



# LG Electronics

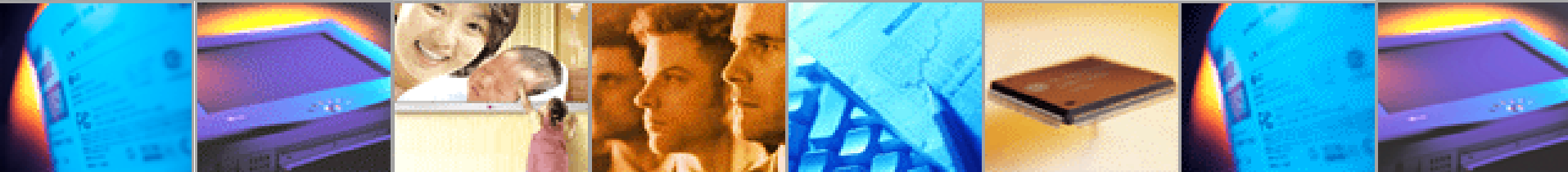
June 2007



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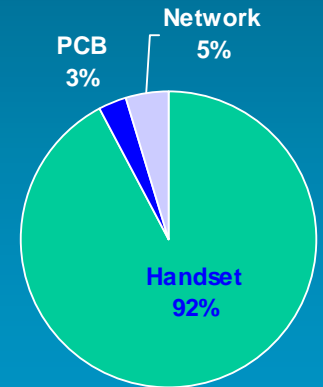
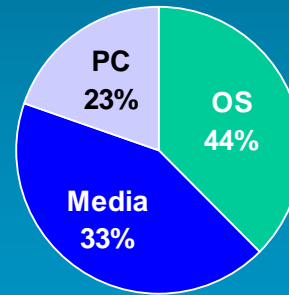
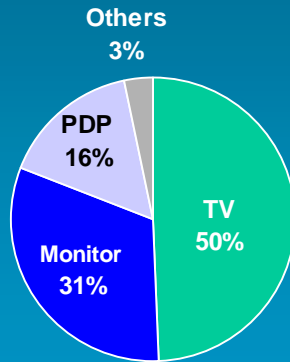
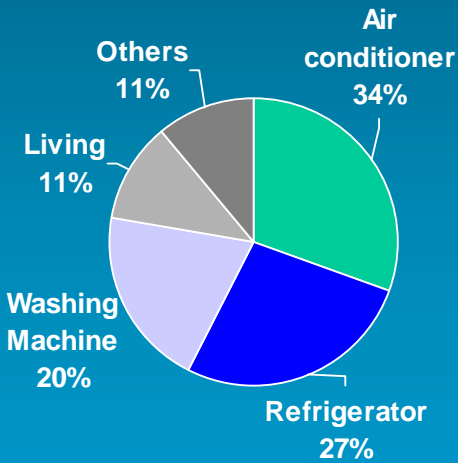
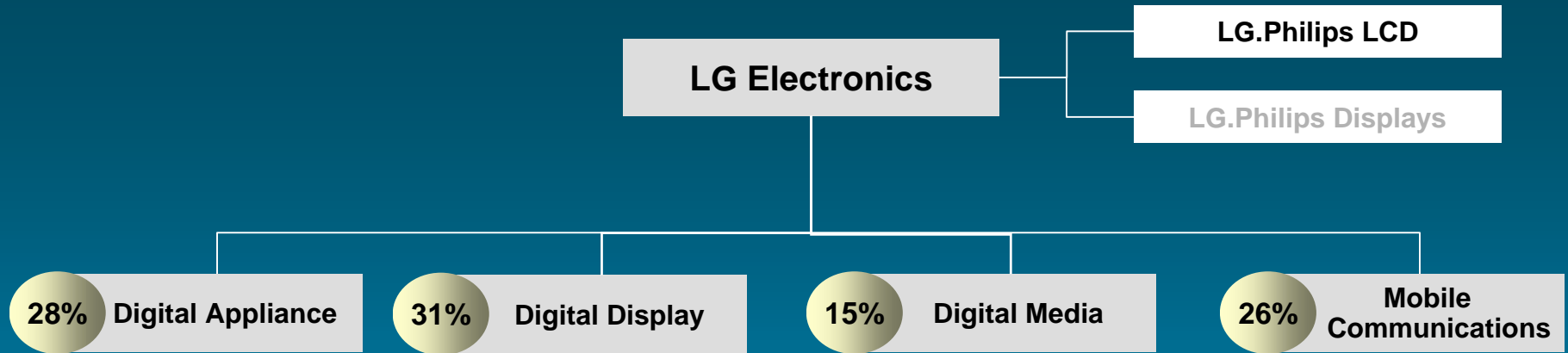
- I . Business Overview
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# I . Business Overview



# Business Domain



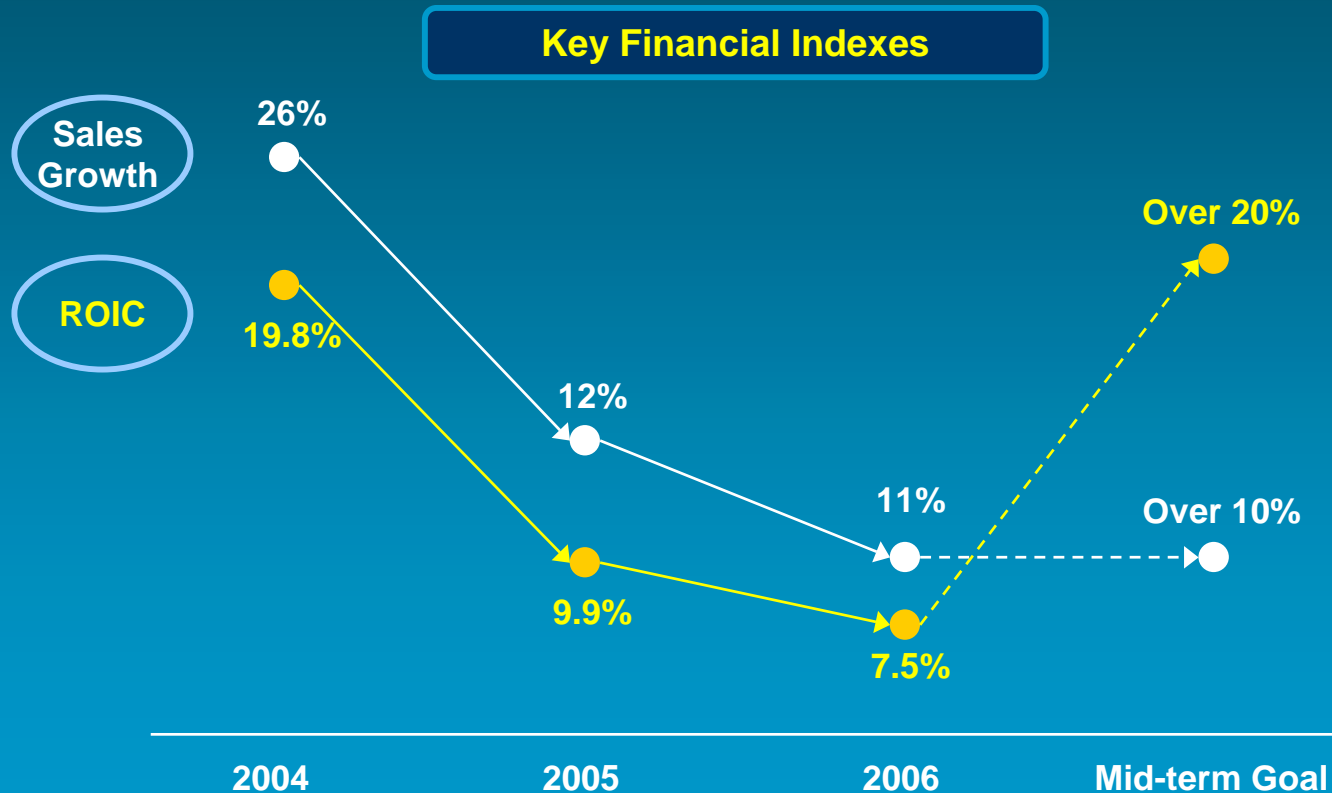
\*Based on LGE Global (LGE parent + overseas subsidiaries) sales in 2006

