

LG Electronics Inc.

**Non-Consolidated Interim Financial Statements
September 30, 2004 and 2003**

LG Electronics Inc.

Index

September 30, 2004 and 2003, and December 31, 2003

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LG Electronics Inc.
Non-Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(Unaudited)

(in millions of Korean won)

| | 2004 | 2003 |
|--|--------------|--------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Notes 3 and 6) | ₩ 824,611 | ₩ 536,853 |
| Short-term financial instruments (Note 4) | - | 40,732 |
| Trade accounts and notes receivable, net (Notes 5, 6 and 23) | 1,265,182 | 1,005,246 |
| Inventories, net (Notes 7 and 11) | 1,671,783 | 1,504,164 |
| Other accounts receivable, net (Notes 5 and 6) | 609,109 | 438,078 |
| Prepaid expenses | 58,313 | 40,959 |
| Accrued income, net (Notes 5 and 6) | 30,708 | 176,334 |
| Advances, net (Note 5) | 56,164 | 28,026 |
| Derivatives transaction debit (Note 16) | 11,491 | 654 |
| Other current assets, net (Note 5) | 2,297 | 1,671 |
| Total current assets | 4,529,658 | 3,772,717 |
| Property, plant and equipment, net (Notes 10, 11 and 24) | 3,490,298 | 3,122,720 |
| Long-term financial instruments (Note 4) | 10,551 | 9,623 |
| Long-term investment securities (Note 8) | 162,339 | 246,712 |
| Equity method investment securities (Note 9) | 4,185,765 | 2,621,879 |
| Refundable deposits (Note 6) | 359,943 | 326,574 |
| Long-term trade accounts receivable (Note 5) | - | 22 |
| Long-term prepaid expenses | 104,068 | 85,425 |
| Deferred income tax assets, net (Note 21) | - | 249,728 |
| Long-term loans, net (Note 5) | 33,837 | 5,725 |
| Intangible assets (Notes 12 and 24) | 703,595 | 836,301 |
| Other non-current assets | 842 | - |
| Total assets | ₩ 13,580,896 | ₩ 11,277,426 |

LG Electronics Inc.
Non-Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(Unaudited)

(in millions of Korean won)

| | 2004 | 2003 |
|---|--------------|--------------|
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Short-term borrowings (Note 13) | ₩ 364,342 | ₩ 390,406 |
| Current maturities of long-term debt (Note 13) | 728,237 | 989,580 |
| Trade accounts and notes payable (Notes 6 and 23) | 1,885,815 | 1,791,833 |
| Other accounts payable (Note 6) | 888,218 | 1,100,406 |
| Income taxes payable (Note 21) | 35,260 | 48,761 |
| Dividends payable | - | 34 |
| Accrued expenses (Note 6) | 979,000 | 612,456 |
| Withholdings | 15,511 | 30,974 |
| Advances from customers | 160,570 | 116,489 |
| Derivatives transaction credit (Note 16) | 1,044 | 9,860 |
| Unearned income | 1,604 | - |
| Total current liabilities | 5,059,601 | 5,090,799 |
| Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 14) | | |
| | 2,862,965 | 2,382,431 |
| Long-term debt, net of current maturities (Note 14) | 293,970 | 22,758 |
| Accrued severance benefits, net (Note 15) | 265,451 | 192,739 |
| Product warranty reserve | 120,122 | 83,982 |
| Deferred income tax liabilities, net (Note 21) | 49,148 | - |
| Other long-term liabilities | 114 | 115 |
| Total liabilities | 8,651,371 | 7,772,824 |
| Commitments and contingencies (Note 16) | | |
| Shareholders' equity | | |
| Capital stock (Notes 1 and 17) | 783,961 | 783,961 |
| Capital surplus (Note 18) | 1,907,603 | 1,891,986 |
| Retained earnings (Note 19) | 1,896,346 | 766,097 |
| Capital adjustments (Note 20) | 341,615 | 62,558 |
| Total shareholders' equity | 4,929,525 | 3,504,602 |
| Total liabilities and shareholders' equity | ₩ 13,580,896 | ₩ 11,277,426 |

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

See Report of Independent Accountants

LG Electronics Inc.
Non-Consolidated Statements of Income
Three-Month Periods and Nine-Month Periods Ended September 30, 2004 and 2003
(Unaudited)

(in millions of Korean won, except per share amounts)

| | 2004 | | 2003 | |
|---|---|--|---|--|
| | For the three-month period ended September 30 | For the nine-month period ended September 30 | For the three-month period ended September 30 | For the nine-month period ended September 30 |
| Sales (Notes 23 and 24) | ₩ 6,112,546 | ₩ ##### | ₩ 4,916,093 | ₩ ##### |
| Cost of sales (Note 23) | 4,575,630 | ##### | 3,795,500 | ##### |
| Gross profit | 1,536,916 | 4,467,552 | 1,120,593 | 3,553,259 |
| Selling and administrative expenses | 1,181,566 | 3,312,727 | 935,497 | 2,688,760 |
| Operating income (Note 24) | 355,350 | 1,154,825 | 185,096 | 864,499 |
| Non-operating income | | | | |
| Interest income | 16,674 | 59,930 | 10,328 | 23,659 |
| Dividend income | 2,533 | 7,426 | 32 | 5,359 |
| Rental income | 3,348 | 9,980 | 3,258 | 8,502 |
| Gain on valuation of short-term trading securities | - | - | 280 | 843 |
| Foreign exchange gains | 40,873 | 231,245 | 72,280 | 230,249 |
| Gain on disposal of property, plant and equipment | 2,482 | 5,782 | 3,282 | 3,923 |
| Gain on disposal of investment securities | 825 | 46,955 | 122 | 287 |
| Reversal of allowance for doubtful accounts | 3,609 | 27,827 | - | - |
| Equity in earnings of affiliates, net (Note 9) | 161,337 | 829,740 | 208,527 | 286,312 |
| Refund of income taxes | 5,045 | 58,645 | - | 826 |
| Gain on derivatives transactions (Note 16) | 243 | 15,620 | 3,355 | 5,822 |
| Gain on valuation of derivatives (Note 16) | - | 13,440 | 5,179 | 5,337 |
| Others | 15,260 | 64,971 | 28,722 | 90,871 |
| | 252,229 | 1,371,561 | 335,365 | 661,990 |
| Non-operating expenses | | | | |
| Interest expense | 50,359 | 149,433 | 52,766 | 157,276 |
| Foreign exchange losses | 30,975 | 176,672 | 55,693 | 196,636 |
| Loss from transfer of trade accounts and notes receivable | 26,995 | 84,831 | 20,243 | 71,782 |
| Loss from disposal of property, plant and equipment | 17,276 | 86,164 | 8,355 | 21,257 |
| Loss from disposal of investment securities | - | 71,885 | 38 | 2,607 |
| Loss on impairment of investment securities | 1,879 | 35,097 | 1,835 | 29,273 |
| Donations | 2,555 | 7,070 | 2,005 | 5,318 |
| Additional payment of income taxes | 19,949 | 19,949 | - | 202 |
| Other bad debt expense | 726 | 1,047 | 44,152 | 106,675 |
| Loss on derivatives transactions (Note 16) | 640 | 10,832 | 18 | 2,936 |
| Loss on valuation of derivatives (Note 16) | 1,310 | 1,310 | 976 | 977 |
| Others | 13,182 | 35,607 | 12,698 | 37,228 |
| | 165,846 | 679,897 | 198,779 | 632,167 |
| Ordinary income | 441,733 | 1,846,489 | 321,682 | 894,322 |
| Extraordinary gains | - | - | - | - |
| Extraordinary losses | - | - | - | - |
| Income before income taxes | 441,733 | 1,846,489 | 321,682 | 894,322 |
| Income tax expense (Note 21) | 137,324 | 463,916 | 97,823 | 214,292 |
| Net income | ₩ 304,409 | ₩ 1,382,573 | ₩ 223,859 | ₩ 680,030 |
| Earnings per share and | | | | |
| ordinary income per share (in won) (Note 22) | ₩ 1,950 | ₩ 8,842 | ₩ 1,428 | ₩ 4,341 |
| Diluted earnings per share and | | | | |
| diluted ordinary income per share (in won) (Note 22) | 1,869 | 8,502 | 1,406 | 4,318 |

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

See Report of Independent Accountants

LG Electronics Inc.
Non-Consolidated Statements of Cash Flows
Three-Month Periods and Nine-Month Periods Ended September 30, 2004 and 2003
(Unaudited)

(in millions of Korean won)

| | 2004 | | 2003 | |
|---|---|--|---|--|
| | For the three-month period ended September 30 | For the nine-month period ended September 30 | For the three-month period ended September 30 | For the nine-month period ended September 30 |
| Cash flows from operating activities | | | | |
| Net income | ₩ 304,409 | ₩ 1,382,573 | ₩ 223,859 | ₩ 680,030 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation and amortization | 169,446 | 489,109 | 152,350 | 457,637 |
| Amortization of discounts on debentures | 8,675 | 22,060 | 4,650 | 11,955 |
| Provision for severance benefits | 18,918 | 150,360 | 22,893 | 110,178 |
| Loss from transfer of trade accounts and notes receivable | 26,995 | 84,831 | 20,243 | 71,782 |
| Bad debt expense | 888 | 1,209 | 44,552 | 129,312 |
| Foreign currency translation gain, net | 1,926 | (30,132) | (5,396) | (11,001) |
| Gain on valuation of short-term trading securities | - | - | (280) | (843) |
| Loss from disposal of investment securities, net | (825) | 24,930 | (84) | 2,320 |
| Loss on impairment of investment securities | 1,879 | 35,097 | 1,835 | 29,273 |
| Loss from disposal of property, plant and equipment, net | 14,794 | 80,382 | 5,073 | 17,334 |
| Equity in earnings of affiliates, net | (161,337) | (829,740) | (208,527) | (286,312) |
| Loss(gain) on valuation of derivatives, net | 1,310 | (12,130) | (4,203) | (4,360) |
| Loss on derivatives transactions, net | 397 | (4,788) | (3,337) | (2,886) |
| Product warranty provision | 31,431 | 36,141 | 127,233 | 304,912 |
| Reversal of allowance for doubtful accounts | (3,609) | (27,827) | - | - |
| Others | - | (2,838) | 135 | 77 |
| Changes in assets and liabilities | | | | |
| Decrease (increase) in trade accounts and notes receivable | (33,801) | (342,980) | (124,628) | 15,948 |
| Increase in other accounts receivable | (236,892) | (175,380) | (23,899) | (81,669) |
| Decrease (increase) in accrued income | 154,160 | 145,743 | (36,508) | (49,968) |
| Decrease (increase) in advances | 8,635 | (27,438) | (38,314) | 41,572 |
| Decrease (increase) in other current assets | (26) | 33 | 1,001 | 5 |
| Decrease (increase) in inventories | (41,472) | (167,620) | 75,358 | 170,411 |
| Decrease (increase) in prepaid expenses | 23,761 | (17,351) | 3,868 | 14,573 |
| Decrease (increase) in deferred income tax assets, net | 133,851 | 319,989 | 18,860 | (86,009) |
| Increase in long-term prepaid expenses | (4,609) | (18,643) | (5,189) | (11,583) |
| Increase (decrease) in trade accounts and notes payable | 163,020 | 98,106 | 118,997 | (477,118) |
| Increase (decrease) in other accounts payable | (210,238) | (211,756) | 17,761 | (274,037) |
| Increase in accrued expenses | 111,123 | 368,525 | 143,857 | 144,975 |
| Decrease in withholdings | (6,041) | (15,463) | (38,921) | (8,017) |
| Increase in advances from customers | 16,827 | 44,081 | 33,269 | 31,546 |
| Increase (decrease) in income taxes payable | (99,094) | (13,501) | (5,304) | 42,742 |
| Payment of severance benefits | (19,783) | (88,510) | (13,269) | (72,745) |
| Decrease (increase) in severance insurance deposits | (1,115) | 8,505 | (19,639) | 6,342 |
| Decrease in contributions to the National Pension Fund | 561 | 2,358 | 429 | 2,468 |
| Others | 26,319 | 6 | (132,281) | (278,281) |
| Net cash provided by operating activities | ₩ 400,483 | ₩ 1,307,941 | ₩ 356,444 | ₩ 640,563 |

LG Electronics Inc.
Non-Consolidated Statements of Cash Flows
Three-Month Periods and Nine-Month Periods Ended September 30, 2004 and 2003
(Unaudited)

