

Financial Statements

January 1, 2000–December 31, 2000

REPORT OF INDEPENDENT ACCOUNTANTS

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POST-DEMERGER LG CHEM BASIS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors LG Chemical Ltd.

We have audited the accompanying balance sheets of LG Chemical Ltd. (the "Company") as of December 31, 2000 and 1999, and the related 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 positions of the Company as of December 31, 2000 and 1999, and the results of its operations, the appropriations of its retained earnings and its cash flows for the years then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 20 to the financial statements, upon a resolution of the board of directors on November 15, 2000 and upon a resolution of the stockholders on December 28, 2000, the Company is scheduled to carve out its chemical business and household & healthcare business and establish new companies on April 1, 2001. The Company will be split into three companies, LG Chem Investment Ltd., to engage in the business of life science and a holding company, LG Chemical Ltd., to engage in the business of petrochemicals, performance polymers, industrial & building materials and information & electronic materials and LG Household & Healthcare Ltd., to engage in the business of household goods and cosmetics. Paid-in capital of LG Chem Investment Ltd., LG Chemical Ltd. and LG Household & Healthcare, including preferred stock will be ₩99,663 million, ₩365,432 million and ₩88,589 million, respectively.

As discussed in Note 17 to the financial statements, the Company sells its products to and purchases certain materials from related companies, including LG International Corp. During 2000 and 1999, total sales to related companies are ₩752,720 million and ₩697,986 million, respectively, and total purchases from related companies are ₩1,059,640 million and ₩772,636 million, respectively. As of December 31, 2000 and 1999, related accounts receivable are ₩116,715 million and ₩122,615 million, respectively, and accounts payable are ₩167,625 million and ₩165,501 million, respectively.

Continued;

As discussed in Note 16 to the financial statements, upon a resolution of the board of directors on April 3, 2000, the Company acquired 1,180,000 common shares of LG Caltex Oil Co., Ltd. and 1,644,998 common shares of LG Mart Co., Ltd. in the amount of ₩129,800 million and ₩246,750 million, respectively, from related parties.

As discussed in Note 8 to the financial statements, upon a resolution of the board of directors on June 28, 1999, the Company disposed of its investment in LG Petrochemical Co., Ltd. of 27,440,000 shares with book value of ₩105,996 million (under the equity method), for ₩150,920 million and recognized gain on disposal of ₩44,924 million.

As discussed in Note 1 to the financial statements, upon a resolution of the board of directors on February 4, 1999, the Company issued 22,000,000 shares of common stock at ₩9,400 per share for net cash proceeds of ₩206,173 million (net of stock issuance costs of ₩627 million).

As discussed in Note 11 to the financial statements, the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general adverse economic condition in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the readers and have been translated on the basis set forth in Note 3 to the financial statements.

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

Samil Accounting Corporation

Seoul, Korea

February 13, 2001

BALANCE SHEETS

December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
ASSETS				
Current assets:				
Cash and cash equivalents	₩147,325	₩117,782	\$116,952	\$93,500
Short-term financial instrument	894	11,943	710	9,481
Trade accounts and notes receivable, net (Notes 5 and 17)	486,516	613,085	386,216	486,691
Other accounts receivable, net (Note 5)	40,621	36,801	32,247	29,214
Short-term loans	6	9,896	5	7,856
Inventories (Note 6)	384,288	310,372	305,063	246,386
Accrued income	12,628	9,277	10,025	7,364
Advance payments	4,784	1,779	3,798	1,412
Prepaid expenses	14,163	12,107	11,243	9,611
Other current assets	2,471	2,393	1,961	1,901
Total current assets	1,093,696	1,125,435	868,220	893,416
Property, plant and equipment, net (Note 7)	2,784,375	2,568,505	2,210,348	2,038,982
Investment securities (Note 8)	2,324,222	1,718,339	1,845,060	1,364,086
Other investments	71,033	61,504	56,389	48,824
Long-term financial instruments (Note 4)	40,046	40,195	31,790	31,908
Long-term trade accounts and notes receivable, net (Note 5)	7,631	8,778	6,058	6,968
Long-term guarantee deposits	50,237	42,279	39,880	33,563
Intangible assets (Note 2)	101,547	60,440	80,612	47,980
Total assets	₩6,472,787	₩5,625,475	\$5,138,357	\$4,465,727

Continued:

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

BALANCE SHEETS

December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings (Note 9)	₩410,269	₩501,856	\$325,688	\$398,393
Current maturities of long-term debt, net (Note 9)	809,207	772,977	642,381	613,620
Trade accounts and notes payable (Note 17)	341,980	275,685	271,477	218,850
Other accounts payable	339,460	276,340	269,477	219,370
Income taxes payable	72,514	38,843	57,564	30,835
Accrued expenses	133,234	121,037	105,766	96,084
Other current liabilities	127,862	109,345	101,503	86,802
Total current liabilities	2,234,526	2,096,083	1,773,856	1,663,954
Long-term debt, net (Note 10)	1,650,686	1,225,783	1,310,380	973,075
Accrued severance benefits, net	46,775	61,026	37,132	48,445
Deferred income tax liabilities (Note 14)	143,716	76,582	114,087	60,794
Other long-term liabilities	19,206	16,561	15,247	13,147
Total long-term liabilities	1,860,383	1,379,952	1,476,846	1,095,461
Total liabilities	₩4,094,909	₩3,476,035	\$3,250,702	\$2,759,415

Continued:

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

BALANCE SHEETS

December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
Commitments and contingencies (Note 11)				
Shareholders' equity :				
Capital stock, ₩5,000 par value; authorized 193,000,000 shares				
Common stock, issued and outstanding, 97,613,734 shares	₩488,069	₩488,069	\$387,449	\$387,449
Preferred stock, issued and outstanding, 13,123,108 shares	65,615	65,615	52,088	52,088
	553,684	553,684	439,537	439,537
Capital surplus :				
Paid-in capital in excess of par value	441,514	441,514	350,491	350,491
Asset revaluation surplus (Note 7)	361,572	361,572	287,030	287,030
Gain on business combination	21,859	21,859	17,353	17,353
Gain on disposal of treasury stock	331	331	263	263
	825,276	825,276	655,137	655,137
Retained earnings (Note 12):				
Legal reserve	43,816	35,932	34,783	28,524
Other reserves	679,361	395,651	539,304	314,084
Unappropriated retained earnings (Net income 2000 : ₩324,821 million 1999 : ₩367,728 million)	8	7	7	6
	723,185	431,590	574,094	342,614
Capital adjustment :				
Treasury stock (Note 13)	(119,041)	(32,831)	(94,500)	(26,063)
Gain on valuation of investment securities (Note 8)	394,774	371,721	313,387	295,087
	275,733	338,890	218,887	269,024
Total shareholders' equity	2,377,878	2,149,440	1,887,655	1,706,312
Total liabilities and shareholders' equity	₩6,472,787	₩5,625,475	\$5,138,357	\$4,465,727