\*Digital Display breakdown by product is adjusted for PDP internal sales

# Mid-term Goal



- Key financial indexes have deteriorated over the past few years
- For improvement, stabilization of handset margin and restructuring of PDP module business is required



\* Sales Growth based on LGE Global (LGE Parent and LGE overseas subsidiaries) in USD.

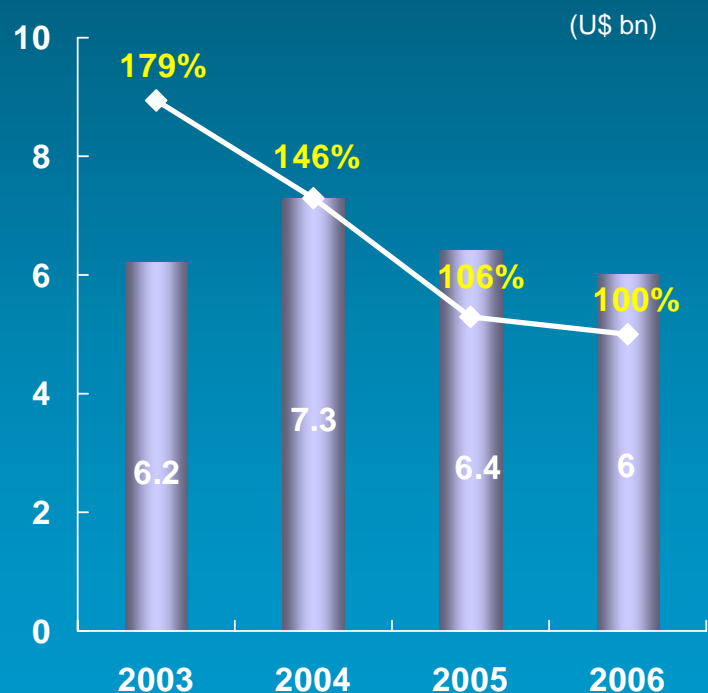
\* ROIC is Based on LGE parent

# Balance Sheet

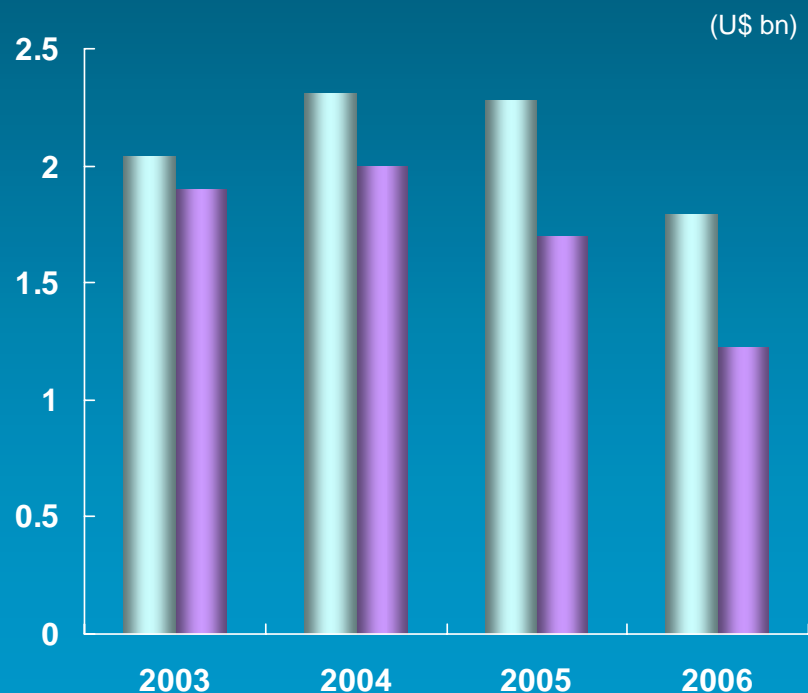


- Capital structure ratios improving
- Internally generated cash flow allows for debt reduction
- Goal is to reduce global debt-equity ratio to below 70%