(in millions of Korean won)

| | 2004 | | 2003 | |
|--|---|--|---|--|
| | For the three-month period ended September 30 | For the nine-month period ended September 30 | For the three-month period ended September 30 | For the nine-month period ended September 30 |
| Cash flows from investing activities | | | | |
| Disposal of short-term financial instruments, net | ₩ 883 | ₩ 40,732 | ₩ 4 | ₩ 767 |
| Acquisition of short-term trading securities | - | - | - | (20,000) |
| Disposal of short-term and long-term loans, net | (16,857) | (7,428) | (1,323) | (396) |
| Acquisition (disposal) of long-term financial instruments, net | 1,073 | (928) | 2,267 | (399) |
| Disposal of long-term investment securities | 6,485 | 280,885 | 455 | 27,136 |
| Acquisition of long-term investment securities | (424,248) | (748,750) | (18,892) | (111,825) |
| Payment of refundable deposits | (7,143) | (33,458) | - | (16,840) |
| Proceeds from disposal of property, plant and equipment | 10,165 | 27,793 | 24,595 | 36,293 |
| Proceeds from disposal of intangible assets | 192 | 465 | - | 81 |
| Proceeds from disposal of derivatives | 935 | 6,081 | 4,709 | 4,462 |
| Acquisition of property, plant and equipment | (207,581) | (809,144) | (191,792) | (493,558) |
| Acquisition of intangible assets | (3,544) | (23,538) | (5,269) | (59,241) |
| Acquisition of derivatives | (1,996) | (8,816) | - | - |
| Others | 612 | - | 417 | 3 |
| Net cash used in investing activities | <u>(641,024)</u> | <u>(1,276,106)</u> | <u>(184,829)</u> | <u>(633,517)</u> |
| Cash flows from financing activities | | | | |
| Proceeds from (payment of) short-term borrowings, net | (151,190) | (25,334) | (150,288) | 342,080 |
| Proceeds from issuance of debentures | 165,865 | 906,581 | 415,347 | 1,002,308 |
| Payment of current maturities of long-term debt | (61,875) | (669,233) | (133,898) | (514,100) |
| Payment of dividends | - | (196,634) | - | (157,396) |
| Proceeds from disposal of treasury stock | - | 11,349 | - | 10,925 |
| Acquisition of treasury stock | - | (46,298) | - | (9,400) |
| Proceeds from long-term borrowings | 5,671 | 275,492 | 35,118 | 35,118 |
| Others | - | - | 13 | 13 |
| Net cash provided by (used in) financing activities | <u>(41,529)</u> | <u>255,923</u> | <u>166,292</u> | <u>709,548</u> |
| Net increase (decrease) in cash and equivalents | <u>(282,070)</u> | <u>287,758</u> | <u>337,907</u> | <u>716,594</u> |
| Cash and cash equivalents | | | | |
| Beginning of the period (Note 25) | <u>1,106,681</u> | <u>536,853</u> | <u>395,863</u> | <u>17,176</u> |
| End of the period (Note 25) | <u>₩ 824,611</u> | <u>₩ 824,611</u> | <u>₩ 733,770</u> | <u>₩ 733,770</u> |

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

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
September 30, 2004 and 2003, and December 31, 2003
(Unaudited)

1. The Company

LG Electronics Inc. (the "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 September 30, 2004, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of September 30, 2004, the Company has outstanding capital stock amounting to ₩783,961 million, including non-voting preferred stock. The Company's stock was listed on the Korean Stock Exchange on April 22, 2002, and its depositary receipts ("DRs") were listed on the London Stock Exchange in September 2002.

As of September 30, 2004, LG Corp. and its related parties own 32.1% of the Company's common stock, while financial institutions, foreign investors and others own the rest of the Company's common stock.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated interim financial statements are summarized below:

Basis of Financial Statement Presentation

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

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

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LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
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(Unaudited)

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has 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 Supervisory Commission. SKFAS No. 1, *Accounting Changes and Corrections of Errors*, became effective for the Company on January 1, 2002, SKFAS No. 2, *Interim Financial Reporting*, through No. 9, *Convertible Securities*, became effective for the Company on January 1, 2003, and SKFAS No. 10, *Inventories*, SKFAS No. 12, *Construction-Type Contracts*, and SKFAS No. 13, *Debt Restructuring and Rescheduling*, became effective for the Company on January 1, 2004. The Company has adopted these statements in its interim financial statements for the nine-month period ended September 30, 2004.

Revenue Recognition

Revenues from finished products and merchandise are recognized when most of the risks and benefits associated with the possession of goods are substantially transferred. Accordingly, sales of finished products are recognized when inspection is completed, and sales of merchandise are recognized when delivered. Revenue from installation service contracts is recognized using the percentage-of-completion method.

Cash and Cash Equivalents

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

Securities

The Company accounts for equity and debt securities under the provisions of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method. 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. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities whose fair value may not be determined, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are charged to capital adjustments, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities after the amortization of discounts or premiums.

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Equity Method Investment Securities

Investments in equity securities of companies, over which the Company exercises a significant control or influence (controlled investees), are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over five years using the straight-line method, and the amortization is charged to current operations.

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

Foreign currency financial statements of equity method investees are translated into Korean won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated collectibility of the accounts.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. If the net realizable value of the inventory is less than its cost, the carrying amount is reduced to the net realizable value. The valuation loss is charged to cost of sales and presented as a deduction from the inventory. However, the recovery of the net realizable value of the inventory would be deducted from cost of sales up to the cost of the inventory before valuation.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets, as described below.

| | Estimated useful life |
|---|------------------------------|
| Buildings | 20 - 40 years |
| Structures | 20 - 40 years |
| Machinery and equipment | 5 - 10 years |
| Tools, furniture and fixtures, and vehicles | 5 years |

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Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals which enhance the value of the assets over their most recently appraised value are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

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% 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% 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.

Research and Development Costs

Research costs are expensed as incurred. Development costs directly relating to a new technology or new products, for 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 not estimated to be recoverable, they are written down to their net realizable value.

Intangible Assets

Intangible assets are stated at acquisition cost, net of accumulated amortization. Acquisition cost is the total of the production or purchase cost and other incidental expenses. Amortization is computed using the straight-line method over the estimated useful lives, which range from five to ten years.

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. An impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Borrowing Costs

Interest and other financial costs incurred on borrowings used to acquire property, plant and equipment, intangible assets and investments are all charged to expense as incurred.

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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 a 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.

Product Warranty

The Company provides warranties against product defects for a specified period of time after the sale. Estimated costs of product warranties are charged to current operations at the time of sale and are included in the accompanying non-consolidated balance sheets as a product warranty reserve.

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 the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

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

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting 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 almost 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 income taxes are reduced in the period the assets that gave 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 losses from the sale of the receivables are charged to current operations as incurred.

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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 or losses are recognized in current operations.

The exchange rate used to translate U.S. dollar denominated monetary assets and liabilities as of September 30, 2004 and December 31, 2003 is ₩1,147.9: US\$1 and ₩1,197.8: US\$1, respectively.

Derivative Financial Instruments

The Company utilizes several derivative financial instruments (“derivatives”) such as forward exchanges, swaps and option contracts to reduce its exposure resulting from fluctuations in foreign currency and interest rates. The derivatives are carried at fair market value.

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

Convertible Bonds

The Company recorded a premium for conversion rights as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. The Company offset conversion rights adjustment by the face value of convertible bonds and add call premium to the face value of convertible bonds.

3. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | Annual interest rate (%) at September 30, 2004 | 2004 | 2003 |
|------------------------------------|---|------------------|------------------|
| Cash on hand | - | ₩ 47 | ₩ 47 |
| Checking accounts | - | 4,704 | 2,873 |
| Foreign currency checking accounts | - | 57,990 | 24,977 |
| Demand deposits | 0.10 - 0.30 | 5,270 | 1,795 |
| Foreign demand deposits | - | 3,337 | - |
| Foreign currency time deposits | 0.80 - 1.05 | 128,292 | 120,161 |
| Money market funds | 3.50 - 3.88 | 547,861 | 127,000 |
| Time deposits | 3.40 | 77,110 | 210,000 |
| Beneficiary certificates | - | - | 50,000 |
| | | <u>₩ 824,611</u> | <u>₩ 536,853</u> |

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4. Financial Instruments

Short-term and long-term financial instruments as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | Annual interest rate (%) at September 30, 2004 | 2004 | 2003 |
|---|---|-------------|-------------|
| Short-term financial instruments | | | |
| Installment deposits | - | ₩ - | ₩ 732 |
| Time deposits | - | - | 40,000 |
| | | - | 40,732 |
| Long-term financial instruments | | | |
| Other deposits | 0.0 - 4.5 | 10,551 | 9,623 |
| | | ₩ 10,551 | ₩ 50,355 |

As of September 30, 2004, long-term financial instruments of ₩10,551 million are deposited in connection with maintaining checking accounts or research and development projects funded by the government. The withdrawal of these financial instruments is restricted.

5. Receivables

Receivables, including trade accounts and notes receivable, as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | | | |
|--|------------------------|--|------------------------------------|-----------------------|
| | Original amount | Allowance for doubtful accounts | Discounts for present value | Carrying value |
| Trade accounts and notes receivable ¹ | ₩ 1,344,394 | ₩ (79,206) | ₩ (6) | ₩ 1,265,182 |
| Other accounts receivable | 620,560 | (10,225) | (1,226) | 609,109 |
| Accrued income | 30,953 | (245) | - | 30,708 |
| Advances | 59,973 | (3,809) | - | 56,164 |
| Other current assets | 2,307 | (10) | - | 2,297 |
| Long-term loans | 34,197 | (360) | - | 33,837 |
| | ₩ 2,092,384 | ₩ (93,855) | ₩ (1,232) | ₩ 1,997,297 |
| | 2003 | | | |
| | Original amount | Allowance for doubtful accounts | Discounts for present value | Carrying value |
| Trade accounts and notes receivable ¹ | ₩1,090,232 | ₩ (82,060) | ₩(2,904) | ₩1,005,268 |
| Other accounts receivable | 450,366 | (12,288) | - | 438,078 |
| Accrued income | 176,744 | (410) | - | 176,334 |
| Advances | 32,534 | (4,508) | - | 28,026 |
| Other current assets | 1,675 | (4) | - | 1,671 |
| Long-term loans | 27,436 | (21,711) | - | 5,725 |
| | ₩1,778,987 | ₩ (120,981) | ₩(2,904) | ₩1,655,102 |

Trade accounts receivable are included.

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6. Assets and Liabilities Denominated in Foreign Currencies

As of September 30, 2004 and December 31, 2003, monetary assets and liabilities denominated in foreign currencies, other than those disclosed in Notes 13 and 14, are as follows:

| <i>(in millions)</i> | 2004 | | 2003 | | |
|---------------------------|------------------|-----------------------|------------------|-----------------------|-----------|
| | Foreign currency | Korean won equivalent | Foreign currency | Korean won equivalent | |
| Cash and cash equivalents | US\$ | 110 | ₩ 126,775 | US\$ 104 | ₩ 125,047 |
| | JP ¥ | 855 | 8,831 | JP ¥ 462 | 5,174 |
| | EUR | 16 | 22,627 | EUR 6 | 9,093 |
| | Others | | 31,386 | Others | 5,823 |
| | | <u>189,619</u> | | <u>145,137</u> | |
| Trade accounts receivable | US\$ | 389 | 447,059 | US\$ 306 | 367,064 |
| | JP ¥ | 443 | 4,583 | JP ¥ 762 | 8,528 |
| | EUR | 35 | 49,865 | EUR 17 | 25,538 |
| | GBP | 2 | 4,065 | GBP 1 | 1,468 |
| | AUD | 19 | 15,756 | AUD 1 | 518 |
| | Others | | 3,455 | Others | 259 |
| | | <u>524,783</u> | | <u>403,375</u> | |
| Other accounts receivable | US\$ | 178 | 204,754 | US\$ 4 | 5,212 |
| | Others | | 68,233 | Others | 573 |
| | | <u>272,987</u> | | <u>5,785</u> | |
| Accrued income | US\$ | 9 | 10,543 | US\$ 119 | 142,787 |
| | Others | | 1,224 | Others | 61 |
| | | <u>11,767</u> | | <u>142,848</u> | |
| Refundable deposits | JP ¥ | 58 | 597 | JP ¥ 32 | 362 |
| | US\$ | 2 | 2,269 | US\$ 1 | 1,720 |
| | Others | | 2,848 | Others | 410 |
| | | <u>5,714</u> | | <u>2,492</u> | |
| Trade accounts payable | US\$ | 681 | 781,883 | US\$ 616 | 737,951 |
| | JP ¥ | 10,710 | 110,681 | JP ¥ 15,446 | 172,933 |
| | EUR | 14 | 19,860 | EUR 11 | 16,179 |
| | Others | | 4,429 | Others | 1,454 |
| | | <u>916,853</u> | | <u>928,517</u> | |
| Other accounts payable | AUD | 2 | 1,316 | AUD 14 | 12,891 |
| | CAD | 1 | 460 | CAD 5 | 5,087 |
| | EUR | 7 | 10,468 | EUR 43 | 65,033 |
| | JP ¥ | 95 | 981 | JP ¥ 3,743 | 41,910 |
| | US\$ | 31 | 35,949 | US\$ 164 | 196,867 |
| | Others | | 17,808 | Others 3 | 3,882 |
| | | <u>66,982</u> | | <u>325,670</u> | |
| Accrued expenses | US\$ | 70 | 80,046 | US\$ 64 | 76,106 |
| | Others | | 26,445 | Others | 4,661 |
| | | <u>106,491</u> | | <u>80,767</u> | |

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7. Inventories

Inventories as of September 30, 2004 and December 31, 2003 comprise the following:

| <i>(in millions of Korean won)</i> | 2004 | | | 2003 |
|------------------------------------|-------------------------|--------------------------------------|-----------------------|-----------------------|
| | Acquisition cost | Inventory valuation allowance | Carrying value | Carrying value |
| Merchandise | ₩ 37,815 | ₩ (1,437) | ₩ 36,378 | ₩ 21,268 |
| Finished products | 494,507 | (14,861) | 479,646 | 550,286 |
| Work-in-process | 419,835 | (1,558) | 418,277 | 348,850 |
| Raw materials | 619,558 | (7,081) | 612,477 | 490,126 |
| Parts and supplies | 127,249 | (2,244) | 125,005 | 93,634 |
| | <u>₩1,698,964</u> | <u>₩ (27,181)</u> | <u>₩ 1,671,783</u> | <u>₩ 1,504,164</u> |

See Note 11 for inventories insured against various property risks.