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

INCOME STATEMENTS

for the years ended December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
Sales (Notes 17 and 18) :				
Domestic	₩3,283,135	₩2,854,675	\$2,606,283	\$2,266,155
Export	2,137,603	1,691,690	1,696,914	1,342,931
	5,420,738	4,546,365	4,303,197	3,609,086
Cost of sales (Note 17)	3,933,952	3,200,460	3,122,928	2,540,653
Gross profit	1,486,786	1,345,905	1,180,269	1,068,433
Selling expenses	725,657	673,443	576,055	534,606
Administrative expenses	165,269	131,776	131,197	104,609
Operating income (Note 18)	595,860	540,686	473,017	429,218
Non-operating income (expenses)				
Interest expenses, net	(259,246)	(263,964)	(205,800)	(209,545)
Foreign exchange gain (loss), net	(32,056)	16,971	(25,447)	13,472
Gain on disposal of investment, net	17,132	47,254	13,600	37,512
Gain on valuation of investment under the equity method of accounting (Note 8)	137,244	208,384	108,950	165,424
Loss on disposal of property, plant and equipment, net	(5,507)	(26,561)	(4,372)	(21,085)
Others, net	11,350	4,295	9,011	3,409
	(131,083)	(13,621)	(104,058)	(10,813)
Ordinary income				
Extraordinary loss	464,777	527,065	368,959	418,405
	-	(6,606)	-	(5,244)
Income before income taxes	464,777	520,459	368,959	413,161
Income taxes (Note 14)	(139,956)	(152,731)	(111,103)	(121,244)
Net income	₩324,821	₩367,728	\$257,856	\$291,917
Basic and diluted ordinary income per share (Note 15) (In Won and U.S. Dollars)	₩3,385	₩3,956	\$2.69	\$3.14
Basic and diluted earnings per share (Note 15) (In Won and U.S. Dollars)	₩3,385	₩3,906	\$2.69	3.10

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

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

for the years ended December 31, 2000 and 1999

Date of appropriations: March 16, 2001 and March 17, 2000

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
Unappropriated retained earnings at the end of the year				
Unappropriated retained earnings carried over from prior year	₩7	₩6	\$6	\$5
Cumulative effect of accounting changes (Note 12)	-	(158,681)	-	(125,967)
Changes of retained earnings of investees using the equity method of accounting (Note 8)	45,608	-	36,205	-
Net income	324,821	367,728	257,856	291,917
	370,436	209,053	294,067	165,955
Transfer from other reserves :	31,840	49,440	25,276	39,247
	402,276	258,493	319,343	205,202
Appropriations :				
Transfer to legal reserve	7,884	8,184	6,259	6,497
Transfer to other reserves	315,550	168,468	250,495	133,736
Cash dividends (Note 16)	78,834	81,834	62,582	64,963
common stock 15% in 2000 and 1999 preferred stock 16% in 2000 and 1999				
	402,268	258,486	319,336	205,196
Unappropriated retained earnings carried over to subsequent year	₩8	₩7	\$7	\$6

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

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
Cash flows from operating activities :				
Net income	₩324,821	₩367,728	\$257,856	\$291,917
Adjustments to reconcile net income to net cash provided by operating activities :				
Depreciation and amortization	271,902	301,061	215,847	238,994
Provision for severance benefits	63,799	55,867	50,646	44,349
Foreign exchange loss (gain), net	38,592	(14,502)	30,636	(11,512)
Amortization of discounts, net	20,542	25,127	16,307	19,947
Loss on disposal of property, plant and equipment, net	5,507	26,561	4,372	21,085
Gain on disposal of investment, net	(17,132)	(47,254)	(13,600)	(37,512)
Gain on valuation of investment under the equity method of accounting	(137,244)	(208,384)	(108,950)	(165,424)
Changes in :				
Trade accounts and notes receivable	141,426	116,047	112,270	92,123
Other accounts receivable	(5,289)	115,121	(4,199)	91,388
Accrued income	(3,350)	4,663	(2,659)	3,702
Inventories	(58,139)	(25,223)	(46,153)	(20,023)
Advance payments	(3,005)	851	(2,385)	676
Prepaid expenses	(974)	21,669	(773)	17,202
Other current assets	(225)	231	(179)	183
Trade accounts and notes payable	63,928	68,684	50,749	54,524
Other accounts payable	62,708	82,595	49,780	65,567
Accrued expenses	12,196	(3,309)	9,682	(2,627)
Income taxes payable	33,671	9,767	26,729	7,753
Other current liabilities	21,621	90,266	17,164	71,657
Others	53,581	(9,816)	42,533	(7,793)
Payment of accrued severance benefits	(56,909)	(51,217)	(45,177)	(40,658)
Net cash provided by operating activities	832,027	926,533	660,496	735,518

Continued:

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

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2000 and 1999

	<i>Millions of Korean Won</i>		<i>Thousands of U. S. Dollars (Note 3)</i>	
	2000	1999	2000	1999
Cash flows from investing activities :				
Decrease in short-term financial instrument	₩11,943	₩25,650	\$9,481	\$20,362
Disposal of marketable securities	-	183,013	-	145,283
Decrease of short-term loans	40	8,251	32	6,550
Disposal of investment securities	25,690	191,183	20,394	151,769
Decrease in other investments	4,192	15,399	3,328	12,224
Decrease in long-term guarantee deposits	8,496	18,665	6,744	14,817
Disposal of property, plant and equipment	12,317	18,477	9,778	14,668
Dividends from investments using equity method	50,511	16,898	40,098	13,414
Acquisition of marketable securities	-	(27,807)	-	(22,074)
Increase in accrued severance pay-funded	(27,536)	(9,180)	(21,859)	(7,287)
Acquisition of investment securities	(446,429)	(553,360)	(354,393)	(439,279)
Increase in long-term guarantee deposits	(16,498)	(13,196)	(13,097)	(10,476)
Acquisition of property, plant and equipment	(513,946)	(260,297)	(407,990)	(206,634)
Increase in intangible assets	(46,506)	(29,396)	(36,918)	(23,336)
Others	(4,565)	(16,709)	(3,626)	(13,264)
Net cash used in investing activities	(942,291)	(432,409)	(748,028)	(343,263)
Cash flows from financing activities :				
Decrease (increase) in short-term borrowings, net	(91,945)	53,361	(72,990)	42,360
Increase in long-term debt	1,203,794	247,940	955,620	196,825
Issuance of new stock	-	206,174	-	163,669
Payment of long-term debt	(807,016)	(967,377)	(640,641)	(767,942)
Payment of dividend payable	(81,822)	(22,174)	(64,954)	(17,603)
Acquisition of treasury stock	(86,210)	-	(68,437)	-
Others	3,006	2,172	2,386	1,724
Net cash provided by (used in) financing activities	139,807	(479,904)	110,984	(380,967)
Net increases in cash and cash equivalents	29,543	14,220	23,452	11,288
Cash and cash equivalents at the beginning of the year	117,782	103,562	93,500	82,212
Cash and cash equivalents at the end of the year (Note 19)	₩147,325	₩117,782	\$116,952	\$93,500

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

1. The Company:

LG Chemical Ltd. (the "Company") was incorporated in 1962 under the laws of the Republic of Korea to engage in manufacturing and marketing chemicals, plastics and household goods.