### Net Debt Trend



### EBITDA / CAPEX



■ Global Net Debt    — Global Net-debt to Equity

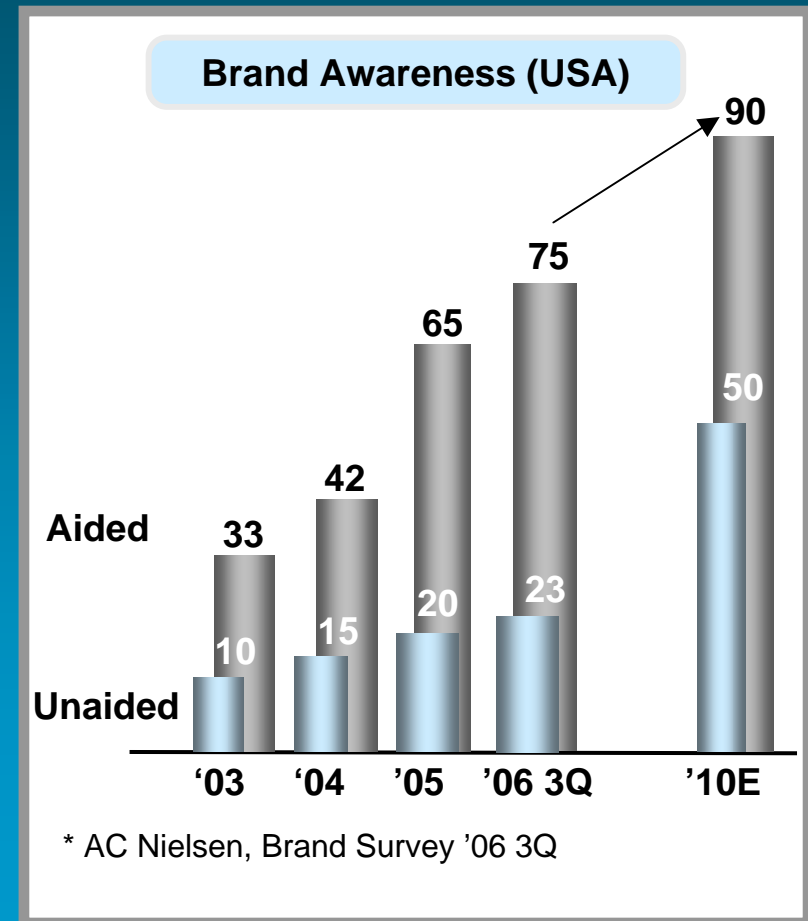
■ EBITDA    ■ CAPEX

\* Based on LGE Global

# Building Brand Awareness



- Redefining “LG Electronics” brand to high-end markets
- Product-led marketing strategy
- Handsets, Appliances and Digital TVs leading the charge

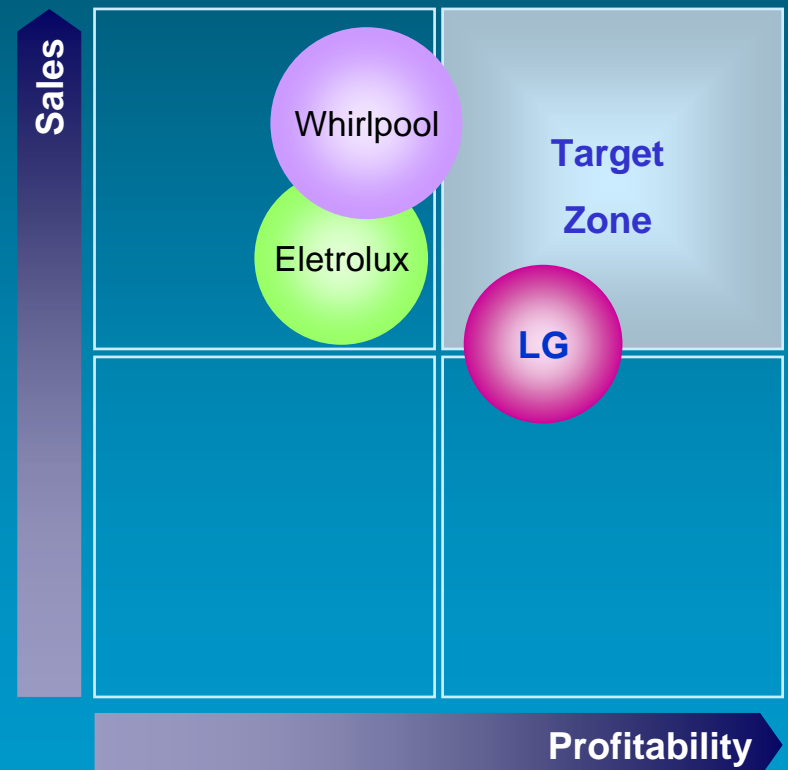


# Π. Home Appliances



# Global Top 3

- Sales growth more than 16% CAGR
- New product innovation has led to rising export growth
- Becoming a major player in the global market



# Targeting No.1

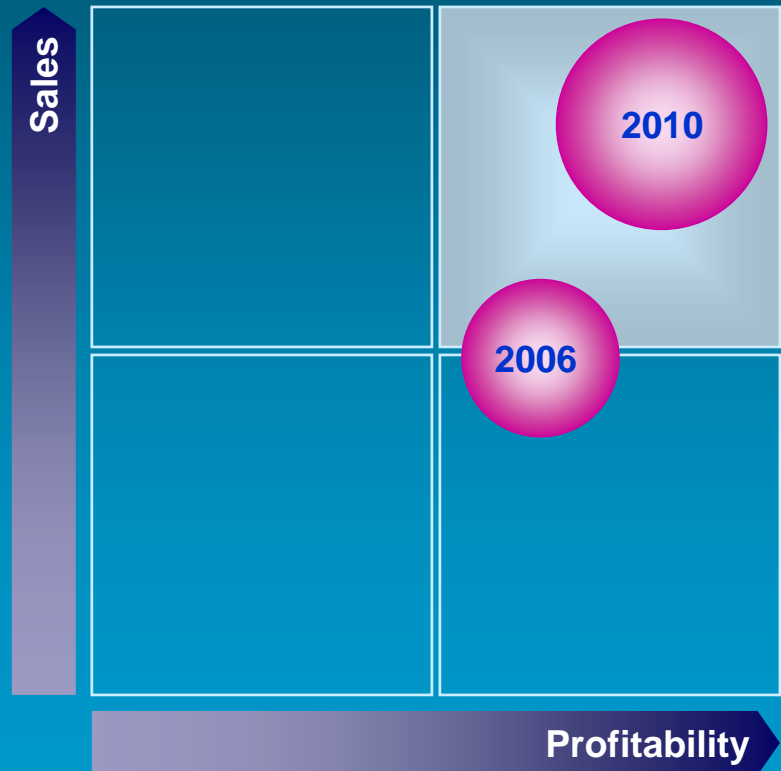
- Targeting no.1 global appliance maker
- Brand sales continue to grow in developed markets (N. America, Europe)
- Rapid sales growth of A/C through entry into commercial A/C market

## New Market : Branding

- Building LG brand in North America  
Joined forces with nationwide retailers
  - 2004 : Best Buy
  - 2005 : Home Depot

