

# **LG Electronics Inc.**

**Non-Consolidated Interim Financial Statements  
September 30, 2007 and 2006**

**LG Electronics Inc.**  
**Index**  
**September 30, 2007 and 2006**

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	<b>Page(s)</b>
<b>Report of Independent Accountants .....</b>	1 – 2
<b>Non-Consolidated Interim Financial Statements</b>	
Balance Sheets .....	3 – 4
Statements of Income .....	5
Statements of Cash Flows .....	6 – 7
Statement of Changes in Shareholders' Equity .....	8
Notes to Non-Consolidated Interim Financial Statements .....	9 – 29

[www..samil.com](http://www.samil.com)

Kukje Center Building  
191 Hangangno 2-ga, Yongsan-gu  
Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

## Report of Independent Accountants

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

We have reviewed the accompanying non-consolidated balance sheet of LG Electronics Inc. (the "Company") as of September 30, 2007, the related non-consolidated statements of income for the three-month and nine-month periods ended September 30, 2007 and 2006, and non-consolidated statements of cash flows for the nine-month periods ended September 30, 2007 and 2006, and non-consolidated statement of changes in shareholders' equity for the nine-month period ended September 30, 2007, expressed in Korean won. These interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the non-consolidated interim financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

We have audited the non-consolidated balance sheet of LG Electronics Inc. as of December 31, 2006, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated March 9, 2007. These financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2006, presented herein for comparative purposes is consistent, in all material respects excluding the application of SKFAS No. 21 and the Korean Accounting Institute's Accounting Implementation Guide 06-2, with the above audited balance sheet as of December 31, 2006.

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Without qualifying our opinion, we draw your attention to following matter.

As discussed in Note 2 to accompanying non-consolidated interim financial statements, the Company adopted the Korea Accounting Institute's Accounting Implementation Guide 06-2 and changed its method of accounting for income taxes on temporary differences in relation to investments in subsidiaries and equity method investees to comply with the new requirement. Accordingly, the financial statements presented for comparative purposes, have been restated to reflect the changes to conform with SKFAS No. 1.

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

Seoul, Korea  
November 6, 2007

This report is effective as of November 6, 2007, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**  
**(Unaudited)**

*(in millions of Korean won)*

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	₩ 393,828	₩ 490,315
Short-term financial instruments	-	20,000
Trade accounts and notes receivable, net (Notes 10 and 19)	1,068,337	899,904
Inventories, net (Note 3)	1,014,474	1,103,654
Other accounts receivable, net	297,904	232,430
Prepaid expenses	133,680	75,679
Accrued income, net	80,160	53,174
Advances, net	51,774	55,180
Derivatives transaction debit (Note 10)	3,839	6,646
Deferred income tax assets	198,076	161,898
Other current assets, net	63,991	61,497
Total current assets	3,306,063	3,160,377
Property, plant and equipment, net (Notes 6 and 20)	4,118,490	4,256,321
Long-term financial instruments (Note 4)	16,994	28,040
Long-term investment securities	37,307	37,078
Equity method investments (Note 5)	5,195,688	4,583,577
Refundable deposits	319,302	319,241
Long-term advance payments, net	179,782	149,505
Long-term prepaid expenses	124,719	125,531
Long-term loans receivable, net	93,763	103,748
Intangible assets, net (Notes 7 and 20)	397,595	462,217
Derivatives transaction debit (Note 10)	6,785	4,507
Total assets	₩ 13,796,488	₩ 13,230,142

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**  
**(Unaudited)**

(in millions of Korean won)