In February 1970, the Company offered its shares for public ownership and all shares are listed on the Korea Stock Exchange.

Upon a resolution of the board of directors on February 4, 1999, the Company issued 22,000,000 shares of common stock at ₩9,400 per share for net cash proceeds of ₩206,173 million (net of stock issuance costs of ₩627 million). At December 31, 2000 and 1999, the Company has outstanding capital stock of ₩553,684 million including preferred stock of ₩65,615 million.

Preferred stock is non-participating and has no voting rights. The holders of preferred stock are entitled to a non-cumulative preferred dividend at a rate of one percentage point over the common stock dividend.

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 official accounting records of the Company, on which the Korean language financial statements are based, are maintained in accordance with the relevant laws and regulations of the Republic of Korea.

The accompanying financial statements have been extracted from the Company's Korean language financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korea financial statement practices. Certain supplementary information included in the Korean language statutory 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. 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.

Use of Estimates

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.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated net realizable value of the receivables.

Marketable Securities and Investments

Marketable securities and all investments in equity and debt securities are initially carried at cost, 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.

Continued;

Marketable securities are carried at market value at the balance sheet date. The unrealized gains and losses on such securities are charged to current operations.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

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.

Investments in equity securities of companies over which the Company directly exerts significant influence (controlled investees) on the investees' decision making through representation on the board of directors, share of managerial personnel, or material intercompany transactions or holds over 20% of total outstanding common shares of investees directly or indirectly 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 10 years using the straight-line method. 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 changes in the book value of the investee.

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). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

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. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Pursuant to the working guidelines applicable to banks, investments in the stock market stabilization fund are carried at fair value, which is the proportionate ownership amount of the Company. Resulting gains and losses are recorded in current operations.

Inventories

Inventories are stated at the lower of cost or market value, cost being determined by the weighted average method except for materials in-transit for which cost is determined by the specific identification method.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation. The revaluation increment, net of a 3% tax, is first applied to offset accumulated deficit, if any, and the remainder is credited to capital surplus or transferred to common stock by issuing additional shares. For revalued assets, previously recorded accumulated depreciation is eliminated and a new basis for depreciation is established.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as described below.

	Useful Lives	
Buildings and structures	25 - 50	years
Machinery and equipment	6 - 12	"
Vehicles	6	"
Tools	6	"
Furniture and fixtures	6	"

The Company capitalizes interest expense incurred on debt used to fund the purchase or construction of property, plant and equipment as part of the cost of major assets. For the years ended December 31, 2000 and 1999, capitalized interest expense amounted to ₩20,029 million and ₩19,207 million, respectively.

Maintenance and Repairs

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful lives of the related assets are capitalized.

Intangible Assets

Intangible assets at December 31, 2000 and 1999 are as follows (Millions of Won) :

	2000	1999
Intellectual property rights	₩ 6,473	₩ 5,084
Exclusive facility use rights	493	559
Development costs	91,560	54,227
Others	3,021	570
	₩ 101,547	₩ 60,440

Intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization of these intangibles is computed using the straight-line method over a period of five to twenty five years.

Research costs are charged to operations as incurred. Costs incurred for new products or technologies which can be clearly defined and measured and which have probable future economic benefits are accounted for as development costs. Other development costs are recognized in the period incurred as normal development expenses.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method. The Company performs periodic assessments of the recoverability of development costs. Unrecoverable costs are charged to operations in the period that they are first identified. For the years ended December 31, 2000 and 1999, the Company capitalized ₩53,850 million and ₩42,673 million, respectively, of development costs as intangible assets and recorded ₩60,965 million and ₩52,319 million, respectively, of development costs and ₩2,689 million and ₩2,194 million, respectively, of research costs as current expenses.

Continued;

The details of changes in development costs are as follows (Millions of Won):

	2000	1999
Beginning balance	₩ 54,227	₩ 36,116
Increase	53,850	42,673
Amortization	16,517	24,562
Ending balance	₩91,560	₩54,227

Premiums or Discounts on Debentures

The Company accounts for the difference between the face amount and issued amount of debentures as an addition from or deduction to debentures.

Premiums or discounts on debentures are amortized using the effective interest rate method over the term of the debentures. The resulting amortization is recorded as interest expense.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date. Resulting translation gains and losses are recognized currently. Monetary assets and liabilities denominated in foreign currency at December 31, 2000 and 1999 comprise the following :

	Foreign Currency (In Thousands)				Millions of Won	
		2000		1999	2000	1999
Cash and cash equivalents	USD	14,850	USD	4,754	₩ 18,864	₩ 9,226
	DEM	69	DEM	883		
	JPY	10,729	ECU	530		
			GBP	268		
			JPY	192,006		
Trade accounts and notes receivable	USD	55,650	USD	70,897	74,926	84,432
	DEM	2,845	DEM	1,119		
	JPY	281,066	ECU	170		
			JPY	204,475		
			GBP	8		
Other assets	USD	11,903	USD	12,285	15,011	14,088
	JPY	1,500	JPY	1,500		
Trade accounts payable	USD	34,752	USD	19,642	50,010	27,065
	DEM	1,015	DEM	167		
	ECU	12	SFR	35		
	JPY	496,890	NOK	1,511		
			ECU	40		
Other accounts payables	USD	76	JPY	372,891	74,974	49,400
	JPY	6,858,379	JPY	4,403,491		
Other liabilities	USD	5,729	USD	2,031	7,216	2,326

Revaluation of Receivables

Receivables which are modified during the course of court receivership, court mediation or restructuring of customers are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted as bad debt expense.

Accrued Severance Benefits

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

Accrued severance benefits are funded approximately 72.05% and 62.26% as of December 31, 2000 and 1999, respectively, through a severance insurance plan. The Company accounts for the amounts funded under the plan as a deduction item to accrued severance benefits.

In accordance with the National Pension Act, as of December 31, 2000 and 1999, accrued severance benefits of approximately ¥15,112 million and ¥18,995 million, respectively, were deposited with the National Pension Fund and deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees and directors on their retirement.

Asset Impairment Loss

If the expected recoverable amounts of certain assets; except for marketable securities, accounts receivable, inventories, investments in equity securities and investments in debt securities; are less than the book value of those assets due to obsolescence, physical damage or sudden decline in market value, the impaired amount is accounted for as loss on impairment of assets in the period identified.

Income Tax Expenses

Income tax expense comprises taxes payable for the period and the change in deferred tax assets and liabilities for the period.

Current income taxes payable comprise corporate income tax and tax surcharges payable for the current year. Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the tax and financial reporting bases of assets and liabilities at balance sheet date based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to effect taxable income.

Derivative Financial Instruments

Derivative financial instruments held for trading purposes are carried at fair value and resulting unrealized valuation gains or losses are recognized currently.