8. Long-Term Investment Securities

Long-term investment securities as of September 30, 2004 and December 31, 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|------------------------------------|------------------|------------------|
| Available-for-sale securities | ₩ 161,488 | ₩ 246,668 |
| Held-to-maturity securities | 851 | 44 |
| | <u>₩ 162,339</u> | <u>₩ 246,712</u> |

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Available-for-sale securities as of September 30, 2004 and December 31, 2003 are as follows:

| | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|--|---|------------------|------------------------------|------------------|------------------|------------------------------|------------------|
| | | Acquisition cost | Net asset value/Market value | Carrying value | Acquisition cost | Net asset value/Market value | Carrying value |
| <i>(in millions of Korean Won)</i> | | | | | | | |
| Marketable equity securities | | | | | | | |
| KT Corp. ³ | - | ₩ - | ₩ - | ₩ - | ₩ 127,441 | ₩ 105,257 | ₩ 105,257 |
| LG Investment & Securities Co., Ltd. ⁵ | - | - | - | - | 262,432 | 84,498 | 84,498 |
| NARA MOLD & DIE Co., Ltd. | 12.34 | 812 | 2,910 | 2,910 | 812 | 2,999 | 2,999 |
| Voiceware Co., Ltd. ⁷ | 3.02 | 142 | 894 | 894 | 206 | 1,363 | 1,363 |
| Jindoo Network Inc. ⁶ | 8.83 | 318 | 1,590 | 1,590 | - | - | - |
| Vodavi Technology Inc. | 19.86 | 2,928 | 5,742 | 5,742 | 2,928 | 5,992 | 5,992 |
| | | <u>4,200</u> | <u>11,136</u> | <u>11,136</u> | <u>393,819</u> | <u>200,109</u> | <u>200,109</u> |
| Non-marketable equity securities | | | | | | | |
| Domestic companies | | | | | | | |
| Innopla Co., Ltd. | 19.90 | 245 | 734 | 245 | 245 | 555 | 245 |
| Castec Korea Co., Ltd. | 5.00 | 182 | 712 | 182 | 182 | 489 | 182 |
| Msoltech ¹ | 10.00 | 635 | - | - | 635 | 242 | 635 |
| AL Tech Inc. | 8.53 | 589 | 272 | 589 | 589 | 245 | 589 |
| Korea Information Certificate Authority Inc. | 9.35 | 1,852 | 1,689 | 1,852 | 1,852 | 1,695 | 1,852 |
| Association of Electronics Environment | 36.04 | 4,698 | 1,795 | 4,698 | 4,349 | 1,795 | 4,349 |
| Megaround Co., Ltd. ⁶ | - | - | - | - | 318 | 315 | 318 |
| Temco, Inc. | 13.04 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Netgenetech Co., Ltd. | 15.00 | 176 | 176 | 176 | 176 | 176 | 176 |
| Manager Society, Inc. | 3.70 | 200 | 200 | 200 | 200 | 200 | 200 |
| Thermo Metrix Technology ⁷ | - | - | - | - | 158 | 158 | 158 |
| Wowlinux ⁷ | - | - | - | - | 100 | 100 | 100 |
| Silicon Works | 12.00 | 501 | 501 | 501 | 501 | 501 | 501 |
| LG fund for small and medium Enterprises | 50.00 | 2,500 | 2,500 | 2,500 | - | - | - |
| TU Media Corp. | 5.00 | 6,500 | 6,587 | 6,500 | 6,500 | 6,500 | 6,500 |
| Others | - | 4,254 | 2,220 | 2,220 | 1,618 | 1,618 | 1,618 |
| | | <u>48,408</u> | <u>24,818</u> | <u>28,121</u> | <u>46,938</u> | <u>24,032</u> | <u>43,499</u> |
| Overseas companies | | | | | | | |
| Gemfire Corp. ⁷ | - | - | - | - | 1,835 | - | - |
| Erlang Technology Inc. ¹ | 8.40 | 1,129 | - | - | 1,129 | 313 | 1,129 |
| Neopoint Inc. ¹ | - | - | - | - | 1,604 | - | - |
| E2OPEN.COM ⁴ | 6.87 | 15,694 | 504 | 504 | 15,694 | 1,899 | 15,694 |
| COMMIT Incorporated | 13.47 | 4,990 | 4,990 | 4,990 | 4,990 | 4,990 | 4,990 |
| Monet Mobile Networks ¹ | 1.90 | 1,299 | - | - | 1,299 | 276 | 1,299 |
| SUNPOWER.INC | 10.35 | 1,257 | 231 | 1,257 | 1,257 | 258 | 1,257 |
| Others | - | 507 | 507 | 507 | 507 | 507 | 507 |
| | | <u>48,408</u> | <u>24,818</u> | <u>28,121</u> | <u>46,938</u> | <u>24,032</u> | <u>43,499</u> |
| Debt securities | | | | | | | |
| Bonds issued by the government | | 27 | 27 | 27 | 856 | 856 | 856 |
| Convertible bonds issued by NeoDis Co., Ltd. | | 2,204 | 2,204 | 2,204 | 2,204 | 2,204 | 2,204 |
| Commercial papers issued by LG Card Co., Ltd. ² | | 150,000 | 120,000 | 120,000 | - | - | - |
| | | <u>152,231</u> | <u>122,231</u> | <u>122,231</u> | <u>3,060</u> | <u>3,060</u> | <u>3,060</u> |
| | | <u>₩ 204,839</u> | <u>₩ 158,185</u> | <u>₩ 161,488</u> | <u>₩ 443,817</u> | <u>₩ 227,201</u> | <u>₩ 246,668</u> |

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- ¹ Carrying value was fully written down due to the negative net book value or bankruptcy of the investee company as of September 30, 2004.
- ² As approved by the Board of Directors on February 6, 2004, the Company purchased LG CARD Co., Ltd. (LG Card)'s commercial papers with a face value of ₩150,000 million as part of the fulfillment of LG Card's business normalization agreement with the creditor financial institutions. The Company recognized an impairment loss of ₩30,000 million on the said commercial papers during the nine-month period ended September 30, 2004. The commercial papers are scheduled to be substituted with LG Card's subordinated convertible bonds whose terms, such as the interest rate and conversion price, will be agreed to by the creditor financial institutions and the LG Group reflecting market conditions after the debt-for-equity swap implemented by the creditor financial institutions. As of September 30, 2004, the terms of the subordinated convertible bonds were not yet determined.
- ³ During the nine-month period ended September 30, 2004, the Company disposed of all its 2,360,018 shares of KT Corp., resulting in a loss of ₩18,697 million.
- ⁴ Loss on valuation of available-for-sale securities amounting to ₩15,190 million was charged to capital adjustments.
- ⁵ Upon a resolution of the Board of Directors on December 23, 2003, the Company entrusted its disposal and voting rights for the 10,180,531 shares of the common stock of LG Investment & Securities Co., Ltd. to Woori Bank, the representative of the creditor banks, as a part of the business normalization plan of LG Card. In April 2004, in accordance with the business normalization plan, Korea Development Bank exercised its preemptive right to purchase the shares of LG Investment & Securities Co., Ltd. Accordingly, the Company disposed of all its 10,180,531 shares.
- ⁶ During the nine-month period ended September 30, 2004, all the investment in Megaround Co., Ltd. were exchanged to investment in Jindoo Network Inc. because Megaround Co., Ltd. was merged by Jindoo Network Inc. Gain on valuation of available-for-sale securities amounting to ₩1,272 million was charged to capital adjustments.
- ⁷ During the nine-month period ended September 30, 2004, the Company disposed of the investments, resulting in gain on disposal of investment securities of ₩487 million.

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As of September 30, 2004 and December 31, 2003, held-to-maturity securities consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | | 2003 | |
|--|-------------|-----|-------------|----|
| Subordinated bonds of ABN-AMRO ABCP | ₩ | 807 | ₩ | - |
| Other | | 44 | | 44 |
| | ₩ | 851 | ₩ | 44 |

The annual maturities of debt securities classified as available-for-sale securities and held-to-maturity securities as of September 30, 2004 and December 31, 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | | 2003 | |
|---|--|--|--|--|
| | Available-for-sale securities | Held-to-maturity securities | Available-for-sale securities | Held-to-maturity securities |
| Due in | | | | |
| Less than one year and one year ¹ | ₩ 120,000 | ₩ - | ₩ - | ₩ - |
| Over one year through five years | 2,231 | 807 | 3,060 | - |
| Over five years through ten years | - | 44 | - | 44 |
| | ₩ 122,231 | ₩ 851 | ₩ 3,060 | ₩ 44 |

¹ These are commercial papers of LG Card Co., Ltd. due in less than one year. The commercial papers are scheduled to be substituted with LG Card's subordinated convertible bonds whose terms will be agreed to by the creditor financial institutions.

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The details of changes in accumulated gains (losses) on valuation of available-for-sale securities as recorded in capital adjustments for the nine-month period ended September 30, 2004 are as follows:

(in millions of Korean won)

| | January 1, 2004 | Gain (loss) | Disposal | September 30, 2004 |
|--|-------------------|----------------|-------------------|-----------------------|
| KT Corp. | ₩ (22,184) | ₩ - | ₩ (22,184) | ₩ - |
| NARA MOLD & DIE Co., Ltd. | 2,187 | (89) | - | 2,098 |
| Voiceware Co., Ltd. | 1,157 | (183) | 222 | 752 |
| Jindoo Network Inc. | - | 1,272 | - | 1,272 |
| LG Investment & Securities Co., Ltd. | (75,994) | 23,534 | (52,460) | - |
| Vodavi Technology Inc. | 3,063 | (249) | - | 2,814 |
| E2OPEN.COM | - | (15,190) | - | (15,190) |
| Bonds issued by the Korean Government | (241) | - | (241) | - |
| | <u>₩ (92,012)</u> | <u>₩ 9,095</u> | <u>₩ (74,663)</u> | <u>₩ (8,254)</u> |

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9. Equity Method Investment Securities

Equity method investment securities as of September 30, 2004 and December 31, 2003 are as follows:

| | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|---|---|------------------|-----------------|----------------|------------------|-----------------|----------------|
| | | Acquisition cost | Net asset value | Carrying value | Acquisition cost | Net asset value | Carrying value |
| <i>(in millions of Korean won)</i> | | | | | | | |
| Domestic companies | | | | | | | |
| LG Micron Ltd. ⁴ | 36.00 | ₩68,100 | ₩116,628 | ₩107,490 | ₩52,315 | ₩88,030 | ₩86,070 |
| LG Sports Ltd. ⁷ | - | - | - | - | 1,404 | 1,203 | 1,204 |
| LG Innotek Co., Ltd. | 69.80 | 59,308 | 144,927 | 150,370 | 59,308 | 135,142 | 137,039 |
| Hankuk Electric Glass Co., Ltd. ⁶ | 20.00 | 119,282 | 143,578 | 126,245 | - | - | - |
| LG.Philips LCD Co., Ltd. ⁹ | 44.57 | 726,169 | 2,540,146 | 2,369,511 | 726,169 | 1,447,016 | 1,259,904 |
| LG IBM PC Co., Ltd. ¹⁰ | 49.00 | 11,907 | 18,003 | 15,584 | 11,907 | 17,739 | 14,548 |
| Hi Plaza Inc. | 100.00 | 70,511 | 76,768 | 63,310 | 70,511 | 78,942 | 60,806 |
| STIC Ventures Co., Ltd. | 94.00 | 28,200 | 28,679 | 28,679 | 28,200 | 30,864 | 28,200 |
| Hi Business Logistics | 100.00 | 4,500 | 5,503 | 5,503 | 4,500 | 4,500 | 4,500 |
| Overseas companies | | | | | | | |
| Goldstar Electronics Thailand Co., Ltd. (G.S.T.) ² | 49.00 | 36 | 36 | 36 | 36 | 36 | 36 |
| Hitachi-LG Data Storage Inc. (HLDS) | 49.00 | 7,684 | 20,537 | 20,497 | 7,684 | 30,576 | 33,007 |
| LG Electronics Austria GmbH (LGEAG) ² | 100.00 | 116 | 116 | 116 | 116 | 116 | 116 |
| LG Electronics Alabama, Inc. (LGEAI) ⁸ | - | - | - | - | 63,940 | 79,784 | 53,116 |
| LG Electronics Almaty Kazak Co., Ltd. (LGEAK) | 100.00 | 3,746 | 17,141 | 13,224 | 3,746 | 23,188 | 19,106 |
| LG Electronics Antwerp Logistics N.V. (LGEAL) ¹ | 100.00 | 967 | (1,808) | - | 967 | 1,660 | - |
| LG Electronics Australia PTY, Ltd. (LGEAP) ¹ | 100.00 | 1,558 | 7,424 | - | 1,558 | 9,544 | - |
| LG Electronics Argentina S.A. (LGEAR) ³ | 100.00 | 7,410 | - | - | 7,410 | - | - |
| Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT) | 50.00 | 14,718 | 24,101 | 23,105 | 14,718 | 19,895 | 19,353 |
| LG Electronics Colombia, Ltda. (LGECEB) | 100.00 | 3,330 | 8,390 | 5,396 | 3,330 | 991 | 2,175 |
| LG Electronics China Co., Ltd. (LGECH) ⁴ | 100.00 | 53,532 | 60,527 | 19,599 | 37,614 | 44,314 | 25,279 |