	2007	2006
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings (Note 8)	₩ 28,832	₩ 37,674
Current maturities of long-term debts and debentures, net (Note 8)	276,210	792,569
Trade accounts and notes payable (Note 19)	2,129,747	1,764,116
Other accounts payable	716,488	1,083,209
Income taxes payable	30,399	42,813
Accrued expenses	1,228,097	805,438
Withholdings	30,416	53,705
Unearned income	41,567	35,928
Advances from customers	234,850	284,595
Derivatives transaction credit (Note 10)	14,276	1,281
Total current liabilities	4,730,882	4,901,328
Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 9)		
	1,435,525	792,197
Long-term debts, net of current maturities (Note 9)	276,210	849,944
Accrued severance benefits, net	272,832	228,635
Product warranty reserve (Note 10)	155,706	241,956
Deferred income tax liabilities	381,762	257,396
Derivatives transaction credit (Note 10)	61,718	23,832
Other long-term liabilities	-	38
Total liabilities	7,314,635	7,295,326
Commitments and contingencies (Note 10)		
	-	-
Shareholders' equity		
Capital stock (Notes 1 and 11)	809,169	809,169
Capital surplus	2,219,993	2,219,993
Capital adjustments (Note 11)	(44,893)	(44,893)
Accumulated other comprehensive income (Notes 5 and 13)	595,879	528,317
Retained earnings (Note 14)	2,901,705	2,422,230
Total shareholders' equity	6,481,853	5,934,816
Total liabilities and shareholders' equity	₩ 13,796,488	₩ 13,230,142

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 and Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

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

	2007		2006	
	For the three-month period ended September 30, 2007	For the nine-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the nine-month period ended September 30, 2006
<b>Sales, net (Notes 16, 19 and 20)</b>	₩ 5,690,042	₩ 17,626,998	₩ 6,054,215	₩ 17,650,233
<b>Cost of sales (Notes 17 and 19)</b>	4,490,289	13,762,769	4,593,661	13,414,071
Gross profit	1,199,753	3,864,229	1,460,554	4,236,162
<b>Selling and administrative expenses (Note 18)</b>	1,107,344	3,453,487	1,263,373	3,657,894
Operating income	92,409	410,742	197,181	578,268
<b>Non-operating income</b>				
Interest income	13,333	36,695	10,704	31,244
Gain on valuation of equity-method investments (Note 5)	401,370	649,941	-	115,713
Foreign exchange gains	80,749	202,861	67,418	267,796
Gain on settlement of derivatives (Note 10)	11,065	23,675	3,634	33,237
Gain on valuation of derivatives (Note 10)	-	6,117	15,529	6,287
Gain on disposal of investment securities	-	30,896	2,405	6,888
Gain on disposal of property, plant and equipment	527	1,050	1,626	4,864
Gain on redemption of debentures	-	8,240	-	20
Rent income	6,863	21,057	6,668	19,036
Others	3,988	14,156	5,869	30,899
	517,895	994,688	113,853	515,984
<b>Non-operating expenses</b>				
Interest expense	27,981	92,236	34,450	116,816
Depreciation on other property, plant and equipment	10,617	13,659	-	-
Foreign exchange losses	67,996	118,100	36,034	141,962
Loss from transfer of trade accounts and notes receivable	46,075	159,398	55,951	154,009
Loss from disposal of property, plant and equipment	1,527	13,762	1,961	6,713
Loss on impairment of property, plant and equipment	5,954	17,885	-	-
Loss on impairment of intangible assets	-	47,364	-	-
Loss on settlement of derivatives (Note 10)	3,996	18,295	6,862	15,308
Loss on valuation of derivatives (Note 10)	48,852	52,163	-	15,947
Donations	1,976	7,509	2,703	8,254
Loss on retirement of debts	703	2,622	-	-
Loss on equity method investments (Note 5)	2,794	134,633	140,576	423,578
Others	4,501	7,977	1,958	8,901
	222,972	685,603	280,495	891,488
Income before income tax	387,332	719,827	30,539	202,764
Income tax expense	48,133	118,693	8,957	50,095
Net income	₩ 339,199	₩ 601,134	₩ 21,582	₩ 152,669
<b>Earnings</b>				
per share (in won) (Note 15)	₩ 2,105	₩ 3,728	₩ 133	₩ 944
<b>Diluted earnings</b>				
per share (in won) (Note 15)	₩ 2,105	₩ 3,728	₩ 133	₩ 944

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**  
**Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

(in millions of Korean won)