Valuation gains and losses from fair value derivative hedging instruments are recognized in a manner consistent with the accounting treatment appropriate for valuation gains and losses of underlying hedged transactions. The hedging instruments are valued at fair value when underlying hedged transactions are valued at market and resulting unrealized valuation gains or losses are recognized currently. For cash-flow hedging instruments, the effective portion of the change in the fair value of the hedging derivative is recorded as a capital adjustment and recognized in the same period or periods during which the hedged forecasted transaction occurs. Non-effective portions of the change in the fair value of the hedging derivative are recognized currently.

Reclassification of 1999 Amounts

Certain amounts from the 1999 financial statements have been reclassified to conform to the 2000 presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

Continued:

3. United States Dollar Amounts:

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the readers. Won amounts are expressed in U.S. Dollars at the rate of ₩1,259.7 : US\$1.00, the rate in effect on December 31, 2000. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 1999 U.S. Dollar amounts, which were previously expressed at ₩1,145.4 : US\$1.00, the rate prevailing on December 31, 1999, have been restated to reflect the exchange rate in effect on December 31, 2000.

4. Restricted Bank Deposits:

At December 31, 2000 and 1999, long-term financial instruments of ₩46 million are deposited in connection with short-term borrowings. The withdrawal of these deposits is restricted. (see Note 9).

At December 31, 2000, foreign-currency bank deposits of US\$14 million are provided as collateral for a bank loan of a subsidiary(see Note 11).

5. Receivables:

Receivables and allowance for doubtful accounts at December 31, 2000 and 1999 comprise the following (Millions of Won):

	Trade Accounts and Notes Receivable		Other Account Receivable		Other Long-term Trade Account and Notes Receivable		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
Balance as of December 31	₩ 500,042	₩ 655,239	₩ 44,539	₩ 38,893	₩ 9,709	₩ 12,673	₩ 554,290	₩ 706,805
Less : Allowance for doubtful accounts	(12,279)	(41,413)	(3,918)	(2,092)	-	-	(16,197)	(43,505)
Present value adjustment	(1,247)	(741)	-	-	(2,078)	(3,895)	(3,325)	(4,636)
	₩ 486,516	₩ 613,085	₩ 40,621	₩ 36,801	₩ 7,631	₩ 8,778	₩ 534,768	₩ 658,664

6. Inventories:

Inventories at December 31, 2000 and 1999 comprise the following (Millions of Won) :

	2000	1999
Finished products	₩ 193,964	₩ 147,369
Work-in-process	81,223	73,631
Raw materials and supplies	75,401	65,163
Materials in-transit	33,700	24,209
	₩ 384,288	₩ 310,372

At December 31, 2000 and 1999, inventories are insured against fire and other casualty losses up to ₩296,368 million and ₩296,615 million, respectively.

7. Property, Plant and Equipment:

Property, plant and equipment at December 31, 2000 and 1999 comprise the following (Millions of Won) :

	2000	1999
Buildings	₩ 699,975	₩ 661,783
Structures	243,042	236,297
Machinery and equipment	2,669,336	2,455,426
Vehicles	25,520	25,350
Tools and furniture	488,040	441,319
	4,125,913	3,820,175
Accumulated depreciation	(2,127,946)	(1,909,675)
	1,997,967	1,910,500
Land	405,899	338,457
Construction in-progress	321,852	300,123
Machinery in-transit	58,657	19,425
	₩ 2,784,375	₩ 2,568,505

At December 31, 2000, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩6,999,172 million. In addition, at December 31, 2000, the Company has business interruption insurance policies and other policies for losses up to ₩1,088,885 million.

A substantial portion of the Company's property, plant and equipment at December 31, 2000 and 1999 has been pledged as collateral for certain bank loans, up to a maximum of ₩387,153 million and ₩647,870 million, respectively.

As of December 31, 2000 and 1999, the fair value of land as assessed by the Korean Government was ₩525,849 million and ₩454,631 million, respectively.

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on January 1, 1996, based primarily on the current replacement costs. The revaluation increment of ₩332,569 million, net of revaluation taxes of ₩10,286 million, was credited to revaluation surplus. The revaluation surplus balance as of December 31, 2000 and 1999 is ₩361,572million.

Continued:

8. Investment Securities:

Investment securities at December 31, 2000 and 1999 comprise the following (Millions of Won) :

	Ownership percentage		Acquisition Cost		Book Value		Fair Value or Net Asset Value (₩)	
	2000	1999	2000	1999	2000	1999	2000	1999
Listed Stocks								
Hana Bank	0.07	0.07	₩ 3,424	₩ 3,424	₩ 329	₩ 493	₩ 329	₩ 493
Unlisted Stocks								
The Korea Economic Daily	3.00	3.00	1,643	1,643	1,643	1,643	2,122	930
LG Department Store Co., Ltd. (**)	7.49	7.49	13,323	13,323	8,596	8,596	5,899	6,251
LG EDS (**)	10.00	10.00	360	360	4,605	4,605	4,663	4,605
LG Vina Cosmetics (***)	60.00	60.00	3,953	3,953	3,953	3,953	2,933	2,933
LG Household & Healthcare R&D								
Shanghai Co., Ltd. (***)	100.00	100.00	1,494	1,494	1,494	1,494	587	587
EPL	3.80	-	5,585	-	5,585	-	1,303	-
EIC	9.20	-	2,298	-	2,298	-	2,298	-
Others			7,320	7,012	7,322	7,012	6,572	3,092
			35,976	27,785	35,496	27,303	26,377	18,398
Investments Using the Equity Method								
LG-Caltex Oil Co., Ltd.	30.98	26.44	590,229	460,429	1,019,057	816,364	1,041,634	827,334
LG Mart Co., Ltd.	50.00	15.00	311,491	64,741	369,281	94,862	359,839	99,820
LG Electronics Inc.	6.62	7.73	146,547	146,547	229,957	274,319	197,004	235,790
LG Petrochemical Co., Ltd. (****)	30.00	30.00	58,800	58,800	118,281	45,549	120,810	49,862
LG Construction Co., Ltd.	10.97	10.74	44,041	44,041	87,888	81,555	84,731	78,236
LG Securities Co., Ltd.	5.54	5.82	151,608	133,117	72,993	76,962	74,982	79,741
Siltron Co., Ltd.	28.79	28.79	9,648	9,648	59,008	41,818	58,464	40,728
LG Polymers INDIA	100.00	100.00	31,466	31,466	40,177	39,661	40,177	39,661
LG Dow Polycarbonate	50.00	50.00	35,241	7,118	34,722	6,874	34,722	6,874
LG MMA	50.00	50.00	12,000	12,000	33,869	15,820	34,414	15,900
LG International Corp.	4.97	4.18	13,597	13,597	19,233	17,159	23,946	22,471
Owens Corning Korea	29.18	29.18	42,630	42,630	21,456	20,083	18,689	17,248
Owens Corning Korea (preferred stock)	100.00	100.00	13,900	13,900	17,049	13,900	17,356	13,900
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	41,616	10,724	56,493	13,757	56,494	13,757
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	34,340	28,737	34,340	28,737
Others			55,578	77,955	55,831	74,680	57,136	75,307
			1,575,890	1,144,211	2,269,635	1,662,100	2,254,738	1,645,366
Securities Market Stabilization Fund			19,490	21,400	8,756	18,345	8,756	18,345
Held-to-maturity securities			10,006	10,098	10,006	10,098	10,006	10,098
			₩1,644,786	₩1,206,918	₩2,324,222	₩1,718,339	₩2,300,206	₩1,692,700

(*) Net asset values were calculated based on recent available financial statements of the investees.