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| <i>(in millions of Korean won)</i> | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|--|--|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | | Acquisition cost | Net asset value | Carrying value | Acquisition cost | Net asset value | Carrying value |
| LG Electronics Canada, Inc. (LGECI) | 100.00 | 13,779 | 19,845 | 10,718 | 13,779 | 16,302 | 12,293 |
| LG Electronics Inc. Chile Limitada (LGECL) | 100.00 | 5,856 | 6,819 | 5,812 | 5,856 | 5,856 | 5,856 |
| LG Electronics Czech S.R.O. (LGE CZ) | 100.00 | 6,534 | 6,657 | 5,595 | 6,534 | 7,165 | 7,165 |
| LG Electronics Deutschland GmbH (LGEDG) | 100.00 | 26,938 | 23,778 | 10,980 | 26,938 | 24,972 | 16,266 |
| PT LG Electronics Display Devices Indonesia (LGEDI) | 100.00 | 32,085 | 73,004 | 47,951 | 32,085 | 76,826 | 53,673 |
| LG Electronics Design Tech, Ltd. (LGEDT) ² | 100.00 | 1,002 | 1,002 | 1,002 | 1,002 | 1,002 | 1,002 |
| LG Electronics Egypt Cairo S.A.E. (LGE EC) | 100.00 | 4,382 | 1,698 | 3,392 | 4,382 | 489 | 2,619 |
| LG Electronics Egypt S.A.E. (LGE EG) | 78.00 | 2,630 | 1,333 | 717 | 2,630 | 1,515 | 952 |
| LG Electronics Espana S.A. (LGE ES) ⁴ | 100.00 | 17,408 | 15,047 | 11,231 | 3,374 | 12,864 | 1,600 |
| LG Electronics Gulf FZE (LGE GF) ⁴ | 100.00 | 8,312 | 7,083 | 1,021 | 2,489 | 4,000 | - |
| LG Electronics HK Limited (LGE HK) | 100.00 | 4,316 | 6,151 | 6,099 | 4,316 | 4,065 | 3,943 |
| LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGE HN) ⁴ | 49.00 | 4,031 | 3,849 | 3,838 | 3,036 | 3,036 | 3,036 |
| LG Electronics Hellas S.A. (LGE HS) | 100.00 | 6,063 | 6,181 | 3,664 | 6,063 | 7,380 | 5,676 |
| LG Electronics Huizhou Inc. (LGE HZ) | 80.00 | 2,319 | 27,084 | 22,469 | 2,319 | 28,069 | 19,943 |
| LG Electronics India Pvt. Ltd. (LGE IL) | 100.00 | 38,476 | 125,159 | 121,664 | 38,476 | 116,998 | 113,063 |
| PT LG Electronics Indonesia (LGE IN) | 100.00 | 29,431 | 27,077 | 20,909 | 29,431 | 30,968 | 23,867 |
| LG Electronics Italy S.P.A. (LGE IS) ⁴ | 100.00 | 28,170 | 24,479 | 10,598 | 14,136 | 9,189 | 3,791 |
| LG Electronics Japan Inc. (LGE JP) | 100.00 | 12,978 | 128 | 1,333 | 12,978 | 3,682 | 3,095 |
| LG Electronics Mlawa SP.Zo.O. (LGE MA) ¹ | 100.00 | 7,066 | 12,957 | - | 7,066 | 21,175 | 16,988 |

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| <i>(in millions of Korean won)</i> | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|--|--|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | | Acquisition cost | Net asset value | Carrying value | Acquisition cost | Net asset value | Carrying value |
| LG Electronics Morocco S.A.R.L. (LGEMC) | 100.00 | 3,532 | 5,673 | 2,683 | 3,532 | 7,046 | 2,265 |
| LG Electronics Middle East Co., Ltd. (LGEME) ² | 100.00 | 462 | 462 | 462 | 462 | 462 | 462 |
| LG-MECA Electronics Haiphong, Inc. (LGEMH) | 70.00 | 1,690 | 4,193 | 3,928 | 1,690 | 3,423 | 3,328 |
| LG Electronics Magyar Kft. (LGEMK) ¹ | 100.00 | 5,575 | 6,352 | - | 5,575 | 11,301 | 4,393 |
| LG Electronics (M) SDN.BHD (LGEML) ² | 100.00 | 11 | 11 | 11 | 11 | 11 | 11 |
| LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM) ⁴ | 100.00 | 31,439 | 11,522 | 7,266 | 19,800 | 13,536 | 6,393 |
| LG Electronics Mexico S.A. de C.V. (LGEMS) ⁴ | 100.00 | 13,575 | 28,006 | 25,551 | 1,936 | 7,632 | 3,084 |
| LG MITR Electronics Co., Ltd. (LGEMT) | 87.74 | 15,925 | 12,242 | 6,667 | 15,925 | 12,781 | 8,078 |
| LG Electronics North of England Ltd. (LGENE) | 100.00 | 11,229 | 8,453 | 7,849 | 11,229 | 17,496 | 15,513 |
| LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP) | 100.00 | 14,712 | 3,192 | 8,702 | 14,712 | 13,435 | 13,084 |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) | 70.00 | 14,571 | 20,382 | 15,160 | 14,571 | 16,685 | 15,860 |
| LG Electronics Philippines, Inc. (LGEPH) (formerly LGECEM) | 100.00 | 23,524 | 2,371 | 4,509 | 23,524 | 2,564 | 5,186 |
| LG Electronics Polska SP.Zo.O. (LGEPL) | 100.00 | 4,117 | 8,380 | 5,674 | 4,117 | 10,229 | 8,968 |
| Nanjing LG Panda Appliance Co., Ltd. (LGEPN) | 70.00 | 9,465 | 10,325 | 11,502 | 9,465 | 15,380 | 14,865 |
| LG Electronics Peru S.A. (LGEPR) ⁴ | 100.00 | 7,699 | 3,245 | 1,165 | 1,879 | 1,783 | 481 |
| LG Electronics Panama S.A. (LGEPS) | 100.00 | 2,333 | 9,017 | 7,915 | 2,333 | 3,444 | 701 |
| LG Electronics Portugal (LGEPT) ⁴ | 100.00 | 20,927 | 20,009 | 16,778 | 6,822 | 7,517 | 7,460 |
| LG Electronics Qinhuangdao Co., Ltd. (LGEQH) | 100.00 | 4,104 | 7,445 | 7,421 | 4,104 | 6,805 | 7,024 |
| LG Electronics Russia Inc. (LGERI) | 95.00 | 391 | 9,538 | 9,835 | 391 | 5,934 | 5,934 |
| LG Electronics Romania S.R.L (LGERO) ⁵ | 100.00 | 7,350 | 5,695 | 5,599 | - | - | - |
| LG Electronics S.A. Pty Ltd. (LGESA) | 100.00 | 3,382 | 34,857 | 27,686 | 3,382 | 26,418 | 21,870 |

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| <i>(in millions of Korean won)</i> | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|---|---|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | | Acquisition cost | Net asset value | Carrying value | Acquisition cost | Net asset value | Carrying value |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | 100.00 | 10,470 | 29,811 | 20,203 | 10,470 | 16,601 | 20,203 |
| Shanghai LG Electronics Co., Ltd. (LGESH) ⁴ | 70.00 | 6,409 | 11,120 | 8,515 | 4,229 | 6,818 | 5,950 |
| LG Electronics de Sao Paulo Ltda. (LGESP) | 100.00 | 28,481 | 84,903 | 72,338 | 28,481 | 51,530 | 41,214 |
| LG Electronics Sweden AB (LGESW) | 100.00 | 5,668 | 5,590 | 933 | 5,668 | 6,683 | 4,348 |
| LG Electronics Shenyang Inc. (LGESY) | 78.87 | 15,139 | 18,519 | 13,691 | 15,139 | 19,206 | 11,831 |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | 80.00 | 49,479 | 120,400 | 107,301 | 49,479 | 125,388 | 106,851 |
| LG Electronics Thailand Co., Ltd. (LGETH) | 93.75 | 7,122 | 23,045 | 22,058 | 7,122 | 24,513 | 22,630 |
| Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT) | 100.00 | 59,205 | 33,713 | 40,214 | 59,205 | 46,334 | 51,842 |
| LG Taistar Electronics Taiwan Co., Ltd. (LGETT) ⁴ | 100.00 | 20,085 | 10,637 | 7,799 | 8,439 | 1,700 | - |
| LG Electronics United Kingdom Ltd. (LGEUK) ^{1,4} | 100.00 | 34,723 | 5,318 | - | 20,792 | (7,145) | - |
| LG Electronics Ukraine Co., Ltd. (LGEUR) ² | 100.00 | 1,041 | 1,041 | 1,041 | 1,041 | 1,041 | 1,041 |
| LG Electronics U.S.A., Inc. (LGEUS) ⁸ | 100.00 | 148,109 | 145,037 | 96,133 | 37,985 | 36,918 | 42,594 |
| LG Electronics Vietnam Co., Ltd. (LGEVN) | 100.00 | 6,035 | 9,063 | 8,553 | 6,035 | 13,319 | 12,646 |
| LG Electronics Wales Ltd. (LGEWA) ⁴ | 100.00 | 963,757 | 238,976 | 238,947 | 676,082 | (41,630) | - |
| Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT) ⁴ | 49.00 | 10,188 | 13,943 | 7,318 | 9,669 | 6,422 | 6,422 |
| Kunshan LGMS Computer Co., Ltd. (LGMSK) ⁴ | 100.00 | 4,549 | 3,509 | 3,548 | 1,155 | 916 | 915 |
| LG Soft India PVT, Ltd. (LGSI) ⁴ | 100.00 | 5,084 | 7,157 | 10,331 | 2,920 | 7,833 | 7,418 |
| EIC Properties PTE, Ltd. | 38.20 | 9,636 | 2,340 | 2,340 | 9,636 | 8,493 | 8,493 |
| Zenith Electronics Corporation (Zenith) ⁸ | - | - | - | - | 487,215 | (12,721) | - |

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| <i>(in millions of Korean won)</i> | Percentage of ownership (%) at September 30, 2004 | 2004 | | | 2003 | | |
|--|---|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | | Acquisition cost | Net asset value | Carrying value | Acquisition cost | Net asset value | Carrying value |
| LG Infocomm U.S.A. Inc. (LGICUS) ⁸ | - | - | - | - | 4,673 | 21,503 | - |
| LG Infocomm Thailand, Inc. (LGICTH) | 60.00 | 3,246 | 5,643 | 4,245 | 3,246 | 5,953 | 5,851 |
| Vietnam Korea Exchange, Ltd. (V.K.X.) | 40.00 | 1,736 | 1,816 | 1,877 | 1,736 | 2,316 | 2,328 |
| LG TOPS ³ | 40.00 | 2,699 | 930 | 906 | 2,699 | 930 | 906 |
| Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd. ² | 49.00 | 824 | 824 | 824 | 824 | 824 | 824 |
| LGE (China) R&D Center | 100.00 | 8,201 | 7,192 | 7,193 | 8,201 | 6,539 | 6,539 |
| Electromagnetica Goldstar S.R.L. ² | 50.00 | 508 | 508 | 508 | 508 | 508 | 508 |
| SLD Telecom Pte. Ltd. ⁴ | 41.07 | 42,435 | 32,179 | 31,691 | 29,001 | 25,190 | 25,190 |
| Triveni Digital Inc. ² | 100.00 | 899 | 899 | 899 | 899 | 899 | 899 |
| LG (Yantai) Information & Communication Technology Co., Ltd. ² | 100.00 | 2,720 | 2,720 | 2,720 | 2,720 | 2,720 | 2,720 |
| LG Holdings (HK) Ltd. ⁴ | 31.82 | 53,378 | 62,706 | 52,194 | 38,523 | 38,554 | 44,496 |
| Qingdao LG Langchao Digital Communication Co., Ltd. ⁴ | 60.00 | 9,900 | 10,276 | 7,424 | 2,973 | 1,223 | 2,973 |
| | | <u>₩3,140,589</u> | <u>₩4,701,212</u> | <u>₩4,185,765</u> | <u>₩2,994,548</u> | <u>₩2,992,353</u> | <u>₩2,621,879</u> |

¹ The equity method of accounting has been suspended due to the investee's accumulated losses.

² 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 have just been established in the current period are stated at cost, in accordance with financial accounting standards generally accepted in the Republic of Korea.

³ The operations of this subsidiary were suspended as of September 30, 2004.

⁴ During the nine-month period ended September 30, 2004, the Company purchased additional shares of common stock of these subsidiaries.

⁵ This subsidiary has just been established during the nine-month period ended September 30, 2004.

⁶ The Company purchased the shares of this subsidiary during the nine-month period ended September 30, 2004.

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- ⁷ The Company disposed of all the shares of LG Sports Ltd., resulting in a loss amounting to ₩598 million.
- ⁸ During the nine-month period ended September 30, 2004, the Company's investments in LGEAI, LGICUS and Zenith were all contributed in kind to LGEUS, making LGEUS the new parent company of the three investees and resulting in a gain of ₩38,189 million. However, there was no effect on earnings because the amount was charged to valuation loss using equity method as intercompany transactions.
- ⁹ The Company's percentage of ownership in LG.Philips LCD Co., Ltd. decreased from 50% to 44.57% because the Company did not participate in issuance of stock for LG.Philips LCD Co., Ltd. A valuation gain of ₩300,891 million for the nine-month period ended September 30, 2004 using equity method due to the change in percentage of ownership was recorded as capital adjustments.
- ¹⁰ The Company decided to merge its PC division with a segment of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. effective on January 1, 2005, according to agreement with IBM Korea Inc. to maximize earning power and improve the business efficiency.