	2007	2006
<b>Cash flows from operating activities</b>		
Net income	₩ 601,134	₩ 152,669
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	435,373	441,113
Amortization	88,455	85,591
Depreciation on other property, plant and equipment	13,659	-
Amortization of discounts on debentures	1,750	18,271
Provision for severance benefits	173,907	154,028
Gain from disposal of investment securities	(30,896)	(6,888)
Loss from transfer of trade accounts and notes receivable	159,398	154,009
Bad debt expense	5,054	48,051
Gain on foreign currency translation, net	(25,951)	(74,036)
Loss from disposal of property, plant and equipment, net	12,712	1,849
Loss from impairment of property, plant and equipment	17,885	-
Loss from impairment of intangible assets	47,364	-
Loss (gain) on valuation of equity-method investees, net	(515,308)	307,865
Loss on valuation of derivatives, net	46,046	9,660
Gain on settlement of derivatives, net	(5,380)	(17,929)
Provision for product warranty reserve	263,166	546,859
Gain on retirement of debts	(5,618)	(20)
Others	1,875	32,828
	<u>683,491</u>	<u>1,701,251</u>
Changes in operating assets and liabilities		
Decrease (Increase) in trade accounts and notes receivable	(333,863)	274,454
Increase in other accounts receivable	(59,840)	(7,556)
Increase in accrued income	(39,975)	(2,093)
Decrease (increase) in advances	3,564	(32,210)
Decrease in other current assets	1,749	-
Decrease in inventories	82,556	48,667
Increase in prepaid expenses	(58,002)	(9,094)
Increase in long-term advance payments	(30,276)	(19,947)
Decrease (Increase) in long-term prepaid expenses	812	(21,328)
Increase in deferred income tax assets	(36,178)	(13,439)
Increase in trade accounts and notes payable	378,260	331,086
Decrease in other accounts payable	(365,885)	(248,662)
Increase in accrued expenses	425,370	225,970
Increase (decrease) in withholdings	(23,326)	5,466
Increase (decrease) in advances from customers	(49,745)	83,755
Increase (decrease) in income taxes payable	(41,681)	33,596
Payment of severance benefits	(118,360)	(178,890)
Increase in severance insurance deposits	3,158	25,117
Increase in contributions to the National Pension Fund	1,570	3,443
Increase (decrease) in deferred income tax liabilities	118,501	(37,217)
Decrease in product warranty reserve	(349,416)	(453,800)
Others	11,135	(86,279)
	<u>(479,872)</u>	<u>(78,961)</u>
Net cash provided by operating activities	<u>804,753</u>	<u>1,774,959</u>

**LG Electronics Inc.**  
**Non-Consolidated Statements of Cash Flows**  
**Nine-Month Periods Ended September 30, 2007 and 2006**  
**(Unaudited)**

<i>(in millions of Korean won)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from investing activities</b>		
Decrease in short-term financial instruments	20,000	-
Increase in short-term financial instruments	-	(20,000)
Increase in short-term and long-term loans, net	(10,862)	(16,839)
Disposal of short-term and long-term loans, net	15,755	12,696
Disposal of long-term financial instruments	27,552	16,827
Acquisition of long-term financial instruments	(16,505)	(18,429)
Proceeds from disposal of investment securities	33,092	8,520
Acquisition of investment securities	(14,641)	(158,526)
Return of refundable deposits	45,904	107,283
Payment of refundable deposits	(45,113)	(41,193)
Proceeds from disposal of property, plant and equipment	37,462	26,329
Proceeds from disposal of intangible assets	1,807	23,764
Proceeds from disposal of derivatives	30,321	37,985
Acquisition of property, plant and equipment	(397,015)	(548,779)
Acquisition of intangible assets	(57,045)	(115,259)
Acquisition of derivatives	(19,576)	(16,467)
Net cash used in investing activities	(348,864)	(702,088)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	174,679	40,000
Payment of current maturities of long-term debts	(786,248)	(939,409)
Proceeds from issuance of debentures	649,018	-
Proceeds from long-term debts	185,320	286,830
Payment of long-term debts	(478,104)	(43,559)
Payment of short-term borrowings	(175,382)	(44,967)
Payment of dividends	(121,659)	(199,956)
Net cash used in financing activities	(552,376)	(901,061)
Net increase (decrease) in cash and cash equivalents	(96,487)	171,810
<b>Cash and cash equivalents</b>		
Beginning of the period	490,315	581,264
End of the period	₩ 393,828	₩ 753,074