## New Business : CAC

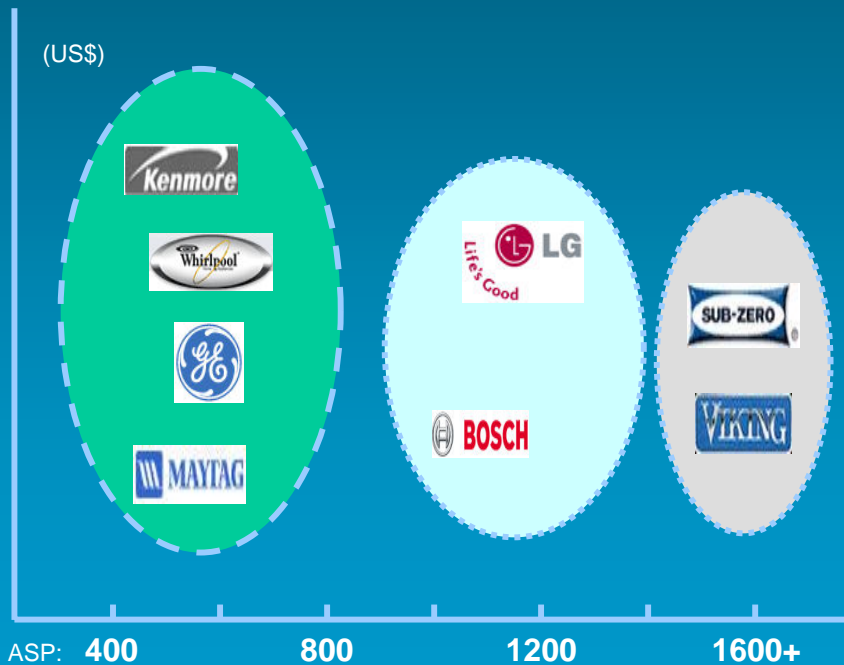
- Increasing sales of Commercial A/C  
Employ competitive advantage from RAC
  - 2002 : setup new R&D center for CAC



# New Market : Branding

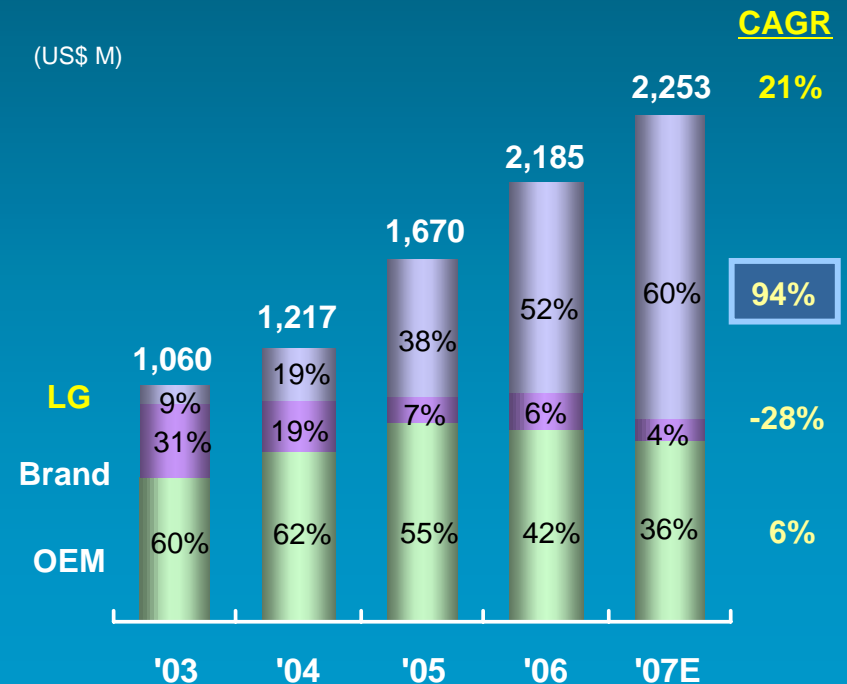
- Targeting high-end market with LG brand
- “Best Buy” and “Home Depot” are major US distributors
- Next move - European market

## U.S. Appliance Market



Source: Stevenson '06 1Q

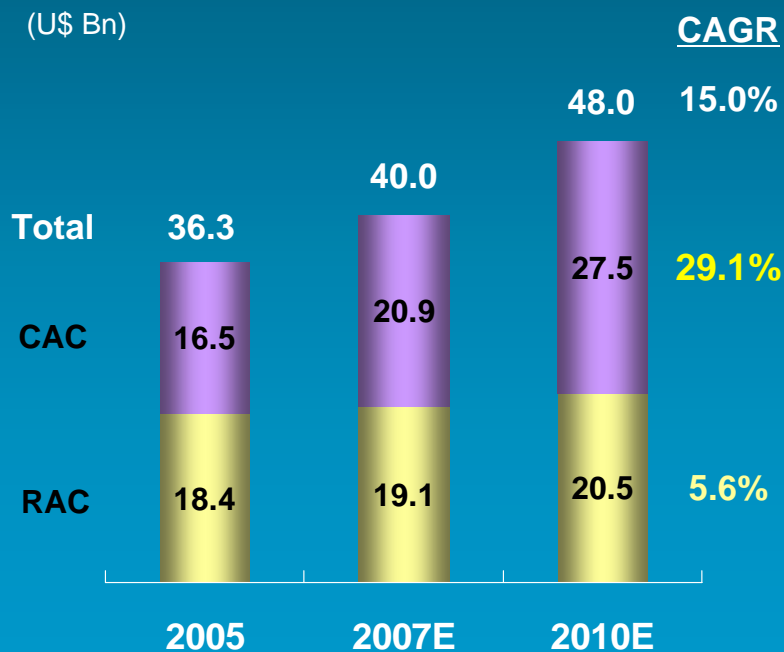
## LGE US Appliance Sales



# New Business : CAC

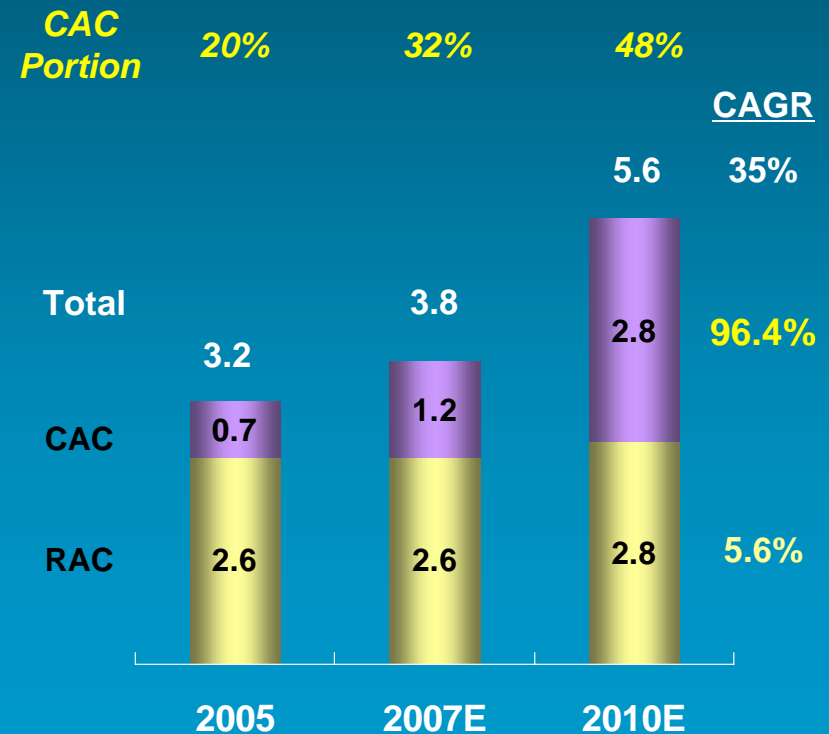
- Commercial A/C - new market for LGE
- Commercial A/C – as large as the residential market
- Employ competitive advantage from residential A/C