The equity method of accounting is applied based on the affiliates' most recent available financial statements which have not been audited or reviewed.

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For the nine-month period ended September 30, 2004, 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:

| <i>(in millions of Korean won)</i> | January 1, 2004 | Addition | Amortization | September 30, 2004 |
|---|------------------------|------------------|---------------------|---------------------------|
| Domestic companies | | | | |
| LG Micron Ltd. | ₩ 2,653 | ₩ - | ₩ (442) | ₩ 2,211 |
| LG Innotek Co., Ltd. | 528 | - | (113) | 415 |
| Hi Plaza Inc. | (2,275) | - | 516 | (1,759) |
| Hankuk Electric Glass Co., Ltd. | - | (17,010) | 2,552 | (14,458) |
| | <u>906</u> | <u>(17,010)</u> | <u>2,513</u> | <u>(13,591)</u> |
| Overseas companies | | | | |
| LG Electronics Mlawa SP. Zo. O. (LGEMA) | (775) | - | 581 | (194) |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | (53) | - | 39 | (14) |
| LG Electronics Shenyang Inc. (LGESY) | 228 | - | (114) | 114 |
| Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT) | 10,716 | - | (2,009) | 8,707 |
| LG Taistar Electronics Taiwan Co., Ltd. (LGETT) | 2,901 | - | (555) | 2,346 |
| LG Electronics Wales Ltd. (LGEWA) | (125,599) | 8,305 | 35,188 | (82,106) |
| Others | 18,169 | 3,216 | (4,181) | 17,204 |
| | <u>(94,413)</u> | <u>11,521</u> | <u>28,949</u> | <u>(53,943)</u> |
| | <u>₩ (93,507)</u> | <u>₩ (5,489)</u> | <u>₩ 31,462</u> | <u>₩(67,534)</u> |

In the above table, positive numbers represent goodwill while negative numbers represent negative goodwill.

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For the nine-month period ended September 30, 2003, 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 were as follows:

| <i>(in millions of Korean won)</i> | January 1, 2003 | Addition | Amortization | September 30, 2003 |
|---|------------------------|------------------|---------------------|---------------------------|
| Domestic companies | | | | |
| LG Micron Ltd. | ₩ - | ₩ 2,947 | ₩ (147) | ₩ 2,800 |
| LG Sports Ltd. | (3) | 1 | 1 | (1) |
| LG Innotek Co., Ltd. | 112 | - | 312 | 424 |
| LG Investment & Securities Co., Ltd. | 25,571 | (25,571) | - | - |
| LG.Philips LCD Co., Ltd. | 1,572 | - | (1,179) | 393 |
| Hi Plaza Inc. | (2,963) | - | 516 | (2,447) |
| | <u>24,289</u> | <u>(22,623)</u> | <u>(497)</u> | <u>1,169</u> |
| Overseas companies | | | | |
| LG Electronics Mlawa SP. Zo. O. (LGEMA) | (1,550) | - | 581 | (969) |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | (105) | - | 39 | (66) |
| LG Electronics Shenyang Inc. (LGESY) | 380 | - | (114) | 266 |
| TaiZhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT) | 13,395 | - | (2,009) | 11,386 |
| LG Taistar Electronics Taiwan Co., Ltd. (LGETT) | 1,459 | 2,079 | (452) | 3,086 |
| LG.Philips Displays Holding B.V. | (175,839) | - | 37,680 | (138,159) |
| Others | 7,202 | 17,002 | (14,485) | 9,719 |
| | <u>(155,058)</u> | <u>19,081</u> | <u>21,240</u> | <u>(114,737)</u> |
| | <u>₩(130,769)</u> | <u>₩ (3,542)</u> | <u>₩ 20,743</u> | <u>₩ (113,568)</u> |

In the above table, positive numbers represent goodwill while negative numbers represent negative goodwill.

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For the nine-month period ended September 30, 2004 the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

| <i>(in millions of Korean won)</i> | Inventories | Property, plant and equipment | Intangible assets | Equity securities | Total |
|---|--------------------|--|------------------------------|------------------------------|-------------------|
| Domestic companies | | | | | |
| LG Micron Ltd. | ₩ (1,524) | ₩ (5,179) | ₩ - | ₩ - | ₩ (6,703) |
| LG Innotek Co., Ltd. | 3,851 | (192) | - | - | 3,659 |
| LG.Philips LCD Co., Ltd. | 2,035 | (14,431) | 28,873 | - | 16,477 |
| LG IBM PC Co., Ltd. | 822 | (50) | - | - | 772 |
| Hankuk Electric Glass Co., Ltd. | (2,874) | - | - | - | (2,874) |
| Hi Plaza Inc. | 4,164 | (2) | - | - | 4,162 |
| | <u>6,474</u> | <u>(19,854)</u> | <u>28,873</u> | <u>-</u> | <u>15,493</u> |
| Overseas companies | | | | | |
| LG Electronics China Co., Ltd. (LGECH) | (14,762) | 148 | - | - | (14,614) |
| LG Electronics Espana S.A. (LGEES) | (7,419) | - | - | - | (7,419) |
| LG Electronics Huizhou Inc. (LGEHZ) | 3,081 | - | - | - | 3,081 |
| LG Electronics India Pvt. Ltd. (LGEIL) | (848) | - | - | - | (848) |
| PT LG Electronics Indonesia (LGEIN) | (173) | 240 | - | - | 67 |
| LG Electronics Italy S.P.A. (LGEIS) | (8,482) | - | - | - | (8,482) |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) | (3,143) | 67 | - | - | (3,076) |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | 5,527 | - | - | - | 5,527 |
| LG Electronics Shenyang Inc. (LGESY) | 2,417 | 47 | - | - | 2,464 |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | 4,393 | 422 | - | - | 4,815 |
| LG Electronics U.S.A., Inc. (LGEUS) | (20,465) | 276 | - | (38,336) | (58,525) |
| LG Electronics Wales Ltd. (LGEWA) | 5,493 | (91) | - | - | 5,402 |
| Others | (44,879) | 1,322 | - | - | (43,557) |
| | <u>(79,260)</u> | <u>2,431</u> | <u>-</u> | <u>(38,336)</u> | <u>(115,165)</u> |
| | <u>₩ (72,786)</u> | <u>₩ (17,423)</u> | <u>₩ 28,873</u> | <u>₩ (38,336)</u> | <u>₩ (99,672)</u> |

In the above table, positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

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For the nine-month period ended September 30, 2003, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting were as follows:

| <i>(in millions of Korean won)</i> | Inventories | Property, plant and equipment | Intangible assets | Equity securities | Total |
|---|--------------------|--|------------------------------|------------------------------|-------------------|
| Domestic Companies | | | | | |
| LG Micron Ltd. | ₩ 223 | ₩ (2,730) | ₩ - | ₩ - | ₩ (2,507) |
| LG Innotek Co., Ltd. | (3,297) | - | - | 6,250 | 2,953 |
| LG.Philips LCD Co., Ltd. | (1,511) | (1,001) | 28,872 | - | 26,360 |
| LG IBM PC Co., Ltd. | (167) | - | - | - | (167) |
| Hi Plaza Inc. | (4,412) | - | - | - | (4,412) |
| | <u>(9,164)</u> | <u>(3,731)</u> | <u>28,872</u> | <u>6,250</u> | <u>22,227</u> |
| Overseas Companies | | | | | |
| LG Electronics Alabama, Inc. (LGEAI) | 1,611 | - | - | - | 1,611 |
| LG Electronics Huizhou Inc. (LGEHZ) | 6,243 | - | - | - | 6,243 |
| LG Electronics India Pvt. Ltd. (LGEIL) | (1,726) | - | - | - | (1,726) |
| PT LG Electronics Indonesia (LGEIN) | 164 | 195 | - | - | 359 |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) | (1,508) | 105 | - | - | (1,403) |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | (9,955) | - | - | - | (9,955) |
| LG Electronics Shenyang Inc. (LGESY) | (4,282) | 42 | - | - | (4,240) |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | (499) | 240 | - | - | (259) |
| LG Electronics U.S.A., Inc. (LGEUS) | (531) | - | - | - | (531) |
| LG.Philips Displays Holding B.V. | (290) | (2,914) | - | - | (3,204) |
| Others | (21,814) | 491 | - | - | (21,323) |
| | <u>(32,587)</u> | <u>(1,841)</u> | <u>-</u> | <u>-</u> | <u>(34,428)</u> |
| | <u>₩ (41,751)</u> | <u>₩ (5,572)</u> | <u>₩ 28,872</u> | <u>₩ 6,250</u> | <u>₩ (12,201)</u> |

In the above table, positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the nine-month period ended September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | Equity in earnings (losses) of affiliates, net | | | | |
|--|---|---|--|------------------|---------------------------|
| | January 1, 2004 | For the six-month period ended June 30, 2004 | For the three-month period ended September 30, 2004 | Others | September 30, 2004 |
| Domestic companies | | | | | |
| LG Micron Ltd. | ₩ 86,070 | ₩ (6,692) | ₩ 16,139 | ₩ 11,973 | ₩ 107,490 |
| LG Sports Ltd. | 1,204 | 34 | - | (1,238) | - |
| LG Innotek Co., Ltd. | 137,039 | 7,785 | 6,269 | (723) | 150,370 |
| Hankuk Electric Glass Co., Ltd. | - | 4,497 | 2,824 | 118,924 | 126,245 |
| LG.Philips LCD Co., Ltd. | 1,259,904 | 666,164 | 145,153 | 298,290 | 2,369,511 |
| LG IBM PC Co., Ltd. | 14,548 | 2,582 | 2,856 | (4,402) | 15,584 |
| Hi Plaza Inc. | 60,806 | (3,735) | 6,239 | - | 63,310 |
| STIC Ventures Co., Ltd. | 28,200 | 19,882 | 478 | (19,881) | 28,679 |
| Hi Business Logistics | 4,500 | 917 | 753 | (667) | 5,503 |
| | <u>1,592,271</u> | <u>691,434</u> | <u>180,711</u> | <u>402,276</u> | <u>2,866,692</u> |
| Overseas companies | | | | | |
| LG Electronics Alabama, Inc. (LGEAI) | 53,116 | 11,005 | - | (64,121) | - |
| LG Electronics Huizhou Inc. (LGEHZ) | 19,943 | (5,229) | 12,207 | (4,452) | 22,469 |
| LG Electronics India Pvt. Ltd. (LGEIL) | 113,063 | 15,438 | 3,108 | (9,945) | 121,664 |
| PT LG Electronics Indonesia (LGEIN) | 23,867 | (334) | 1,343 | (3,967) | 20,909 |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) | 15,860 | 364 | (441) | (623) | 15,160 |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | 20,203 | 25,702 | (24,440) | (1,262) | 20,203 |
| LG Electronics Shenyang Inc. (LGESE) | 11,831 | 3,746 | (279) | (1,607) | 13,691 |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | 106,851 | 7,114 | 3,292 | (9,956) | 107,301 |
| LG Electronics U.S.A., Inc. (LGEUS) | 42,594 | (53,238) | 1,219 | 105,558 | 96,133 |
| Others | 622,280 | (27,599) | (15,383) | 322,245 | 901,543 |
| | <u>1,029,608</u> | <u>(23,031)</u> | <u>(19,374)</u> | <u>331,870</u> | <u>1,319,073</u> |
| | <u>₩ 2,621,879</u> | <u>₩ 668,403</u> | <u>₩ 161,337</u> | <u>₩ 734,146</u> | <u>₩ 4,185,765</u> |

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the nine-month period ended September 30, 2003 were as follows:

| <i>(in millions of Korean won)</i> | January 1, 2003 | Equity in earnings (losses) of affiliates, net | | Others | September 30, 2003 |
|---|--------------------|---|---|-------------------|-----------------------|
| | | For the six-month period ended June 30, 2003 | For the three-month period ended September 30, 2003 | | |
| Domestic companies | | | | | |
| LG Micron Ltd. | ₩ 35,541 | ₩ 2,346 | ₩ (548) | ₩ 46,018 | ₩ 83,357 |
| LG Sports Ltd. | 1,916 | 444 | 1,442 | (1,176) | 2,626 |
| LG Innotek Co., Ltd. | 117,645 | 2,426 | 2,967 | 5,058 | 128,096 |
| LG Investment & Securities Co., Ltd. | 145,270 | - | - | (145,270) | - |
| LG.Philips LCD Co., Ltd. | 715,488 | 84,537 | 177,218 | 13,460 | 990,703 |
| LG IBM PC Co., Ltd. | 15,133 | 3,017 | 1,149 | (4,664) | 14,635 |
| Hi Plaza Inc. | 55,685 | (11,437) | (4,477) | 1 | 39,772 |
| | <u>1,086,678</u> | <u>81,333</u> | <u>177,751</u> | <u>(86,573)</u> | <u>1,259,189</u> |
| Overseas companies | | | | | |
| LG Electronics Alabama, Inc. (LGEAI) | 58,736 | 4,535 | 6,241 | 15,891 | 85,403 |
| LG Electronics Huizhou Inc. (LGEHZ) | 14,938 | (702) | 10,208 | (2,516) | 21,928 |
| LG Electronics India Pvt. Ltd. (LGEIL) | 77,191 | 21,463 | 10,221 | (7,138) | 101,737 |
| PT LG Electronics Indonesia (LGEIN) | 16,434 | 4,307 | 5,180 | 503 | 26,424 |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) | 10,520 | 6,106 | (3,758) | (884) | 11,984 |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | 23,498 | 12,881 | (16,100) | 164 | 20,443 |
| LG Electronics Shenyang Inc. (LGESE) | 8,205 | 2,097 | (3,408) | (1,064) | 5,830 |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | 99,315 | 4,952 | 7,993 | (5,514) | 106,746 |
| LG Electronics U.S.A., Inc. (LGEUS) | 39,822 | (9,879) | 10,814 | (1,486) | 39,271 |
| LG.Philips Displays Holding B.V. | 433,819 | (50,396) | (22,859) | 32,240 | 392,804 |
| Others | 485,873 | 1,088 | 26,244 | 27,591 | 540,796 |
| | <u>1,268,351</u> | <u>(3,548)</u> | <u>30,776</u> | <u>57,787</u> | <u>1,353,366</u> |
| | <u>₩2,355,029</u> | <u>₩ 77,785</u> | <u>₩ 208,527</u> | <u>₩ (28,786)</u> | <u>₩2,612,555</u> |