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

See Report of Independent Accountants

**LG Electronics Inc.**  
**Non-Consolidated Statement of Changes in Shareholders' Equity**  
**Nine-Month Period Ended September 30, 2007**  
**(Unaudited)**

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at						
January 1, 2007	₩ 809,169	₩ 2,219,993	₩ (44,893)	₩ 687,981	₩ 2,466,926	₩ 6,139,176
Cumulative effect of						
changes in accounting principles	-	-	-	(159,664)	(44,696)	(204,360)
Restated balance	809,169	2,219,993	(44,893)	528,317	2,422,230	5,934,816
Cash dividends	-	-	-	-	(121,659)	(121,659)
Appropriation of retained earnings	-	-	-	-	2,300,571	5,813,157
Net income	-	-	-	-	601,134	601,134
Changes in equity arising from						
equity method accounting	-	-	-	67,222	-	67,222
Gain on valuation of						
available for sale securities	-	-	-	340	-	340
Balance at						
September 30, 2007	₩ 809,169	₩ 2,219,993	₩ (44,893)	₩ 595,879	₩ 2,901,705	₩ 6,481,853

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, 2007 and 2006, and December 31, 2006**

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#### **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 electronics, and information and communication products. The former LG Electronics Inc. was incorporated in October 1958 under the Commercial Code of the Republic of Korea to manufacture and sell electronics, and information and communication products, and had its shares listed on the Korea Stock Exchange in April 1970.

As of September 30, 2007, the Company’s main manufacturing facilities are in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of September 30, 2007, the Company has outstanding capital stock amounting to ₩809,169 million, including non-voting preferred stock. The Company’s stock was relisted on the Korean Stock Exchange on April 22, 2002, and its depository receipts were relisted on the London Stock Exchange in September 2002.

#### **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.

##### **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. As SKFAS Nos. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these standards in its financial statements covering periods beginning January 1, 2006.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

And as SKFAS Nos. 21 through 23, including No.11, became effective for the Company on January 1, 2007, the Company adopted these Standards in its financial statements as of and for the nine-month period ended September 30, 2007. However, the non-consolidated statement of changes in shareholders' equity is not presented comparatively, in accordance with the addendum of SKFAS No. 21. And, the Company presented the non-consolidated statements of cash flows and changes in shareholders' equity only for the nine-month periods, in accordance with revised SKFAS No. 2.

The Company adopted the Korea Accounting Institute's Accounting Implementation Guide 06-2, *Accounting treatments for deferred tax assets and liabilities relating to subsidiaries, equity method investments and joint ventures investments*, and the Financial Supervisory Service's Accounting Implementation Guide 06-5, *Accounting treatments for valuation on unlisted company*, in its financial statements for the nine-month period ended September 30, 2007. The December 31, 2006 financial statements, presented herein comparative purposes, have been restated to reflect the changes in accordance with SKFAS No. 1. The effect of the change was a decrease in retained earnings as of January 1, 2007 and 2006, by ₩44,696 million and ₩71,181 million, respectively, and decrease in accumulated other comprehensive income as of January 1, 2007 and 2006, by ₩159,664 million and ₩179,970 million, respectively.

The effects of the change on net income and earnings per share for the three-month and nine-month periods ended September 30, 2006 and 2005, and for the years ended December 31, 2006 and 2005, are as follows:

	2006		2005		For the years ended	
	Three-month	Nine-month	Three-month	Nine-month	Dec. 31,	Dec. 31,
	period	period	period	period	2006	2005
	ended Sept.	ended Sept.	ended Sept.	ended Sept.		
	30, 2006	30, 2006	30, 2005	30, 2005		
<i>(in millions of Korean won, except per share amounts)</i>						
Net income before accounting change	₩ 22,665	₩ 163,710	₩ 156,865	₩ 390,650	₩ 212,718	₩702,802
Net income after accounting change	21,582	152,669	62,745	302,020	239,203	648,166
Basic earnings per share after accounting change	133	944	400	1,930	1,480	4,023
Diluted earnings per share after accounting change	133	944	399	1,899	1,480	3,986