## Global A/C Market



Source: Company data

## LGE A/C Sales



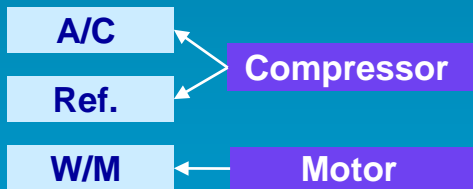
Source: Company data

# Success Factors

- LGE's competitive edge – emphasis on R&D for innovative new products
- Highly efficient production base in low cost centers
- High-end focused, with key competitive products

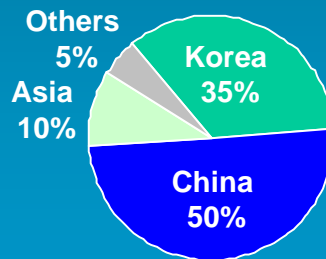
## Emphasis on R&D

- Emphasis on R&D  
→ product leadership
- Technological leadership -  
generated by vertical  
integration of key  
components



## Global Production

- Producing high-end  
products in Korea
- Utilizing China as low-cost  
production base



\* Based on quantity

## Focus on High-end

- Focusing on 3 Major  
profitable products
- Increasing premium product  
proportion



# III. Mobile Handset



## MOBILE

Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

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# Market Update

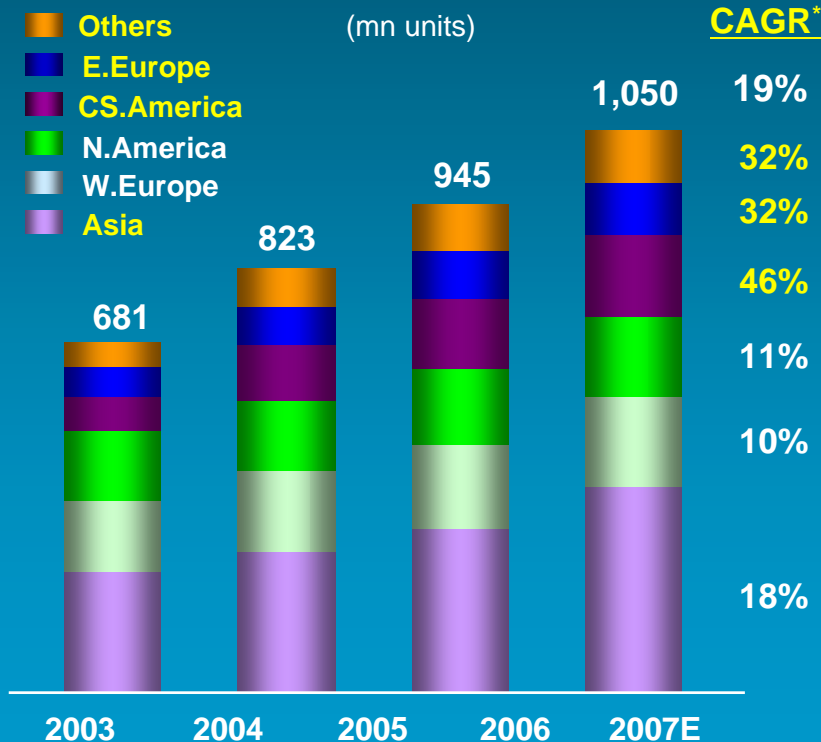


## MOBILE

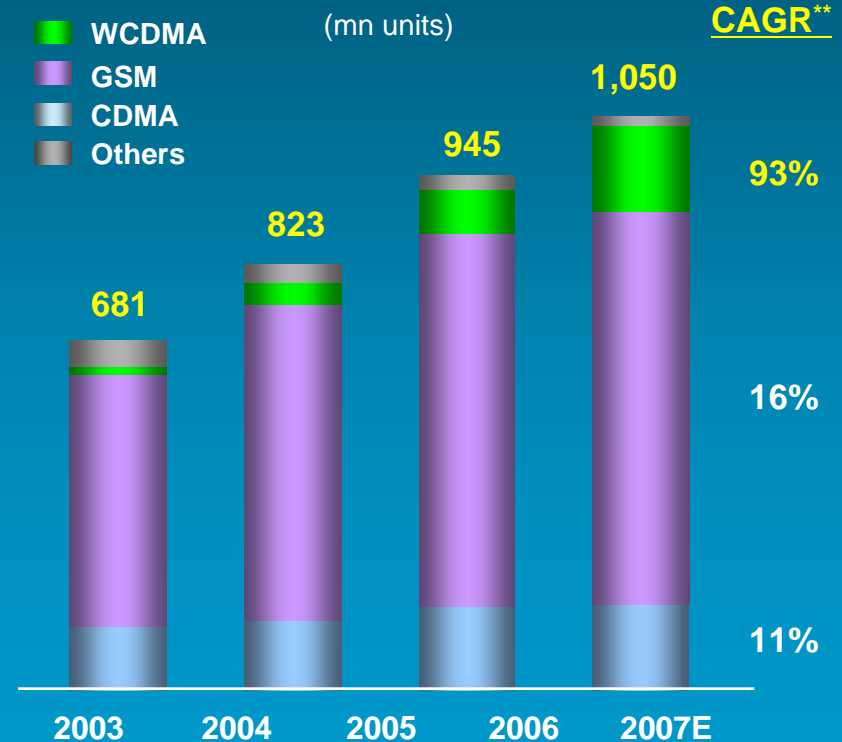
Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

- Emerging market has led handset demand growth
- Limited benefit from market growth due to focus on mid to high-end
- Increase of 3G demand and emerging markets' replacement demand