(**) In accordance with Financial Supervisory Service Interpretation 2000-21, the Company stopped using the equity method of accounting on these stocks in 2000. Book value of 2000 is carried over from the balance recorded using the equity method of accounting in 1999.

(***) Since the total assets of the investees are less than ₩7,000 million and the impact of using equity method is not significant on the valuation of the investments, the equity method of accounting was not applied to these companies.

(****) Upon a resolution of the board of directors on June 28, 1999, the Company disposed of its investment in LG Petrochemical Co., Ltd. of 27,440,000 shares with book value of ₩105,996 million (using the equity method), for ₩150,920 million and recognized gain on the disposal of ₩44,924 million.

As of December 31, 2000, the investment securities valued using the equity method are as follows (Millions of Won) :

	Changes in 2000						Ending Book Value
	Beginning Book Value	Acquisition (Disposition)	Dividends	Valuation Gain or Loss (*)	Retained Earnings	Increase (Decrease) in Capital Adjustment	
LG-Caltex Oil Co., Ltd.	₩ 816,364	₩129,800	₩(25,912)	₩ 23,644	₩ 77,118	₩ (1,957)	₩1,019,057
LG Mart Co., Ltd.	94,862	246,750	(705)	18,731	11,982	(2,339)	369,281
LG Electronics Inc.	274,319	-	(8,301)	24,380	(18,266)	(42,175)	229,957
LG Petrochemical Co., Ltd.	45,549	-	-	22,240	-	50,492	118,281
LG Construction Co., Ltd.	81,555	-	(1,917)	13,344	(345)	(4,749)	87,888
LG Securities Co., Ltd.	76,962	18,491	(6,582)	(3,366)	(5,300)	(7,212)	72,993
Siltron Co., Ltd.	41,818	-	-	17,138	-	52	59,008
LG Polymers INDIA	39,661	-	-	(823)	-	1,339	40,177
LG Dow Polycarbonate	6,874	28,123	-	(125)	-	(150)	34,722
LG MMA	15,820	-	(1,800)	5,328	-	14,521	33,869
LG International Corp.	17,159	-	(711)	2,186	-	599	19,233
Owens Corning Korea	20,083	-	-	1,598	(296)	71	21,456
Owens Corning Korea (preferred stock)	13,900	-	-	2,074	1,015	60	17,049
Ningbo LG Yongxing Chemical Co., Ltd.	13,757	30,891	(2,679)	10,371	-	4,153	56,493
Tianjin LG Dagu Chemical Co., Ltd.	28,737	-	-	2,440	-	3,163	34,340
Others	74,680	(22,378)	(1,904)	(1,916)	-	7,349	55,831
	₩1,662,100	₩431,677	₩(50,511)	₩137,244	₩ 65,908	₩ 23,217	₩2,269,635

(*) Gain on valuation of investments using the equity method of accounting is summarized as follows :

Proportionate net income of investees'	₩ 141,866
Amortization of equity method adjustment debit or credit	(5,683)
Elimination of unrealized gains or losses from inter-company transactions, net	1,061
	₩ 137,244

An investee recorded using the equity method has changed its method of accounting for depreciation. As a result of this change and other changes, the Company added ₩45,608 million (net of deferred income tax effects) to unappropriated retained earnings carried over from the prior year.

Continued:

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, along with changes in such amounts during 2000 and 1999, are as follows (Millions of Won) :

	Equity Method Adjustment			
	2000		1999	
	Debit	Credit	Debit	Credit
Beginning balance	₩ 84,090	₩ 60,211	₩ 46,530	₩ 5,363
Increase	14,612	11,827	51,480	59,944
Amortization (Reversal)	11,238	5,555	11,494	5,096
Ending balance	₩ 87,464	₩ 66,483	₩ 86,516	₩ 60,211

Changes of gain and loss on valuation of investment securities accounted as capital adjustment are as follows (Millions of Won) :

	2000			1999		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩395,249	₩23,528	₩371,721	₩ -	₩ 685	₩ (685)
Effect of the equity method of accounting on the beginning balance	-	-	-	91,800	6,009	85,791
Beginning balance after adjustment	395,249	23,528	371,721	91,800	6,694	85,106
Decrease	37,087	2,429	34,658	80	4,101	(4,021)
Increase	79,368	21,657	57,711	303,529	20,935	282,594
Ending balance	₩437,530	₩42,756	₩394,774	₩395,249	₩23,528	₩371,721

As of December 31, 2000 and 1999, the Company has pledged certain of the above investments in the amount of approximately ₩11,415 million and ₩8,346 million, respectively, as collateral for obligations under certain construction contracts .

9. Short-term Borrowings:

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

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)	
	2000.12.31	1999.12.31	2000	1999
	Short-term borrowings :			
Bank overdrafts	8.80-10.50	8.50-10.50	₩ 112,992	₩ 3,356
General term loans	7.00-8.70	6.25-8.79	57,000	133,000
Notes discounted at short-term financing companies	6.00-7.85	6.35-8.13	232,597	365,500
USANCE	1.26-7.66	-	7,680	-
			410,269	501,856
Current maturities of long-term debt (see Note 10) :				
Debentures	8.0-20.0	11.0-25.0	600,000	700,000
Won currency loans	3.0-12.25	3.0-12.25	9,624	15,751
Foreign currency loans	LIBOR+0.45-1.6	LIBOR+0.4-2.2	206,605	64,952
			US\$ 163,742	US\$ 55,524
			EU 292	EU 292
			-	¥ 90,786
			816,229	780,703
Less : Discount on debentures issued			(7,022)	(7,726)
			809,207	772,977
			₩ 1,219,476	₩ 1,274,833

See Notes 4, 7 and 11 for collateral arrangements on the above borrowings

10. Long-term Debt:

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

	Reference	Millions of Won	
		2000	1999
Debentures	(1)	₩ 1,448,500	₩ 902,762
Loans	(2)	202,186	323,021
		₩ 1,650,686	₩ 1,225,783

(1) Debentures

	Annual Interest Rate (%)		Millions of Won	
			(Thousands of Foreign Currency)	
	2000.12.31	1999.12.31	2000	1999
Guaranteed by banks, payable through 2001	20.0	11.0 - 25.0	₩ 55,000	₩ 755,000
Private offered debentures, payable through 2003	10.9-16.9	15.1 - 16.9	80,000	80,000
Non-guaranteed debentures, payable through 2002	7.0-12.0	7.0 - 12.0	1,939,128	790,000
			(US\$ 39,000)	-
			2,074,128	1,625,000
Less : Current maturities			(600,000)	(700,000)
Discount on debentures issued			(25,628)	(22,238)
			₩ 1,448,500	₩ 902,762

The above debentures bear interest at fixed annual rates except for FRN of US\$39,000,000 at LIBOR plus 1.5 percent per annum. Under guarantee agreements with banks, the Company pays approximately 0.2% fees per annum for the guaranteed debentures.