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As of September 30, 2004, the respective accumulated losses of equity investees from which the application of the equity method of accounting has been suspended due to their accumulated losses are as follows:

(in millions of Korean won)

| | | |
|---|----------|---------------|
| LG Electronics Antwerp Logistics N.V. (LGEAL) | ₩ | 2,977 |
| LG Electronics Australia PTY, Ltd. (LGEAP) | | 11,180 |
| LG Electronics Mlawa SP.Zo.O. (LGEMA) | | 3,256 |
| LG Electronics United Kingdom Ltd. (LGEUK) | | 4,431 |
| Subsidiary of LGEUS ¹ | | 11,666 |
| Others | | 11,304 |
| | <u>₩</u> | <u>44,814</u> |

¹ It includes an accumulated loss of LG Infocomm U.S.A. Inc. (LGICUS).

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10. Property, Plant and Equipment

Changes in property, plant and equipment for the nine-month period ended September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | Balance at January 1, 2004 | Acquisitions and capital expenditure | Transfer-in (out) | Disposals | Depreciation | Balance at September 30, 2004 | Accumulated depreciation at September 30, 2004 |
|------------------------------------|---|---|------------------------------|--------------------|---------------------|--|---|
| Land | ₩ 707,683 | ₩ 123 | ₩ - | ₩ (271) | ₩ - | ₩ 707,535 | ₩ - |
| Buildings | 905,935 | 13,043 | 141,623 | (3,899) | (21,070) | 1,035,632 | 177,889 |
| Structures | 65,577 | 10,387 | 907 | (598) | (3,596) | 72,677 | 35,809 |
| Machinery and equipment | 634,708 | 47,330 | 254,136 | (15,782) | (154,798) | 765,594 | 690,237 |
| Tools | 399,837 | 133,727 | 29,706 | (80,432) | (90,806) | 392,032 | 345,679 |
| Furniture and fixtures | 207,633 | 68,129 | 1,860 | (4,524) | (61,094) | 212,004 | 293,864 |
| Vehicles | 8,088 | 3,380 | 929 | (2,669) | (2,026) | 7,702 | 10,242 |
| Construction-in-progress | 184,926 | 447,200 | (352,310) | - | - | 279,816 | - |
| Machinery-in-transit | 8,333 | 85,825 | (76,852) | - | - | 17,306 | - |
| Total | ₩ 3,122,720 | ₩ 809,144 | ₩ (1) | ₩ (108,175) | ₩ (333,390) | ₩ 3,490,298 | ₩ 1,553,720 |

Changes in property, plant and equipment for the nine-month period ended September 30, 2003 were as follows:

| <i>(in millions of Korean won)</i> | Balance at January 1, 2003 | Acquisitions and capital expenditure | Transfer-in (out) | Disposals | Depreciation | Balance at September 30, 2003 | Accumulated depreciation at September 30, 2003 |
|------------------------------------|---|---|------------------------------|-------------------|---------------------|--|---|
| Land | ₩ 705,980 | ₩ 12,496 | ₩ (5) | ₩ (10,788) | ₩ - | ₩ 707,683 | ₩ - |
| Buildings | 882,219 | 21,834 | 34,627 | (9,574) | (19,690) | 909,416 | 151,500 |
| Structures | 67,740 | 2,809 | (50) | (651) | (3,649) | 66,199 | 31,240 |
| Machinery and equipment | 563,864 | 52,328 | 118,607 | (16,792) | (121,243) | 596,764 | 633,606 |
| Tools | 345,816 | 111,870 | 21,618 | (10,977) | (95,762) | 372,565 | 430,731 |
| Furniture and fixtures | 205,579 | 47,524 | 9,029 | (3,838) | (54,607) | 203,687 | 330,471 |
| Vehicles | 7,052 | 2,819 | 273 | (234) | (2,029) | 7,881 | 14,502 |
| Construction-in-progress | 105,662 | 147,086 | (115,949) | (775) | - | 136,024 | - |
| Machinery-in-transit | 9,460 | 94,790 | (78,357) | - | - | 25,893 | - |
| Total | ₩ 2,893,372 | ₩ 493,556 | ₩ (10,207) | ₩ (53,629) | ₩ (296,980) | ₩ 3,026,112 | ₩ 1,592,050 |

As of September 30, 2004 and December 31, 2003, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩809,217 million and ₩676,051 million, respectively.

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A substantial portion of property, plant and equipment as of September 30, 2004 is pledged as collateral for long-term debt from Korea Development Bank, up to a maximum Won equivalent of approximately ₩892,995 million. The said amount includes the equivalent of US\$99 million, JP ¥150 million and EUR360 million (Note 14).

11. Insured Assets

As of September 30, 2004, 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 ₩6,263,079 million. In addition, the Company is insured against business interruption losses, losses arising from the transportation of goods, and losses arising from the assembly of goods up to approximately ₩5,214,172 million, ₩279,365 million and ₩163,869 million, respectively.

12. Intangible Assets

Changes in intangible assets for the nine-month period ended September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | Goodwill | Industrial property rights | Development costs | Other intangible assets | Total |
|---|------------------|-----------------------------------|--------------------------|--------------------------------|-----------------|
| Balance as of January 1, 2004 | ₩ 256,102 | ₩ 381,139 | ₩ 115,571 | ₩ 83,488 | ₩836,300 |
| Additions | 148 | 10,145 | - | 13,245 | 23,538 |
| Disposals | (59) | (248) | (4) | (213) | (524) |
| Amortization | (30,132) | (64,245) | (40,275) | (21,067) | (155,719) |
| Balance as of September 30, 2004 | <u>₩ 226,059</u> | <u>₩ 326,791</u> | <u>₩ 75,292</u> | <u>₩ 75,453</u> | <u>₩703,595</u> |
| Accumulated amortization as of September 30, 2004 | <u>₩ 161,948</u> | <u>₩ 328,122</u> | <u>₩ 249,246</u> | <u>₩ 75,802</u> | <u>₩815,118</u> |

Changes in intangible assets for the nine-month period ended September 30, 2003 were as follows:

| <i>(in millions of Korean won)</i> | Goodwill | Industrial property rights | Development costs | Organization costs | Other intangible assets | Total |
|---|------------------|-----------------------------------|--------------------------|---------------------------|--------------------------------|------------------|
| Balance as of January 1, 2003 | ₩ 296,012 | ₩ 415,497 | ₩ 183,877 | ₩ 3,271 | ₩ 73,810 | ₩ 972,467 |
| Additions | 546 | 44,856 | - | - | 13,840 | 59,242 |
| Disposals | (90) | - | - | - | - | (90) |
| Amortization | (30,146) | (62,417) | (51,244) | (3,271) | (16,850) | (163,928) |
| Balance as of September 30, 2003 | <u>₩ 266,322</u> | <u>₩ 397,936</u> | <u>₩ 132,633</u> | <u>₩ -</u> | <u>₩ 70,800</u> | <u>₩ 867,691</u> |
| Accumulated amortization as of September 30, 2003 | <u>₩ 131,952</u> | <u>₩ 264,080</u> | <u>₩ 208,995</u> | <u>₩ -</u> | <u>₩ 55,175</u> | <u>₩ 660,202</u> |

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Amortization of intangible assets presented under manufacturing costs and selling and administrative expenses for the nine-month periods ended September 30, 2004 and 2003 consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|-------------------------------------|------------------|------------------|
| Manufacturing costs | ₩ 26,488 | ₩ 25,610 |
| Selling and administrative expenses | 129,231 | 135,047 |
| | <u>₩ 155,719</u> | <u>₩ 160,657</u> |

The carrying value of significant intangible assets as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | 2003 | Remaining years for amortization |
|------------------------------------|-------------|-------------|---|
| Goodwill | ₩ 224,864 | ₩ 254,399 | Six years |
| Industrial property rights | 254,261 | 311,531 | One through six years |

As a result of LG Electronics Investment Ltd. (formerly LG Electronics Inc., now merged into LG Corp.)'s 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 the Company. Related amortization expenses of goodwill and industrial property rights approximate ₩29,535 million and ₩57,270 million, respectively, for the nine-month period ended September 30, 2004.

Research and development costs incurred for the nine-month periods ended September 30, 2004 and 2003 amounted to ₩905,855 million and ₩570,488 million, respectively, all of which were charged to current operations as ordinary development costs and research costs.

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13. Short-Term Borrowings and Current Maturities of Long-Term Debt

Short-term borrowings as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | Annual interest rate (%) at | 2004 | 2003 |
|------------------------------------|--|-----------------|-----------------|
| | September 30, 2004 | | |
| General term loans | CD + 0.8 ~ 1.6 | ₩ 32,000 | ₩ 32,000 |
| Commercial papers | 5.23 ~ 5.73 | 194,500 | 149,319 |
| Foreign currency loans | 1.19 | 137,842 | 209,087 |
| | | <u>₩364,342</u> | <u>₩390,406</u> |

CD represents the annual interest rate for certificates of deposits.

Current maturities of long-term debt as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|------------------------------------|------------------|------------------|
| Debentures | ₩ 729,400 | ₩ 986,494 |
| Discount on debentures | (2,062) | (1,382) |
| Long-term debt | 899 | 4,468 |
| | <u>₩ 728,237</u> | <u>₩ 989,580</u> |

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14. Debentures, Convertible Bonds and Long-Term Debt

Debentures and convertible bonds as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions)</i> | Annual interest rate (%) at September 30, 2004 | 2004 | 2003 |
|---|---|------------------------|------------------------|
| Debentures | | | |
| Private, non-guaranteed payable through 2006 | 5.70 – 6.65 | ₩ 126,000 | ₩ 306,000 |
| Public, non-guaranteed payable through 2009 | 4.00 – 7.00 | 2,270,000 | 2,090,000 |
| Floating rate notes in foreign currency, payable through 2006 | 6M LIBOR + 0.5 ~ 1.25, 3M LIBOR+1.9 | 609,535 | 682,746 |
| | | <u>(US\$531)</u> | <u>(US\$570)</u> |
| | | <u>3,005,535</u> | <u>3,078,746</u> |
| Convertible Bonds | | | |
| Zero coupon rate convertible bonds in foreign currency, payable through 2006 | - | 339,796 (US\$287.5) | 339,796 (US\$287.5) |
| Zero coupon rate convertible bonds in foreign currency, payable through 2007 | - | 296,975 (US\$250) | - - |
| | | <u>636,771</u> | <u>339,796</u> |
| | | 3,642,306 | 3,418,542 |
| Less: Current maturities | | (729,400) | (986,494) |
| Discount on debentures | | (32,209) | (35,777) |
| Conversion rights adjustment | | (54,824) | (13,840) |
| Premium for conversion rights | | 37,092 | - |
| | | <u>₩ 2,862,965</u> | <u>₩2,382,431</u> |

Upon a resolution of the Board of Directors on July 8, 2003, the Company issued foreign currency convertible bonds in the Luxembourg Stock Exchange on August 11, 2003. The terms and conditions of issuance are as follows:

- Type of bonds: Public convertible bond
- Total face value of bonds: US\$287.5 million (fixed exchange rate of ₩1,179.2: US\$1)
- Date of issuance: August 11, 2003
- Terms and conditions for issuance of bonds
 - Coupon rate: 0%
 - Maturity: August 11, 2006
 - Call option: The Company holds the right to redeem the bonds at face value on or at any time after August 12, 2005, provided that the market value per share of common stock remains at least 115% of the conversion price for at least 20 consecutive trading days during the 30-day trading period ending on the redemption date.
 - Put option: The bondholder holds the right to exercise a put option, in which the bondholder may require the Company to redeem the bonds at face value on the day after 18 months from the date of issuance.