### Global Demand



### Demand by Technology



\* CAGR : based on 2003 ~ 2007

\* Source : Company data

\*\* CAGR : based on 2003 ~ 2007 except for WCDMA

# Recent Performance



## MOBILE

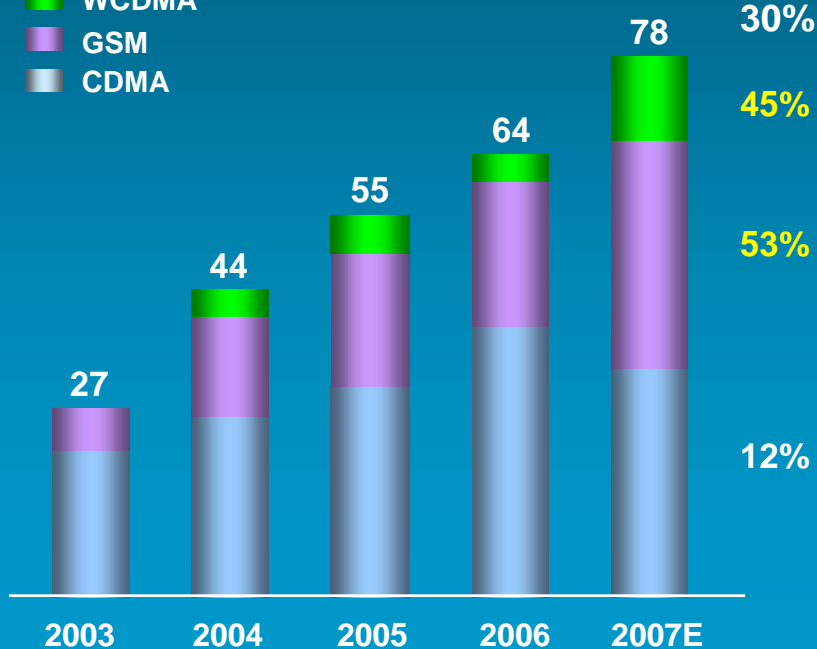
Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

- Faced downturn on shipment momentum and profitability
- Regaining momentum through successful penetration in to GSM open market and expansion of 3G customers

### Shipment

(mn units)

### CAGR



### Sales & Margin

(KRW tril)



\* Source : Company data

\*\* CAGR : based on 2003 ~ 2007 except for WCDMA

\*\* based on LGE Parent sales and operating margin

# Stabilizing Business



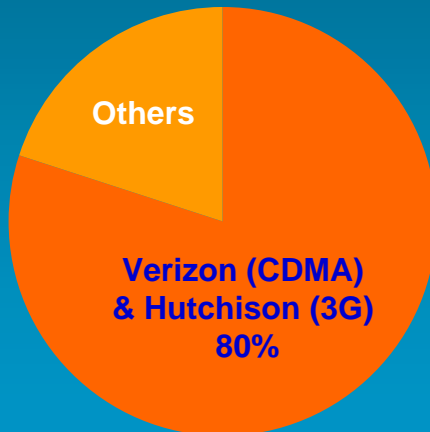
## MOBILE

Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

- Successful entry into GSM open market with "Chocolate"
  - "Chocolate" shipment reached 7.5M units, over 4M units in GSM
- Expansion of 3G customer base : Vodafone, Cingular, etc

## Stabilizing & Diversifying Profit Portfolio

2005



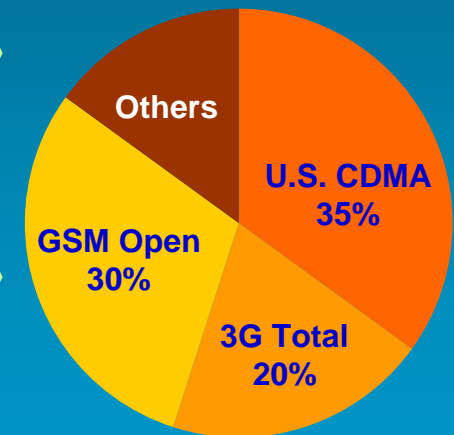
### Successful entry into GSM open market

- Chocolate 7.5m in 2006
- **Shine in 2007**

### Widened 3G customer base

- Vodafone, Cingular, 3, etc
- Winner of GSMA's "3G for All" project

2007



# Improving Fundamentals

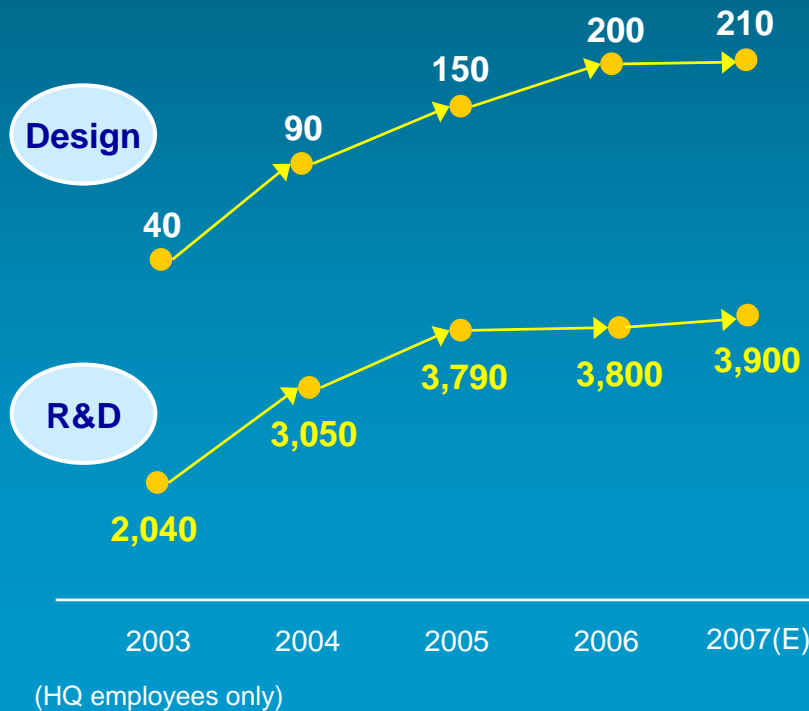


## MOBILE

Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

- Early investment on R&D and design now bearing fruits
  - Emphasis on R&D and design created "Chocolate" series and many more to come
  - Margin improvement through improving cost structure & economies of scale

### Emphasis on R&D and Design



### Shipment per platform ratio



# Future Direction

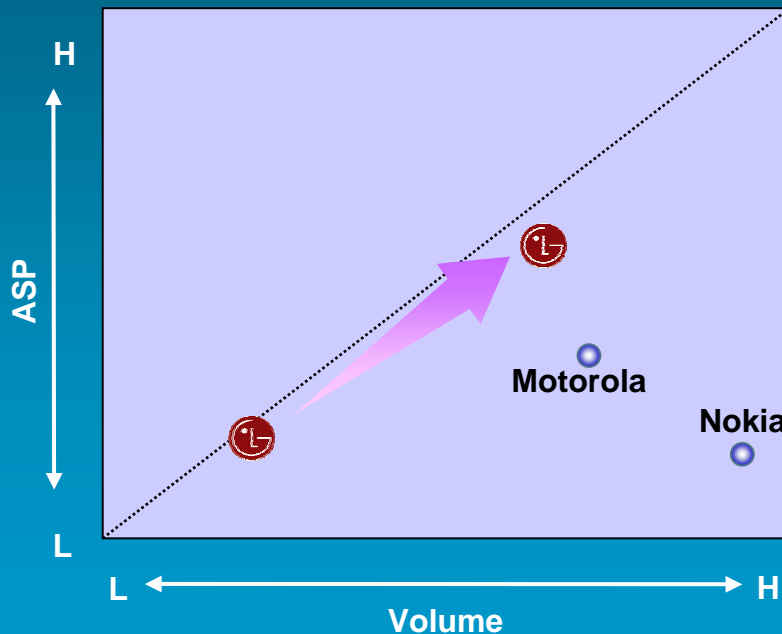


## MOBILE

Mobile Products are opening up a more exciting and enjoyable world, a world that begins with "Dream-come-true" technology of LG Electronics.