(2) Loans

	Annual Interest Rate (%)		Millions of Won	
			(Thousands of Foreign Currency)	
	2000.12.31	1999.12.31	2000	1999
Won currency loans :				
General term loans	10.65	10.55 - 10.65	17,275	₩ 27,582
Energy fund loans	5.0-7.0	5.0 - 7.0	7,776	9,424
Loans for technology improvement	10.65	10.65	5,250	9,879
National investment funds and others	3.0-12.25	3.0 - 12.25	3,960	4,247
			34,261	51,132
Less : Current maturities			(9,624)	(15,751)
			24,637	35,381
Foreign currency loans:(In Won equivalent)				
Foreign loans	LIBOR+0.5~1.6	3.2(fix),LIBOR-0.48~+2.47	235,613	178,083
Loans for plant facility	-	LIBOR+1.06~2.52	-	30,576
Loans for foreign investment	LIBOR+0.4~0.85	LIBOR+0.49~0.51	137,307	124,849
Others	LIBOR+0.65~0.85	LIBOR-0.42~+1.08	11,234	19,084
			384,154	352,592
			US\$ 299,652	US\$ 305,624
			EU 1,021	EU 1,313
			¥ 353	¥ 90,786
			SF 2,131	-
Less : Current maturities			(206,605)	(64,952)
			177,549	287,640
			₩ 202,186	₩ 323,021

Continued;

The annual maturities of long-term debt, excluding discounts and premiums on debentures at December 31, 2000 are as follows (Millions of Won) :

Year	Debentures	Won Currency Loans	Foreign Currency Loans	Total
2002	₩ 334,128	₩ 11,964	₩ 131,481	₩ 477,573
2003	1,140,000	6,453	26,855	1,173,308
2004	-	1,103	14,355	15,458
2005	-	839	4,704	5,543
2006 and thereafter	-	4,278	154	4,432
	₩1,474,128	₩ 24,637	₩ 177,549	₩1,676,314

See Notes 7 and 11 for collateral arrangements on long-term debt.

11. Commitments and Contingencies:

At December 31, 2000 and 1999, the Company is contingently liable for notes discounted approximating ₩183,075 million ₩42,798 million, respectively, and notes from export sales and discounted through financial institutions in the ordinary course of business approximating ₩108,706 million ₩84,856 million, respectively.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balance of such guarantees at December 31, 2000 and 1999 approximated ₩302,044 million ₩275,016 million, respectively. In addition, outstanding guarantees provided by financial institutions on behalf of the Company's obligations at December 31, 2000 and 1999 are ₩84,584 million ₩922,733 million, respectively (see Notes 9 and 10).

At December 31, 2000, in the normal course of business, the Company has provided as collateral for creditors and guarantors, a number of checks and promissory notes having face values totaling ₩3,022 million.

At December 31, 2000, in the normal course of business, the Company has provided foreign-currency bank deposits of US\$14 million as collateral for a bank loan of a subsidiary (see Note 4).

The Company has entered into various multi-year technical assistance and license agreements with several foreign companies for the manufacture of certain product lines. In connection with these agreements, the Company is obligated to pay fees and royalties.

As of December 31, 2000, the Company has been named as defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions outstanding at December 31, 2000, in the aggregate, will not have a material adverse impact on the Company's operations or financial position.

As of December 31, 1999, the Company's outstanding forward exchange contracts for hedging against foreign exchange rate fluctuation, amounted to US\$ 10 million. As of December 31, 2000, the Company has no outstanding forward exchange contract.

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

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above.

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

12. Retained Earnings:

Legal Reserve

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. Subject to the approval of the board of directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

Other Reserves

Other reserves at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Reserve for improvement of financial structure	£ 24,336	£ 24,336
Reserve for business rationalization	98,777	85,777
Reserve for technological development	530,581	243,704
Reserve for export loss	4,767	7,533
Others	20,900	34,301
	£ 679,361	£ 395,651

The Company is required to appropriate, as a reserve for improvement of its financial structure, an amount equal to at least 50% of the net gain from the disposal of property, plant and equipment and 10% of net earnings for each year until the Company's net worth equals 30% of total assets. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to reduce accumulated deficit, if any.

The Korean Special Tax Treatment Control Law requires the Company to appropriate, as a reserve for business rationalization, an amount equal to the tax reduction resulting from increases in capital stock for cash, investment tax credits and the tax credit for technology and manpower development. This reserve is not available for the payment of dividends but may be transferred to capital stock or may be used to offset accumulated deficit, if any, through a suitable shareholders' resolution.

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earnings appropriated for reserves for technology development and overseas export losses as deductions in its income tax return. These reserves are not available for the payment of dividends until used for the specified purpose or reversed.

Unappropriated Retained Earnings

Pursuant to the revised financial accounting standards generally accepted in the Republic of Korea, the Company has changed its method of accounting for foreign currency translations and certain other items in 1999. As a result of this change, the Company deducted £ 158,681 million from unappropriated retained earnings carried over from 1998.

13. Treasury Stock :

As of December 31, 2000 and 1999, the Company retains 6,500,000 shares and 2,500,000 shares, respectively, of its issued and outstanding common stock carried at £ 119,041 and £ 32,831 million. The treasury stock was recorded as a capital adjustment and will be sold subject to stock market conditions.

Continued;

14. Income Taxes :

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%. However, as the result of tax reconciliation, tax credits and other items, the effective tax rates of the Company are 30.1% and 29.3%, respectively, for the years ended December 31, 2000 and 1999.

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

	Millions of Won	
	2000	1999
Current income taxes under the tax law	₩ 93,122	₩ 53,475
Changes in deferred income tax liabilities (*)	46,834	99,403
Income taxes (**)	₩ 139,956	₩ 152,878

(*) The changes in deferred income tax assets and liabilities are as follows :

	Accumulated Temporary Differences	Income Tax Effects	Tax Credits Carried Over From Previous Year	Deferred Income Tax Assets (Liabilities)
2000				
Beginning balance	₩ (314,553)	₩ (96,882)	₩ -	₩ (96,882)
Ending balance	466,610	(143,716)	-	(143,716)
				46,834
1999				
Beginning balance	₩ 59,996	₩ 18,479	₩ 4,342	₩ 22,821
Ending balance	(248,645)	(76,582)	-	(76,582)
				₩ 99,403

(**) Income taxes for the year ended December 31, 2000 are all applicable to ordinary income. For the year ended December 31, 1999, income taxes consists of the income taxes for ordinary income, extra-ordinary loss, and gain on disposal of treasury stock, amounting to ₩154,765 million, ₩(2,034) million and ₩147 million, respectively. The income taxes for gain on disposal of treasury stock is directly deducted from the gain on disposal of treasury stock.