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**3. Inventories**

Inventories as of September 30, 2007 and December 31, 2006, consist of the following:

		<b>2007</b>		
<i>(in millions of Korean won)</i>	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying value</b>	
Merchandise	₩ 34,548	₩ (1,791)	₩ 32,757	
Finished products	393,812	(38,089)	355,723	
Work-in-process	246,114	(4,330)	241,784	
Raw materials	281,983	(15,523)	266,460	
Parts and supplies	122,337	(4,587)	117,750	
	<u>₩ 1,078,794</u>	<u>₩ (64,320)</u>	<u>₩ 1,014,474</u>	
		<b>2006</b>		
<i>(in millions of Korean won)</i>	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying value</b>	
Merchandise	₩ 34,029	₩ (1,147)	₩ 32,882	
Finished products	494,308	(38,815)	455,493	
Work-in-process	243,499	(5,802)	237,697	
Raw materials	293,014	(29,093)	263,921	
Parts and supplies	116,895	(3,234)	113,661	
	<u>₩ 1,181,745</u>	<u>₩ (78,091)</u>	<u>₩ 1,103,654</u>	

**4. Long-term Financial Instruments**

As of September 30, 2007 and December 31, 2006, long-term financial instruments 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.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**5. Equity-Method Investments**

Changes in equity-method investments for the nine-month period ended September 30, 2007, are as follows:

<i>(in millions of Korean won)</i>	Acquisition cost	December 31, 2006	Equity in earnings (losses) of affiliates, net <sup>1</sup>	Others	September 30, 2007
<b>Domestic companies</b>					
LG Micron Ltd.	₩ 68,100	₩ 110,496	₩ (10,541)	₩ (1,162)	₩ 98,793
LG Innotek Co., Ltd.	59,825	161,850	15,738	789	178,377
LG.Philips LCD Co., Ltd.	679,218	2,510,698	242,721	17,009	2,770,428
LG-Nortel Co., Ltd	153,254	168,989	39,947	1,545	210,481
Hankuk Electric Glass Co., Ltd.	119,282	96,141	(19,899)	(796)	75,446
Hi Plaza Inc.	100,511	107,916	1,411	-	109,327
Hi Business Logistics	8,000	15,641	5,885	150	21,676
Others	19,352	17,865	574	21	18,460
	<u>1,207,542</u>	<u>3,189,596</u>	<u>275,836</u>	<u>17,556</u>	<u>3,482,988</u>
<b>Overseas companies</b>					
PT LG Electronics Indonesia. (LGEIN)	79,946	67,511	1,753	(761)	68,503
LG Electronics Huizhou Inc. (LGEHZ)	1,277	29,580	1,800	(3,799)	27,581
LG Electronics India Pvt. Ltd. (LGEIL)	38,476	161,201	46,456	19,238	226,895
LG Electronics Mlawa SP.Zo.O.(LGEMA)	133,618	130,348	(39,629)	7,423	98,142
LG Electronics Mexico S.A. de C.V. (LGEMS) <sup>2</sup>	57,644	35,916	2,932	28,511	67,359
Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND) (formerly LGENT)	10,869	14,314	5,957	394	20,665
LG Electronics European Holdings B.V.(LGEEH)	63,423	-	31,597	4,192	35,789
LG Electronics de Sao Paulo Ltd. (LGESP)	79,106	148,832	56,858	31,436	237,126
LG Electronics Shenyang Inc.(LGESY)	12,244	17,547	10,023	(296)	27,274
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	42,948	93,866	5,553	3,099	102,518
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR)	79,795	36,701	16,796	1,759	55,256
LG Electronics U.S.A., Inc. (LGEUS)	148,109	135,307	65,925	(1,818)	199,414
SLD Telecom Pte. Ltd.	72,194	47,067	(3,313)	(409)	43,345
LG Holdings (HK) Ltd.	72,787	27,031	(3,601)	577	24,007
LG Electronics Wroclaw Sp. z o.o (LGEWR)	55,364	53,806	(2,385)	4,170	55,591
Others	461,544	394,954	42,750	(14,469)	423,235
	<u>1,409,344</u>	<u>1,393,981</u>	<u>239,472</u>	<u>79,247</u>	<u>1,712,700</u>
	<u>₩ 2,616,886</u>	<u>₩ 4,583,577</u>	<u>₩ 515,308</u>	<u>₩ 96,803</u>	<u>₩ 5,195,688</u>