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- Terms and conditions for conversion
 - Type of stock to be issued: registered common stock
 - Number of shares convertible: 4,920,464 shares
 - Conversion price: ₩68,900 per share
 - Conversion period: September 12, 2003 through July 28, 2006

Upon a resolution of the Board of Directors, the Company issued foreign currency convertible bonds to Lehman Brothers Commercial Corporation on May 17, 2004. The terms and conditions of issuance are as follows:

- Type of bonds: Private convertible bond
- Total face value of bonds: US\$250 million (fixed exchange rate of ₩1,181.5: US\$1)
- Date of issuance: May 17, 2004
- Terms and conditions for issuance of bonds
 - Coupon rate: 0% , Effective interest rate to maturity: 3.96%
 - Maturity: May 17, 2007
 - The Company redeems the bonds at 112.49% of face value in a lump sum on the date of maturity.
 - Call option: The Company holds the right to redeem the bonds at 106.06% of face value any time between May 18, 2006 and 60days before maturity, provided that the market value per share of common stock remains at least 115% of the conversion price for at least 20 consecutive trading days, ending on the date on which redemption notice is given.
 - Put option: The bondholder holds the right to exercise a put option, in which the bondholder may require the Company to redeem the bonds at 106.06% of face value on the day after 18 months from the date of issuance.
- Terms and conditions for conversion
 - Type of stock to be issued: registered common stock
 - Number of shares convertible: 3,216,191 shares
 - Conversion price: ₩91,840 per share. In the event that the average closing price of the common shares of the company on the twenty consecutive Korea Exchange business days preceding and including the second Korea Exchange business day prior to the day falling 6 months after the issue date is above ₩ 65,600; then the conversion price will be adjusted upwards on this date such that the new conversion price shall be the average share price during these twenty consecutive days multiplied by the conversion price then in effect and divided by ₩ 65,600, provided that the new conversion price may in no case exceed ₩ 164,008.
 - Conversion period: May 18, 2005 through May 7, 2007

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Long-term debt as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions)</i> | Annual interest rate (%) at September 30, 2004 | 2004 | 2003 |
|--------------------------------------|---|------------------|-----------------|
| Foreign currency loans | | | |
| Banque Paribas | 6M LIBOR + 0.7 | ₩ 940 | ₩ 1,963 |
| Societe General | - | - | 2,505 |
| Kookmin Bank | 6M LIBOR + 1.25 | 21,810 | 22,758 |
| Hong Kong and Shanghai Banking Corp. | 3M LIBOR + 1.45 | 34,437 | - |
| Korea Development Bank | 3M LIBOR + 1.75 | 203,245 | - |
| The Export-Import Bank of Korea | 6M LIBOR + 1.54 | 34,437 | - |
| | | <u>294,869</u> | <u>27,226</u> |
| | | (US\$80) | (US\$23) |
| | | (EUR144) | - |
| Less: Current maturities | | <u>(899)</u> | <u>(4,468)</u> |
| | | <u>₩ 293,970</u> | <u>₩ 22,758</u> |

See Note 10 for the related collateral arrangements for the Company's long-term debt.

The maturities of long-term debt outstanding as of September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | For the period ending September 30, | Debentures and Convertible bonds | Long-term debt | Total |
|------------------------------------|--|-------------------------------------|------------------|--------------------|
| 2006 | | ₩ 1,791,141 | ₩ 45,676 | ₩ 1,836,817 |
| 2007 | | 881,765 | 93,002 | 974,767 |
| 2008 | | - | 93,002 | 93,002 |
| 2009 | | 240,000 | 62,290 | 302,290 |
| | | <u>₩ 2,912,906</u> | <u>₩ 293,970</u> | <u>₩ 3,206,876</u> |

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15. Accrued Severance Benefits

Changes in accrued severance benefits for the nine-month period ended September 30, 2004 and 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|--|------------------|------------------|
| Beginning balance | ₩ 555,362 | ₩ 500,909 |
| Severance payments | (92,825) | (75,364) |
| Transfer-in from affiliated companies, net | 4,315 | 2,619 |
| Provisions | 150,360 | 110,178 |
| | <u>617,212</u> | <u>538,342</u> |
| Severance insurance deposit | (334,713) | (309,535) |
| Contributions to the National Pension Fund | (17,048) | (19,604) |
| | <u>₩ 265,451</u> | <u>₩ 209,203</u> |

The severance benefits are funded at approximately 54.2% and 57.5% as of September 30, 2004 and 2003, respectively, 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.

16. Commitments and Contingencies

As of September 30, 2004, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of September 30, 2004, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of September 30, 2004, the Company has bank overdraft facility agreements with various banks amounting to ₩490,500 million.

As of September 30, 2004, the Company has sales agreements for export receivables with various banks amounting to ₩4,081,430 million. The outstanding balance of export trade accounts receivable sold at a discount to various financial institutions with recourse amounted to ₩4,007,937 million, which includes the equivalent of US\$2,535 million and EUR543 million.

As of September 30, 2004, the Company has corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank amounting to ₩215,800 million. In relation to the agreements, as of September 30, 2004, outstanding balance of factored accounts receivable amounts to ₩27,339 million.

As of September 30, 2004, the Company has corporate electronic settlement services contracts for payment for purchases with various banks amounting to ₩1,010,000 million.

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As of September 30, 2004, the Company has entered into sales contracts with several companies, the undelivered portions of which amounted to approximately ₩31,805 million for LG Telecom, Ltd. and ₩27,713 million for SK Telecom Co. and others.

As of September 30, 2004, Hana Bank has provided guarantees of ₩26,264 million to the Company, and the Company is contingently liable for guarantees approximating ₩1,624,442 million, including US\$1,011 million, on the indebtedness of its subsidiaries and affiliates as follows:

(in millions of Korean won)

| | | |
|--|---|------------------|
| LG Electronics Wales Ltd. (LGEWA) | ₩ | 54,842 |
| PT LG Electronics Display Device Indonesia (LGEDI) | | 188,256 |
| LG Electronics da Amazonia Ltda. (LGEAZ) | | 57,395 |
| LG Electronics Japan Inc. (LGEJP) | | 53,199 |
| LG Electronics Mexico S.A. de C.V. (LGEMS) | | 104,489 |
| LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM) | | 38,041 |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | | 137,538 |
| LG Electronics de Sao Paulo Ltda. (LGESP) | | 57,395 |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA) | | 136,169 |
| LG Electronics U.S.A., Inc. (LGEUS) | | 41,324 |
| LG.Philips Displays Holding B.V. | | 57,395 |
| Zenith Electronics Corporation | | 6,887 |
| Others | | 691,512 |
| | ₩ | <u>1,624,442</u> |

In order to reduce the impact of changes in exchange rates on future cash flows, the Company has entered into foreign currency forward contracts. As of September 30, 2004, the Company has outstanding forward contracts with HSBC and others for selling US dollars amounting to US\$141 million (contract exchange rates: ₩1,148.20: US\$1 ~ ₩1,180.30: US\$1, contract due date: October 2004 through July 2005).

As of September 30, 2004, the Company has outstanding forward contracts with Standard Chartered Bank and others for selling euro and buying US dollars amounting to €30 million (contract exchange rates: €1.2041: US\$1 ~ €1.2346: US\$1, contract due dates: October through December 2004).

As of September 30, 2004, the Company has outstanding forward contracts with UFJ Bank and others for selling US dollars and buying Japanese yen amounting to US\$58 million (contract exchange rates: ¥108.57: US\$1 ~ ¥111.29: US\$1, contract due dates: October through December 2004).

As a result of the above foreign currency forward contracts, an unrealized valuation loss and gain amounting to ₩1,233 million and ₩1,672 million, respectively, were charged to current operations for the nine-month period ended September 30, 2004.

In order to reduce the impact of changes in exchange rates, the Company has also entered into foreign currency option contracts. An unrealized valuation loss and gain amounting to ₩77 million and ₩1,926 million, respectively, were recorded to current operations for the nine-month period ended September 30, 2004.

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A summary of the terms of outstanding currency option contracts as of September 30, 2004 is as follows:

| Option type | Amount (in millions) | Exercise price | Contract due date |
|--------------------|-----------------------------|-------------------------------|---|
| Put | US\$264.00 | ₩1,140.0/US\$ ~ ₩1,186.0/US\$ | October 6, 2004 through February 22, 2005 |
| Call | US\$244.00 | ₩1,155.0/US\$ ~ ₩1,214.5/US\$ | October 6, 2004 through February 22, 2005 |

In order to reduce the impact of changes in interest rates and exchange rates, the Company has also entered into a cross currency swap contract. An unrealized valuation gain of ₩9,842 million was recorded to current operations for the nine-month period ended September 30, 2004. A summary of the terms of the outstanding cross currency swap contract as of September 30, 2004 is as follows:

| <i>(in millions)</i> | Transaction amount | | Annual interest rate (%) | | Maturity |
|-------------------------|---------------------------|-----------------|---------------------------------|---------------------|-------------------|
| | Disbursement | Receipts | Receipts | Disbursement | |
| Standard Chartered Bank | ₩110,000 | US\$93 | 4.50% | 3M LIBOR + 0.79% | November 7, 2005 |
| Barclays Bank | 117,150 | 100 | 5.00% | 3M LIBOR + 1.17% | February 26, 2007 |

As a result of the above derivatives contracts, a realized gain of ₩15,620 million and a realized loss of ₩10,832 million were recorded as a non-operating income and expense, respectively, for the nine-month period ended September 30, 2004.

As of September 30, 2004, the Company is named as a defendant in legal actions which were brought against the Company by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company is named as either 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 plaintiff amounted to approximately ₩14,919 million as of September 30, 2004. The Company believes that the outcome of these legal actions 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 non-consolidated financial statements.

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices, including corporate governance. The Company may be either directly or indirectly affected by these volatile economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

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17. Capital Stock

Capital stock as of September 30, 2004 and December 31, 2003 are as follows:

| | Number of shares issued | Par value per share | Millions of Korean Won |
|------------------------------|------------------------------------|--------------------------------|-----------------------------------|
| Common stock | 139,606,263 | ₩ 5,000 | ₩ 698,031 |
| Preferred stock ¹ | 17,185,992 | 5,000 | 85,930 |
| | <u>156,792,255</u> | | <u>₩ 783,961</u> |

As of September 30, 2004 the number of shares authorized is 600 million shares.

- ¹ 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.

18. Capital Surplus

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. of ₩2,815,707 million, net of capital stock of ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. of ₩155,593 million.

As a result of the issuance of foreign currency convertible bonds in August 2003 and May 2004, a premium for conversion rights of ₩29,471 million was recorded as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. In addition, as a result of disposal of treasury stock, gains on disposal of treasury stock of ₩1,979 million were recorded as a capital surplus.

19. 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.

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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 shareholders' 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.

20. Capital Adjustments

Capital adjustments as of September 30, 2004 and December 31, 2003 consist of the following:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|--|------------------|-----------------|
| Treasury stock | ₩ (46,657) | ₩ (8,977) |
| Gain on valuation of equity method investment securities | 396,526 | 163,609 |
| Loss on valuation of available-for-sale securities | (8,254) | (92,012) |
| Loss from disposal of treasury stock | - | (62) |
| | <u>₩ 341,615</u> | <u>₩ 62,558</u> |

The Company has retained treasury stocks consisting of 793,233 shares of common stock and 4,678 shares of preferred stock as of September 30, 2004, and 194,953 shares of common stock and 4,678 shares of preferred stock as of December 31, 2003. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell these in the future.

21. Income Taxes

Income tax expense for the nine-month periods ended September 30, 2004 and 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|--|------------------|------------------|
| Current income taxes | ₩ 144,677 | ₩ 301,278 |
| Deferred income taxes | 298,876 | (86,986) |
| Income taxes added to shareholders' equity | 20,363 | - |
| Income tax expense | <u>₩ 463,916</u> | <u>₩ 214,292</u> |

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The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company for the nine-month periods ended September 30, 2004, and 2003:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|------------------------------------|-------------|-------------|
| Income before taxes | ₩ 1,846,489 | ₩ 894,322 |
| Statutory tax rate | 29.70% | 29.70% |
| Expected taxes at statutory rate | 548,397 | 265,604 |
| Permanent differences | (10,281) | 13,212 |
| Tax credits | (50,255) | (64,524) |
| Effect by decrease in tax rate | (23,945) | - |
| Actual taxes | ₩ 463,916 | ₩ 214,292 |
| Effective tax rate | 25.12% | 23.96% |

The reconciliations from income before income taxes to taxable income for the nine-month periods ended September 30, 2004 and 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|---|-------------|-------------|
| Income before income taxes | ₩ 1,846,489 | ₩ 894,322 |
| Temporary differences: | | |
| Allowance for doubtful accounts | (28,962) | 52,704 |
| Product warranty reserve | 36,141 | 26,631 |
| Amortization of intangible assets | 28,702 | 39,841 |
| Equity method investment securities | (1,238,377) | (255,220) |
| Loss on impairment of investment securities | 32,543 | - |
| Duty drawback | (27,819) | (18,789) |
| Others | (46,469) | 223,379 |
| | (1,244,241) | 68,546 |
| Permanent differences | (87,681) | 36,959 |
| Taxable income | ₩ 514,567 | ₩ 999,827 |

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The income tax effects of temporary differences comprising the deferred income tax assets (liabilities) as of September 30, 2004 and December 31, 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|--|-------------------|------------------|
| Depreciation | ₩ (20,483) | ₩ 1,499 |
| Allowance for doubtful accounts | 20,038 | 37,829 |
| Product warranty | 33,034 | 23,095 |
| Amortization of intangible assets | (4,409) | (21,470) |
| Equity method investment securities | (172,189) | 169,227 |
| Accrued expenses | 66,320 | 41,006 |
| Others | 28,541 | (1,458) |
| Deferred income tax assets (liabilities) | <u>₩ (49,148)</u> | <u>₩ 249,728</u> |

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable value. The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2004 and 2003, and was amended to 27.5% effective for fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003. Deferred income tax assets were computed by applying the present tax rate of 29.7% for the temporary differences expected to be realized in 2004, and by applying the amended tax rate of 27.5% for the temporary differences expected to be realized in fiscal years beginning January 1, 2005 and thereafter.