- ASP improvement just as important as growth
- Increased concentration on high-end handsets
- "LG" Brand identification through design

### Long-term Goal



### Global "Hit Product"

- Enhance design
- "User-centric" product development
- Improve market research capability

### Two tier marketing strategy

- Operator centric strategy for CDMA
- Open market strategy for GSM

### Raise blended ASP

- Take advantage of "Korea test market"
- Expand 3G models and carriers
- Move up in GSM market

## IV. Digital Display

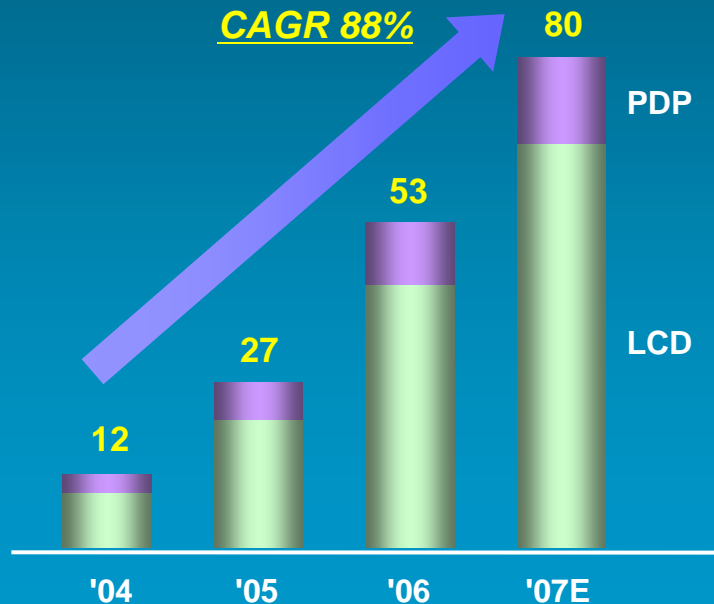


# Soaring Demand

- Flat Panel technology became mainstream in the TV market
- Larger-size demand increasing rapidly backed by steep price erosion, and prevailing HD contents

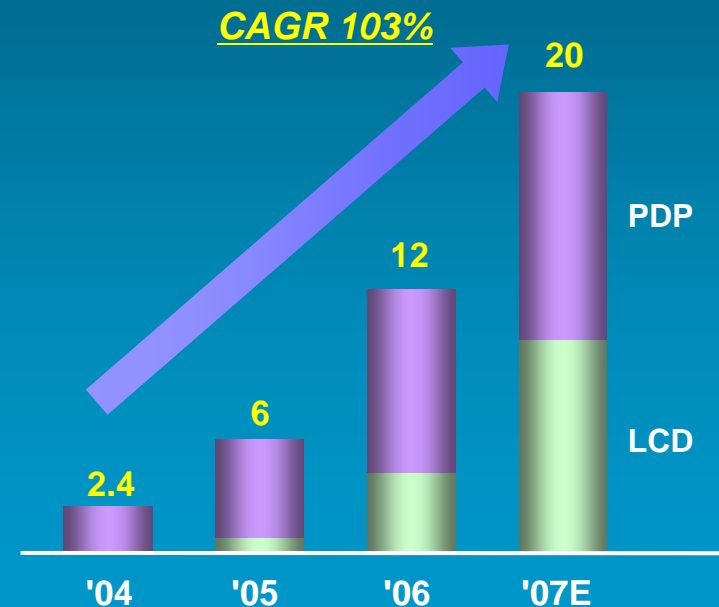
## Flat TV Demand

(mn units)



## Flat TV above 40"

(mn units)

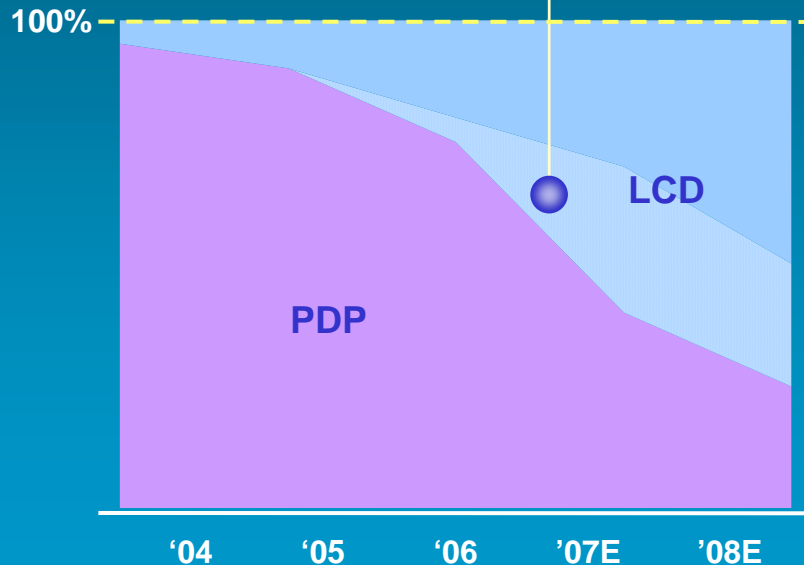


# The DTV battlefield

- Price erosion of LCD TV came much sooner than expected, causing severe over-supply situation of PDP in 4Q '06
- 1H'07 - correction period of PDP over-capacity

