24,174	(545)
	444,570	447,552
Valuation allowance	(79,135)	(51,881)
	₩ 365,435	₩ 395,671

For the nine-month period ended December 31, 2002, the change in the balance of deferred income tax assets and liabilities is not the same as deferred income tax expense due to capital transactions and others.

The Company periodically assesses its ability to recover deferred income tax assets. As of December 31, 2002, in consideration of the significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance amounting to ₩51,881 million is recorded to reduce the asset to its estimated net realizable value.

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20. Earnings Per Share:

Basic earnings per share are computed by dividing net income allocated to common stock by the weighted-average number of common shares outstanding during the nine-month period. 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 nine-month period.

Basic earnings per share for the nine-month period ended December 31, 2002 are calculated as follows:

	Millions of Won (except for EPS data)
<u>Basic earnings per share</u>	
Net income as reported on the income statement	₩ 342,460
Less: Preferred stock dividends	(18,040)
Additional income available for dividend allocated to preferred stock	(20,304)
Net income allocated to common stock	304,116
Weighted-average number of common shares outstanding	139,414,824
Basic earnings per share (in Korean Won)	₩ 2,181

Basic ordinary income per share for the nine-month period ended December 31, 2002 is the same as basic earnings per share, because there were no extraordinary gains or losses.

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21. Dividends:

Details of dividends of LGE for the nine-month period ended December 31, 2002, which is not recognized as liability in the balance sheet due to the early adoption of SKFAS No. 6, are as follows (see Note 2):

Dividends

	Millions of Won	
	Dividend ratio (%)	Dividend amount
Common shares	20.0%	₩ 139,390
Preferred shares	21.0%	18,040
		₩ 157,430

Dividend payout ratio

	Millions of Won	
Total dividends (A)	₩	157,430
Net income (B)		277,716
Dividend payout ratio ((A)/(B))		56.69%

Dividend yield ratio

	In Won	
	Common shares	Preferred shares
Dividend per share (A)	₩ 1,000	₩ 1,050
Market price as		
of balance sheet date (B)	41,300	18,800
Dividend yield ratio ((A)/(B))	2.42%	5.59%

LG ELECTRONICS INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
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22. Transactions with Related Parties:

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies during the nine-month period ended December 31, 2002 and the related account balances as of December 31, 2002 are summarized as follows:

Transactions between LGE and its consolidated subsidiaries -

	<u>Millions of Won</u>	
Receivables	₩	2,329,429
Payables		49,677
Sales and other income		6,068,082
Purchases and other expenses		769,217
Guarantees		1,396,365

Transactions between consolidated subsidiaries -

	<u>Millions of Won</u>	
Receivables and payables	₩	1,336,486
Sales, purchases and others		3,958,440
Guarantees		12,844

Transactions between the Company and equity-method investees -

	<u>Millions of Won</u>	
Receivables and payables	₩	130,215
Sales, purchases and others		1,159,008
Guarantees		240,080

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23. Segment Information:

The Company has organized reportable business divisions such as Digital Display & Media division, Digital Appliance division, Mobile Handset division, Telecommunication System division, LCD division and other business divisions. In addition, 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 main products that each business division manufactures and sells are as follows:

Digital Display & Media division:	VCR, PC, computer, CD-ROM and audio, TV, monitor and PDP
Digital Appliance division:	Refrigerator, washing machine, air conditioner, microwave oven and vacuum cleaner
Mobile Handset division:	CDMA handset, GSM handset, wireless telephone, WLL handset
Telecommunication System division:	Mobile telecommunication, transmitter, switchboard, keyphone system
LCD division:	TFT-LCD
Other business divisions:	Electronics components, defense systems, spectrum analyzer, etc.

Financial Data by Business Division (Millions of Won)

	Business Division						Supporting division & Other	Elimination of internal transactions	Total
	Digital Display & Media	Digital Appliance	Mobile Handset	Telecommunication System	LCD				
I. Sales									
External sales	₩9,588,456	₩6,067,339	₩2,961,182	₩ 747,067	₩2,769,544	₩1,402,979	₩(1,218,475)	₩22,318,092	
II. Operating income (loss)	51,121	504,382	232,415	(49,660)	190,902	(59,356)	42,180	911,984	

Financial Data by Geographic Area (Millions of Won)

Sales	Total	Domestic	North America	Europe	South America	Central Asia	Asia	China	Others
	External sales	₩22,318,092	₩5,180,389	₩4,554,537	₩2,980,838	₩786,889	₩944,098	₩4,381,869	₩2,482,193
	100%	23%	20%	13%	4%	4%	20%	11%	5%

LG ELECTRONICS INC. AND SUBSIDIARIES  
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 As of December 31, 2002 and for the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002  
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24. Spin-Off:

Upon a resolution of the Board of Directors on November 15, 2001 and a resolution of the shareholders on December 28, 2001, LGE was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) to focus on engaging in the electronics and information and communication businesses on April 1, 2002.

LGE issued shares within the amount of net assets, which is the difference between the transferred assets and liabilities, and the shares were distributed to the shareholders of LG Electronics Investment Ltd. in proportion to their shares.

Accrued severance liabilities for employees working for LGE were transferred effective April 1, 2002.

LGE and LG Electronics Investment Ltd. jointly and severally hold a guarantee for the obligations before the spin-off.

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

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

Depository receipts (4,383,591 shares of non-voting preferred stock) which were transferred to LGE upon the spin-off were listed on the London Stock Exchange in September 2002.