<sup>1</sup> Positive (negative) numbers represent gain (loss) on valuation of equity-method investments.

<sup>2</sup> During the nine-month period ended September 30, 2007, the equity method investments in LG Electronics Monterrey Mexico S.A. de CV(LGEMM) were transferred to LG Electronics Mexico S.A. de C.V.(LGEMS) as investment in kind.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

Changes in equity-method investments for the nine-month period ended September 30, 2006, were as follows:

<i>(in millions of Korean won)</i>	<u>Acquisition cost</u>	<u>December 31, 2005</u>	<u>Equity in earnings (losses) of affiliates, net <sup>1</sup></u>	<u>Others</u>	<u>September 30, 2006</u>
<b>Domestic companies</b>					
LG Micron Ltd.	₩ 68,100	₩ 111,172	₩ 7,821	₩ (2,955)	₩ 116,038
LG Innotek Co., Ltd.	59,825	169,732	(3,593)	(6,971)	159,168
LG.Philips LCD Co., Ltd.	679,218	2,765,005	(219,670)	(3,436)	2,541,899
LG-Nortel Co., Ltd.	153,254	141,746	(34,108)	(64)	107,574
Hankuk Electric Glass Co., Ltd.	119,282	111,087	(12,596)	(600)	97,891
Hi Plaza Inc.	100,511	106,864	2,861	-	109,725
Hi Business Logistics	8,000	12,166	3,668	(181)	15,653
Others	<u>11,852</u>	<u>10,000</u>	<u>(989)</u>	<u>1,823</u>	<u>10,834</u>
	<u>1,200,042</u>	<u>3,427,772</u>	<u>(256,606)</u>	<u>(12,384)</u>	<u>3,158,782</u>
<b>Overseas companies</b>					
PT LG Electronics Display Devices					
Indonesia (LGEDI)	-	50,515	-	(50,515)	-
PT LG Electronics Indonesia. (LGEIN)	79,946	15,776	(138)	44,599	60,237
LG Electronics Huizhou Inc. (LGEHZ)	1,277	16,931	5,284	(1,217)	20,998
LG Electronics India Pvt. Ltd. (LGEIL)	38,476	144,433	23,816	(8,134)	160,115
LG Electronics Mlawa					
SP.Zo.O.(LGEMA)	174,835	88,422	(15,108)	38,117	111,431
LG Electronics Mexico S.A. de					
C.V. (LGEMS)	13,575	25,982	(5,412)	(2,759)	17,811
Nanjing LG-Tontru Color Display					
System Co., Ltd. (LGENT)	9,367	6,730	7,371	(572)	13,529
LG Electronics European					
Holdings B.V. (LGEEH)					
(formerly LGESE)	63,423	77,590	(50,829)	(26,761)	-
LG Electronics de Sao Paulo Ltd.					
(LGESP)	79,106	162,072	(5,282)	1,537	158,327
LG Electronics Shenyang Inc.					
(LGESY)	11,267	12,930	2,819	(1,269)	14,480
LG Electronics Tianjin					
Appliance Co., Ltd. (LGETA)	42,948	98,470	(612)	(4,953)	92,905
Taizhou LG-Chunlan Home					
Appliances Co., Ltd. (LGETR)	79,795	35,349	3,190	(1,518)	37,021
LG Electronics U.S.A., Inc. (LGEUS)	148,109	111,508	(6,503)	(24,776)	80,229
SLD Telecom Pte. Ltd.	72,194	49,760	(3,168)	2,084	48,676
LG Holdings (HK) Ltd.	72,787	22,859	(7,006)	14,691	30,544
Others	<u>499,674</u>	<u>334,207</u>	<u>319</u>	<u>61,620</u>	<u>396,146</u>
	<u>1,386,779</u>	<u>1,253,534</u>	<u>(51,259)</u>	<u>40,174</u>	<u>1,242,449</u>
	<u>₩ 2,586,821</u>	<u>₩ 4,681,306</u>	<u>₩ (307,865)</u>	<u>₩ 27,790</u>	<u>₩ 4,401,231</u>