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22. Earnings Per Share

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

Basic earnings per share for the three-month and the nine-month periods ended September 30, 2004 and 2003 are calculated as follows:

| | 2004 | | 2003 | |
|---|---|--|---|--|
| | Nine-month period ended September 30, 2004 | Three-month period ended September 30, 2004 | Nine-month period ended September 30, 2003 | Three-month period ended September 30, 2003 |
| <i>(in millions of Korean won, except per share amounts)</i> | | | | |
| Net income as reported on the statement of income | ₩ 1,382,573 | ₩ 304,409 | ₩ 680,030 | ₩ 223,859 |
| Less: Preferred stock dividends | (16,721) | (5,614) | (13,493) | (4,547) |
| Additional income available for dividends allocated to preferred stock | (136,129) | (28,106) | (61,701) | (20,210) |
| Net income allocated to common stock | 1,229,723 | 270,689 | 604,836 | 199,102 |
| Weighted-average number of common shares outstanding | 139,085,122 | 138,813,030 | 139,340,182 | 139,390,374 |
| Basic earnings per Share (in won) | ₩ 8,842 | ₩ 1,950 | ₩ 4,341 | ₩ 1,428 |

Basic earnings per share for the three-month periods ended March 31 and June 30, 2004 were ₩3,735 and ₩3,154, respectively. Basic earnings per share for the year ended December 31, 2003 was ₩4,229.

Basic ordinary income per share for the three-month and nine-month periods ended September 30, 2004 and 2003 are the same as basic earnings per share for the three-month and nine-month periods ended September 30, 2004 and 2003, respectively, because there were no extraordinary gains or losses.

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Diluted earnings per share is computed by dividing diluted net income, which is adjusted by adding back the after-tax amount of interest expense on any convertible debt and dividends on any convertible preferred stock, by the weighted-average number of common shares and diluted securities outstanding during the period. Diluted ordinary income per share is computed by dividing diluted ordinary income allocated to common stock, which is diluted net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares and diluted securities outstanding during the period.

Diluted earnings per share for the three-month and nine-month periods ended September 30, 2004 are calculated as follows:

| <i>(in millions of Korean won, except per share amounts)</i> | Nine-month period ended September 30, 2004 | Three-month period ended September 30, 2004 |
|---|---|--|
| Net income allocated to common stock | ₩ 1,229,723 | ₩ 270,689 |
| Add: Interest expense on convertible bonds, net of tax ¹ | 8,313 | 3,930 |
| | 1,238,036 | 274,619 |
| Weighted-average number of common shares and diluted securities outstanding | 145,613,682 | 146,949,685 |
| Diluted earnings per share and ordinary income per share (in won) | ₩ 8,502 | ₩ 1,869 |

¹ This is computed based on the effective tax rate of 25.12% and 31.09%, respectively for the nine-month and three-month periods ended September 30, 2004 (Note 21).

Diluted earnings per share for the three-month periods ended March 31 and June 30, 2004 were ₩3,618 and ₩3,032, respectively.

Diluted earnings per share for the three-month and nine-month period ended September 30, 2003 were ₩1,406 and ₩4,318, respectively. Diluted earnings per share for the year ended December 31, 2003 was ₩4,187.

Diluted ordinary income per share for the three-month and nine-month periods ended September 30, 2004 and 2003 is the same as diluted earnings per share for the three-month and nine-month periods ended September 30, 2004 and 2003, respectively, because there were no extraordinary gains or losses.

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The diluted securities outstanding as of September 30, 2004 are as follows:

(in millions, except conversion price)

| Diluted security | Face value | Conversion period | Number of shares of common stock to be issued | Conversion price |
|--|-------------------------|--|---|-------------------|
| Foreign currency denominated convertible bonds, issued in 2003 | ₩339,796 (US\$287.5) | September 12, 2003 through July 28, 2006 | 4,920,464 shares | ₩68,900 per share |
| Foreign currency denominated convertible bonds, issued in 2004 | ₩296,975 (US\$250.0) | May 18, 2005 through May 7, 2007 | 3,216,191 shares | ₩91,840 per share |

23. Transactions with Related Parties

Significant transactions entered into in the ordinary course of business with related parties for the nine-month periods ended September 30, 2004 and 2003, and the related account balances outstanding as of September 30, 2004 and December 31, 2003, are summarized as follows:

(in millions of Korean won)

| | Sales | Purchases | Receivables | Payables |
|--|--------------------|--------------------|--------------------|------------------|
| LG Telecom, Ltd. | ₩ 541,655 | ₩ 18,870 | ₩ 151,774 | ₩ 341 |
| LG Chem, Ltd. | 5,560 | 286,692 | 2,987 | 17,759 |
| Hi Plaza Inc. | 355,388 | 56,258 | 2,998 | 4,421 |
| LG IBM PC Co., Ltd. | 215,423 | 20,770 | 44,909 | 6,016 |
| LG MRO | 317 | 57,938 | 7,604 | 60,963 |
| Hitachi-LG Data Storage Inc. (HLDS) | 742,348 | 43,355 | 68,515 | 2,246 |
| LG Electronics Wales Ltd. (LGEWA) | 190,860 | 1,447 | 287 | 10 |
| PT LG Electronics Display Devices Indonesia (LGEDI) | 147,136 | 1,529 | 49,719 | 85 |
| LG Electronics Huizhou Inc. (LGEHZ) | 629,314 | 1,460 | 3,858 | 141 |
| LG Electronics Italy S.P.A. (LGEIS) | 486,669 | 25,575 | 2,661 | 5,783 |
| LG Electronics Service Europe Netherlands B.V. (LGESE) | 698,239 | 13,013 | 26,988 | 3,820 |
| LG Electronics U.S.A. Inc. (LGEUS) | 855,522 | 3,443 | 32,764 | 69 |
| Zenith Electronics Corporation (Zenith) | 2,955 | 64 | 4 | 364 |
| LG Infocomm U.S.A. Inc. (LGICUS) | 2,214,312 | 4,400 | 13,657 | 439 |
| LG.Philips Displays Holding B.V. ¹ | 6,665 | 382,591 | 48,148 | 21,411 |
| LG.Philips LCD Co., Ltd. | 57,215 | 456,057 | 42,635 | 72,928 |
| Others | 5,185,359 | 795,841 | 505,512 | 213,677 |
| 2004 | <u>₩12,334,937</u> | <u>₩ 2,169,303</u> | <u>₩ 1,005,020</u> | <u>₩ 410,473</u> |
| 2003 | <u>₩ 9,336,613</u> | <u>₩ 1,933,934</u> | <u>₩ 584,407</u> | <u>₩ 319,545</u> |

¹ For the nine-month period ended September 30, 2004, purchases of ₩382,591 million include the purchase of LG.Philips Displays Holding B.V.'s trade accounts receivable from the Company's subsidiaries amounting to ₩231,927 million.

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24. Segment Information

The Company has organized three reportable business divisions: Digital Display & Media division, Digital Appliance division and Telecommunication Equipment & Handset division. 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, CD-ROM, audio, TV, monitor, PC and PDP

Digital Appliance division: Refrigerator, washing machine, air conditioner, microwave oven and vacuum cleaner

Telecommunication

Equipment & Handset division: CDMA handset, UMTS handset, wireless telephone, WLL handset, mobile telecommunication, transmitter, switchboard and keyphone system

Financial data by business division as of and for the nine-month period ended September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | Total | Business Division | | | Supporting Division |
|--------------------------------------|-------------------|------------------------------------|--------------------------|---|----------------------------|
| | | Digital Display & Media | Digital Appliance | Telecommunication Equipment & Handset ¹ | |
| Sales | | | | | |
| External sales | ₩ 18,137,968 | ₩ 6,713,855 | ₩ 4,899,989 | ₩ 6,386,284 | ₩ 137,840 |
| Inter-division sales | 329,472 | 113,670 | 10,531 | 21,882 | 183,389 |
| | <u>18,467,440</u> | <u>6,827,525</u> | <u>4,910,520</u> | <u>6,408,166</u> | <u>321,229</u> |
| Operating income (loss) | <u>1,154,825</u> | <u>312,410</u> | <u>458,446</u> | <u>423,831</u> | <u>(39,862)</u> |
| Fixed assets | | | | | |
| Property, plant and equipment | 3,490,298 | 1,464,066 | 835,917 | 444,531 | 745,784 |
| Intangible assets | 703,595 | 44,954 | 15,258 | 301,517 | 341,866 |
| | <u>4,193,893</u> | <u>1,509,020</u> | <u>851,175</u> | <u>746,048</u> | <u>1,087,650</u> |
| Depreciation and amortization | <u>489,109</u> | <u>168,014</u> | <u>80,677</u> | <u>128,469</u> | <u>111,949</u> |

¹ As of January 1, 2004, the Company reorganized its business structure and transferred the PC business division from the Telecommunication Equipment & Handset division to the Digital Display & Media division.

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Financial data by business division as of and for the nine-month period ended September 30, 2003 were as follows:

| <i>(in millions of Korean won)</i> | Total | Business Division | | | |
|------------------------------------|-------------------|-------------------------|-------------------|---------------------------------------|---------------------|
| | | Digital Display & Media | Digital Appliance | Telecommunication Equipment & Handset | Supporting Division |
| Sales | | | | | |
| External sales | ₩ 14,759,459 | ₩ 4,957,882 | ₩ 4,446,231 | ₩ 5,203,530 | ₩ 151,816 |
| Inter-division sales | 169,539 | 63,503 | 12,058 | 25,334 | 68,644 |
| | <u>14,928,998</u> | <u>5,021,385</u> | <u>4,458,289</u> | <u>5,228,864</u> | <u>220,460</u> |
| Operating income (loss) | <u>864,499</u> | <u>306,605</u> | <u>429,715</u> | <u>192,433</u> | <u>(64,254)</u> |
| Fixed assets | | | | | |
| Property, plant and equipment | 3,026,112 | 883,280 | 852,647 | 500,957 | 789,228 |
| Intangible assets | 867,691 | 52,160 | 14,921 | 386,262 | 414,348 |
| | <u>3,893,803</u> | <u>935,440</u> | <u>867,568</u> | <u>887,219</u> | <u>1,203,576</u> |
| Depreciation and amortization | <u>457,637</u> | <u>124,307</u> | <u>93,463</u> | <u>122,952</u> | <u>116,915</u> |

Financial data by geographic area for the nine-month period ended September 30, 2004 are as follows:

| <i>(in millions of Korean won)</i> | Total | Domestic | Central & South America | | | | | | |
|------------------------------------|--------------------|--------------------|-------------------------|-------------------|-----------------|-----------------|-------------------|-----------------|-----------------|
| | | | North America | Europe | South America | Central Asia | Asia | Oceania | Others |
| Sales | | | | | | | | | |
| External sales | ₩18,137,968 | ₩ 3,898,990 | ₩4,544,555 | ₩2,582,907 | ₩504,674 | ₩802,794 | ₩4,290,746 | ₩525,610 | ₩987,692 |
| Ratio (%) | 100% | 21% | 25% | 14% | 3% | 4% | 24% | 3% | 6% |
| Inter-division sales | 329,472 | 329,472 | - | - | - | - | - | - | - |
| | <u>₩18,467,440</u> | <u>₩ 4,228,462</u> | <u>₩4,544,555</u> | <u>₩2,582,907</u> | <u>₩504,674</u> | <u>₩802,794</u> | <u>₩4,290,746</u> | <u>₩525,610</u> | <u>₩987,692</u> |

Financial data by geographic area for the nine-month period ended September 30, 2003 were as follows:

| <i>(in millions of Korean won)</i> | Total | Domestic | Central & South America | | | | | | |
|------------------------------------|--------------------|--------------------|-------------------------|-------------------|-----------------|-----------------|-------------------|-----------------|------------------|
| | | | North America | Europe | South America | Central Asia | Asia | Oceania | Others |
| Sales | | | | | | | | | |
| External sales | ₩14,759,459 | ₩ 3,607,754 | ₩4,216,947 | ₩1,288,268 | ₩290,251 | ₩687,047 | ₩3,539,582 | ₩320,627 | ₩ 808,983 |
| Ratio (%) | 100% | 24% | 28% | 9% | 2% | 5% | 24% | 2% | 6% |
| Inter-division sales | 169,539 | 169,539 | - | - | - | - | - | - | - |
| | <u>₩14,928,998</u> | <u>₩ 3,777,293</u> | <u>₩4,216,947</u> | <u>₩1,288,268</u> | <u>₩290,251</u> | <u>₩687,047</u> | <u>₩3,539,582</u> | <u>₩320,627</u> | <u>₩ 808,983</u> |

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25. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the nine-month period ended September 30, 2004 and 2003 are as follows:

| <i>(in millions of Korean won)</i> | 2004 | 2003 |
|---|-------------|-------------|
| Transfer to buildings, machinery and others from construction-in-progress | ₩ 352,310 | ₩ 116,781 |
| Transfer to machinery and equipment from machinery-in-transit | 76,852 | 62,364 |
| Reclassification of current maturities of debentures | 439,560 | 897,498 |
| Reclassification of current maturities of long-term debt | - | 17,680 |
| Changes in capital adjustments arising from the equity method of accounting for investments | 318,710 | 35,655 |
| Changes in retained earnings arising from the equity method of accounting for investments | 76,776 | 3,807 |

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