Current income taxes under the tax law are calculated as follows :

	Millions of Won	
	2000	1999
Income before income taxes	₩ 464,777	₩ 520,459
Difference added to income	205,729	103,046
- Temporary	₩ 190,894	₩ 95,498
- Permanent	14,835	7,548
Difference deducted from income	342,952	404,139
- Temporary	342,952	404,139
Taxable income	₩ 327,554	₩ 219,366

The changes of temporary differences for the years ended December 31, 2000 and 1999 are as follows (Millions of Won) :

For the year ended December 31, 2000

	Beginning Balance	Increase	Decrease	Ending Balance
Allowance for doubtful accounts	₩ 36,613	₩ 11,022	₩ 36,613	₩ 11,022
Loss on valuation of investments using the equity method of accounting (*)	(208,664)	(137,243)	(50,511)	(295,396)
Accrued income	(9,087)	(5,374)	(2,031)	(12,430)
Foreign currency translation adjustment debit	58,522	-	22,052	36,470
Reserve for technological development	(134,970)	-	(15,673)	(119,297)
Reserve for overseas investment loss	(30,067)	-	(11,933)	(18,134)
Accrued severance benefits	1,966	-	-	1,966
Others	(28,866)	(42,761)	(816)	(70,811)
	₩ (314,553)	₩ (174,356)	₩ (22,299)	₩ (466,610)

(*) The temporary difference amounting ₩65,908 million, arising from the cumulative effects on accounting changes of equity-method investee and others, is added to temporary difference carried over from the prior year.

For the year ended December 31, 1999

	Beginning Balance	Increase	Decrease	Ending Balance
Allowance for doubtful accounts	₩ 45,092	₩ 36,613	₩ 45,092	₩ 36,613
Loss on valuation of investments using the equity method of accounting	88,298	-	231,054	(142,756)
Accrued income	(12,943)	(3,832)	(7,688)	(9,087)
Foreign currency translation adjustment debit	81,326	-	22,804	58,522
Reserve for technological development	(113,772)	(60,000)	(38,802)	(134,970)
Reserve for overseas investment loss	(36,821)	-	(6,754)	(30,067)
Accrued severance benefits	1,966	-	-	1,966
Others	6,850	(31,885)	3,831	(28,866)
	₩ 59,996	₩ (59,104)	₩ 249,537	₩ (248,645)

Continued;

Among the above temporary differences, the temporary differences and related income tax effects arising from the cumulative effects on accounting changes are as follows (Millions of Won) :

	Amount		Income Tax Effects	
	2000	1999	2000	1999
Foreign currency translation adjustment debit	₩ -	₩ 82,614	₩ -	₩ 25,445
Foreign currency translation adjustment credit	-	(137)	-	(42)
Allowance for valuation of investment securities	-	(43)	-	(13)
Loss on valuation of investments using the equity method of accounting	(65,908)	88,298	(20,300)	27,196
Loss on valuation of investments in the securities market stabilization fund	-	10,769	-	3,317
	₩(65,908)	₩181,501	₩(20,300)	₩ 55,903

15. Earnings Per Share:

Basic ordinary income per share and earning per share represents the ordinary income and net income of one share of common stock.

	2000	1999
Net income after deducting preferred stock dividends :		
Net income	₩ 324,821 million	₩ 367,728 million
Preferred stock dividends	(10,498)	(10,498)
Net income of common stock (A)	314,323 million	357,230 million
Extraordinary gain	-	(-)
Extraordinary loss	-	6,606
Income tax effects	-	(2,034)
Ordinary income of common stock (B)	314,323	361,802
Weighted average number of shares outstanding common stock (C)(*)	92,867,173 shares	91,453,839 shares
Basic earnings per share (A/C)	₩ 3,385	₩ 3,906
Basic ordinary income per share (B/C)	₩ 3,385	₩ 3,956

(*) Treasury stock is deducted from outstanding common stock.

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2000 and 1999. Accordingly, basic and ordinary income per share are equal to fully diluted earnings per share.

16. Dividend :

	2000	1999
Dividend		
Share issued (par value 5,000 Won) (A)		
Common shares	91,113,734 shares	95,113,734 shares
Preferred shares	13,123,108 shares	13,123,108 shares
Dividend per share (ratio) (B)		
Common shares : cash	750 Won (15%)	750 Won (15%)
Preferred shares : cash	800 Won (16%)	800 Won (16%)
Dividend amount (A × B)		
Common shares	₩ 68,335 million	₩ 71,335 million
Preferred shares (A/B)	10,499	10,499
	₩ 78,834 million	₩ 81,834 million
Dividend payout ratio		
Dividend (A)	₩ 78,834 million	₩ 81,834 million
Net income (B)	324,821 million	367,728 million
Dividend payout ratio (A/B)	24.27%	22.25%

Dividend yield ratio	Common shares		Preferred Shares	
	2000	1999	2000	1999
Dividend per share (A)	750 Won	750 Won	800 Won	800 Won
Market value at the end of the year (B)	11,350 Won	35,900 Won	6,750 Won	17,400 Won
Dividend yield ratio (A/B)	6.61%	2.09%	11.85%	4.60%

17. Related Party Transactions:

Significant transactions which occurred in the ordinary course of business with related companies for the years ended December 31, 2000 and 1999 are summarized as follows :

Description	Millions of Won	
	2000	1999
Sales	₩ 752,720	₩ 697,986
Purchases	1,059,640	772,636
Receivables	116,715	122,615
Payables	167,625	165,501

Upon a resolution of the board of directors on April 3, 2000, the Company acquired 1,180,000 common shares of LG Caltex Oil Co., Ltd. and 1,644,998 common shares of LG Mart Co., Ltd. in the amount of ₩129,800 million and ₩246,750 million, respectively, from related parties.

18. Segment Information:

The Company defines its segments by the nature of products and services.

(1) Industry Segment Information

Industry Segments

Industry	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizers and others	LG International Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Performance Polymers	SR, EPS, MBS, SBL, EP, Epoxy and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. and others
Industrial Materials	Hi Sash, UBR, Wall coverings, Dyestuff, Living materials, Building materials and others	Distributors and wholesalers
Information & Electronic Materials	Battery, Fluorescent materials, MLB, Telecommunication parts and others	Hyundai Motors Co., Ltd LG Information & Communication Ltd. Hanssem Co., Ltd. and others
Life Science	Sorbitol, Agrochemicals, Pharmaceuticals and others	Cheil Jedang Corp. Kolon Chemical Co., Ltd. and others
Household & Health Care	Detergents, Soaps, Beverages, Cosmetics, Pharmaceuticals and others	Department stores, E-Mart, Seoul National University Hospital, National Agricultural Cooperative Federation and others

The Company reorganized industry segment as above from 2000.