## 42 inches Market Share

Unexpected price cut leading to **acceleration** of LCD M/S gain



## PDP Shipment

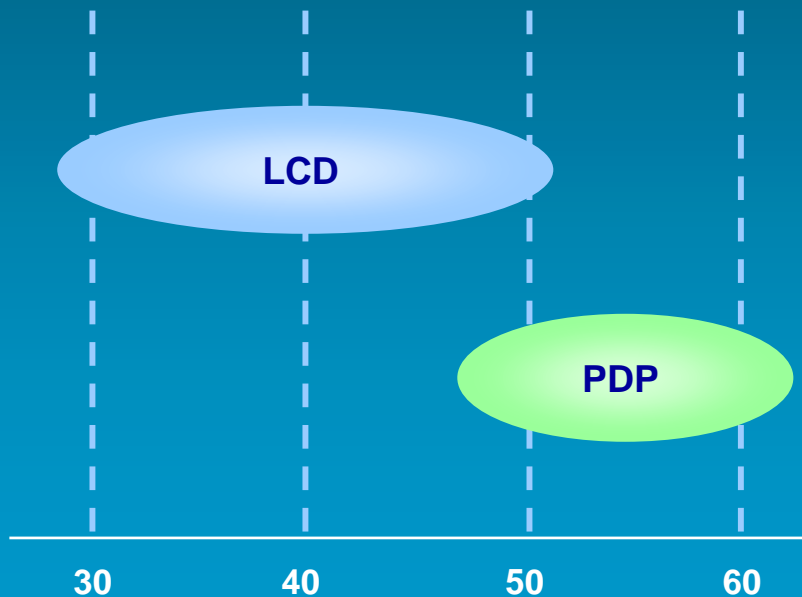


# Sorting out FPD

- Competition between PDP and LCD sorted out to a certain extent
  - LCD to focus on 40", PDP to shift over to 50"
- Competition exists in the 50" market, but PDP is expected to be more advantageous

## Technology Mapping

## PDP

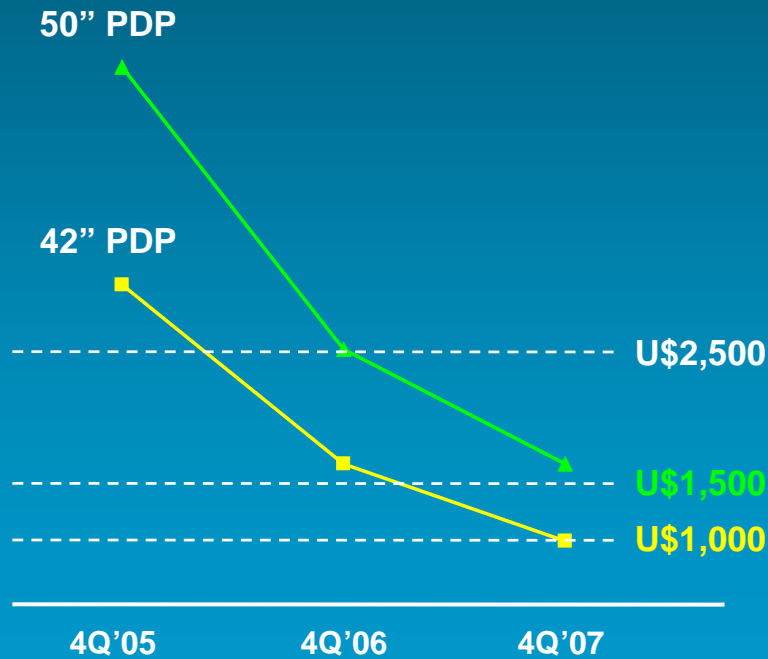


- Shifting focus to 50 inches rapidly
- Realigning capacity plan in line with recent change of PDP demand forecast → delayed A3-3 investment
- Strengthen cost competitiveness of 50 inches Full HD

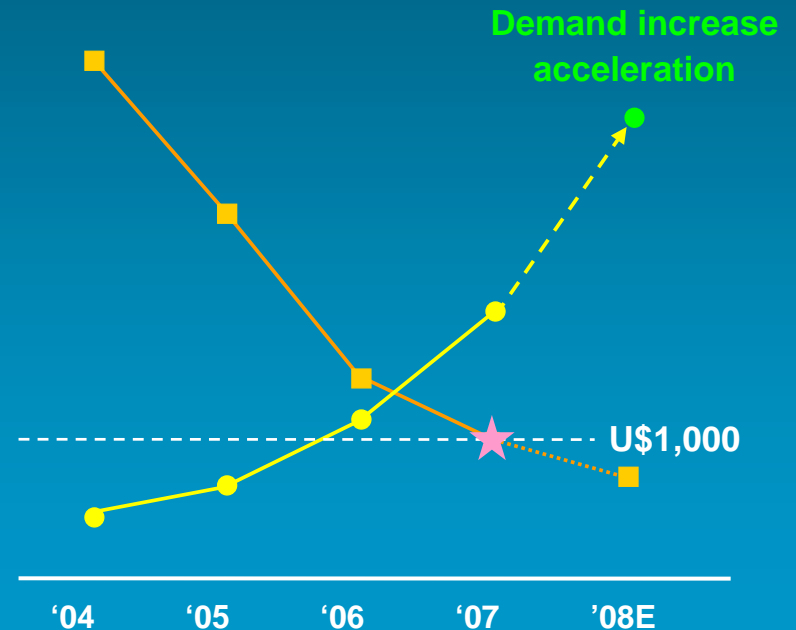
# Reaching Magic price

- 42" Flat TV price is expected to decline - below U\$1,000 at the end of 2007
- When Flat TV price reaches magic price, demand growth will accelerate and price erosion will slow down

## Price Forecast



## ★ Sweet Spot



# Display Strategy

- **Strengthen brand and competitiveness to improve profitability**
  - **Invest in Brand** : Increase marketing expenditure in selective markets: US, EU
  - **Strengthen Competitiveness** : Cooperative product design and development with affiliates, providing consumers with the best product portfolio

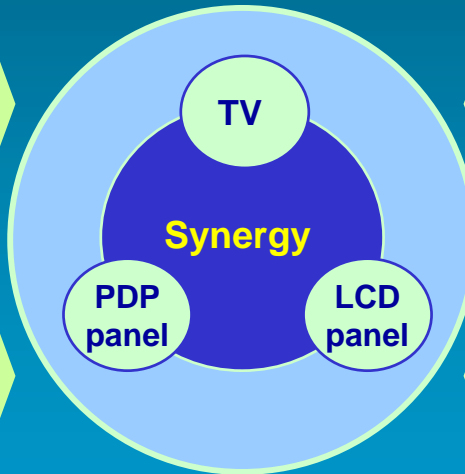
## Invest in Brand

### Build LG as premium TV brand

Increase marketing expenditure on selective markets : US, EU

### Premium pricing

Improve profitability of both TV sets and Panels



## Strengthen Competitiveness

### Product design and development

- LCD cooperation with LPL  
- PDP cooperation with LG-Micron

### Deliver optimized product lines

- Possession of both PDP and LCD  
→ competitive advantage

"Improve Profitability"



<http://www.lge.com>