Financial Information on Industry Segments for the year ended December 31, 2000 - (Unit : Millions of Won)

	Petrochemicals	Performance Polymers	Industrial Materials	Information & Electronic Materials	Life Science	Household & Health Care	Others	Total
1. Sales								
External sales	₩ 1,253,192	₩ 1,251,591	₩ 1,183,665	₩ 582,229	₩ 186,297	₩ 961,301	₩ 2,463	₩ 5,420,738
Inter-segment sales	177,137	33,995	1,531	657	5,377	4,078	33,463	256,238
Total	<u>1,430,329</u>	<u>1,285,586</u>	<u>1,185,196</u>	<u>582,886</u>	<u>191,674</u>	<u>965,379</u>	<u>35,926</u>	<u>5,676,976</u>
2. Operating income	<u>157,474</u>	<u>176,034</u>	<u>100,346</u>	<u>24,698</u>	<u>31,270</u>	<u>98,201</u>	<u>7,837</u>	<u>595,860</u>
3. Fixed assets								
Tangible and intangible assets	<u>734,167</u>	<u>391,470</u>	<u>415,856</u>	<u>389,762</u>	<u>126,860</u>	<u>289,156</u>	<u>538,651</u>	<u>2,885,922</u>
Depreciation and amortization	<u>93,422</u>	<u>49,732</u>	<u>52,576</u>	<u>30,152</u>	<u>14,034</u>	<u>29,194</u>	<u>2,792</u>	<u>271,902</u>

(2) Geographical Segment Information

The sales of geographical segments for the years ended December 31, 2000 and 1999 are as follows (Millions of Won) :

	Domestic (*)	China	North America	South America	South- East Asia	Western Europe	Others	Total
2000	₩3,882,215	₩ 803,775	₩ 113,512	₩ 112,179	₩ 206,789	₩ 168,800	₩ 133,468	₩5,420,738
1999	₩3,353,215	₩ 615,223	₩ 98,022	₩ 63,818	₩ 161,095	₩ 148,797	₩ 106,195	₩4,546,365

(*) Domestic sales include the exports made based on local Letter of Credit.

19. Supplemental Cash Flow Information:

Major transactions not involving an inflow or outflow of cash and cash equivalents are as follows (Millions of Won) :

	2000	1999
Dividend declaration	₩ 78,834	₩ 81,834
Transfer to current maturities of long-term debts	216,207	80,703
Transfer to current maturities of debentures	600,000	700,000
Gain on valuation of investment using the equity method of accounting (capital adjustment)	23,053	374,651
Transfer to property, plant and equipment	330,528	157,114
Transfer to machinery and equipment	31,130	63,606

20. Business Division Plan :

Upon a resolution of the board of directors on November 15, 2000 and upon a resolution of the stockholders on December 28, 2000, the Company is scheduled to carve out its chemical business and household & healthcare business and establish new companies on April 1, 2001. The Company will be split into three companies, LG Chem Investment Ltd., to engage in the business of life science and a holding company, LG Chemical Ltd., to engage in the business of petrochemicals, performance polymers, industrial & building materials and information & electronic materials and LG Household & Healthcare Ltd., to engage in the business of household goods and cosmetics. Paid-in capital of LG Chem Investment Ltd., LG Chem, Ltd. and LG Household & Healthcare, including preferred stock will be ₩99,663 million, ₩365,432 million and ₩88,589 million, respectively.

Based on balance sheets as of June 30, 2000, financial information of three companies after the split is estimated as follows (Millions of Won).

	LG Chem Investment	LG Chem	LG Household & Healthcare
Current assets	₩ 154,193	₩ 874,298	₩ 188,062
Fixed assets	1,998,830	2,600,234	355,450
Total assets	₩ 2,153,023	₩ 3,474,532	₩ 543,512
Current liabilities	622,507	1,225,484	214,960
Long-term liabilities	591,726	1,088,936	147,080
Total liabilities	₩ 1,214,233	₩ 2,314,420	₩ 362,040
Paid-in capital	99,663	365,432	88,589
Capital surplus	144,532	730,719	88,932
Retained earnings and etc.	694,595	63,961	3,951
Total shareholders' equity	₩ 938,790	₩ 1,160,112	₩ 181,472
Total liabilities and shareholders' equity	₩ 2,153,023	₩ 3,474,532	₩ 543,512

POST-DEMERGER LG CHEM BASIS

BALANCE SHEET

December 31, 2000

	2000	
	<i>Millions of Korean Won</i>	<i>Thousands of U. S. Dollars</i>
ASSETS		
Current assets:		
Cash and cash equivalents	₩ 26,954	\$ 21,397
Short-term financial instruments	84	67
Marketable securities	5	4
Trade accounts and notes receivable, net	345,382	274,178
Other accounts receivable, net	28,118	22,321
Inventories	297,728	236,348
Accrued income	12,411	9,852
Advance payments	4,457	3,538
Prepaid expenses	7,511	5,963
Other current assets	1,272	1,010
Total current assets	723,922	574,678
Property, plant and equipment, net	2,362,839	1,875,716
Investment securities	344,375	273,379
Deferred income tax assets	8,605	6,831
Other investments	58,359	46,327
Long-term financial instruments	40,045	31,789
Long-term guarantee deposits	25,204	20,008
Intangible assets	39,525	31,377
Total assets	₩ 3,602,874	\$ 2,860,105

Continued:

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

BALANCE SHEET

December 31, 2000

	2000	
	<i>Millions of Korean Won</i>	<i>Thousands of U. S. Dollars</i>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	₩ 220,770	\$ 175,256
Current maturities of long-term debt, net	435,442	345,671
Trade accounts and notes payable	291,560	231,452
Other accounts payable	302,707	240,301
Income taxes payable	98,659	78,319
Accrued expenses	90,777	72,062
Other current liabilities	90,438	71,793
Total current liabilities	1,530,353	1,214,854
Long-term debt, net	888,251	705,129
Accrued severance benefits, net	31,970	25,379
Other long-term liabilities	5,395	4,284
Total liabilities	₩ 2,455,969	\$ 1,949,646
Commitments and contingencies		
Shareholders' equity :		
Capital stock	₩ 322,125	\$ 255,716
Preferred stock	43,306	34,378
Capital surplus	498,169	395,466
Retained earnings	215,839	171,342
Capital adjustment	67,466	53,557
Total shareholders' equity	1,146,905	910,459
Total liabilities and shareholders' equity	₩3,602,874	\$ 2,860,105

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

INCOME STATEMENT

For the year ended December 31, 2000

	2000	
	<i>Millions of Korean Won</i>	<i>Thousands of U. S. Dollars</i>
Sales		
Domestic	₩ 2,298,989	\$ 1,825,029
Export	1,974,014	1,567,051
	4,273,003	3,392,080
Cost of sales	3,388,924	2,690,263
Gross profit	884,079	701,817
Selling and administrative expenses	405,017	321,519
Operating income	479,062	380,298
Non-operating income (expenses)		
Interest expenses, net	(149,921)	(119,013)
Foreign exchange gain (loss), net	(27,094)	(21,508)
Gain on valuation of investment under the equity method of accounting	27,210	21,600
Loss on disposal of property, plant and equipment, net	(3,878)	(3,079)
Gain on disposal of investment, net	13,304	10,561
Others, net	(1,636)	(1,299)
	(142,015)	(112,738)
Ordinary income	337,047	267,560
Extraordinary gain	-	-
Extraordinary loss	-	-
Income before income taxes	337,047	267,560
Income taxes	103,810	82,407
Net income	₩ 233,237	\$ 185,153

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