<sup>1</sup> Positive (negative) numbers represent gain (loss) on valuation of equity-method investments.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

As of September 30, 2007 and December 31, 2006, the respective accumulated losses of equity method investees from which the application of the equity method of accounting has been suspended due to their accumulated losses are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2006</b>		<b>September 30, 2007</b>	
	<b>Accumulated losses</b>	<b>Increase (Decrease)</b>	<b>Accumulated losses</b>	<b>Accumulated capital adjustment <sup>1</sup></b>
LG Electronics China Co., Ltd. (LGECH)	₩ 18,255	₩ (15,501)	₩ 2,754	₩ (1,251)
LG Electronics HK Ltd.(LGEHK)	-	1,403	1,403	(11)
LG Electronics S.A. (Pty) Ltd.(LGESA)	-	2,217	2,217	(312)
LG Electronics European Holdings B.V.(LGEEH)(Formerly LGESE)	5,612	(5,612)	-	-
LG Electronics JIT Europe B.V(LGEJE) (Subsidiary of LGEEH)	-	902	902	(28)
LG Electronics Hellas S.A.(LGEHS) (Subsidiary of LGEEH)	-	-	-	(22)
LG Electronics Wales Ltd. (LGEWA) (Subsidiary of LGEEH) <sup>2</sup>	328,554	182	328,736	(54,526)
LG Electronics Mobilecomm U.S.A.,Inc. (LGEMU) (Subsidiary of LGEUS)	-	50	50	(193)
LG Electronics RUS, LLC(LGERA)	-	5,407	5,407	-
LG Electronics Overseas Trading FZE(Dubai)	20,570	18,511	39,081	-
	<u>₩ 372,991</u>	<u>₩ 7,559</u>	<u>₩ 380,550</u>	<u>₩ (56,343)</u>

<sup>1</sup> Negative numbers represent negative capital adjustment from the application of the equity method of accounting.

<sup>2</sup> The amounts include the accumulated losses on LG.Philips Display Holdings B.V. from the application of the equity method of accounting.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**6. Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Land	₩ 762,648	₩ 700,515
Buildings	1,928,075	1,906,784
Structures	168,969	164,702
Machinery and equipment	2,083,135	2,057,869
Tools	1,084,153	1,028,933
Furniture and fixtures	498,563	510,867
Vehicles	28,191	20,185
	<u>6,553,734</u>	<u>6,389,855</u>
Less : Accumulated depreciation	(2,805,875)	(2,444,861)
Accumulated loss on impairment of property, plant and equipment <sup>1</sup>	(17,886)	-
	<u>3,729,973</u>	<u>3,944,994</u>
Standing timber	4,219	4,352
Construction-in-progress	378,667	301,443
Machinery-in-transit	5,631	5,532
	<u>₩ 4,118,490</u>	<u>₩ 4,256,321</u>

<sup>1</sup>The carrying value of some land, machinery and others is reduced to the estimated realizable value, recognizing an impairment loss amounting to ₩17,886 million for the nine-month period ended September 30, 2007.

**7. Intangible Assets**

Intangible assets as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Goodwill	₩ 57,483	₩ 73,251
Industrial property rights <sup>1</sup>	188,046	226,918
Development costs	81,541	83,948
Others	70,525	78,100
	<u>₩ 397,595</u>	<u>₩ 462,217</u>

<sup>1</sup>The carrying value of some industrial property rights is reduced to its estimated realizable value, recognizing an impairment loss amounting to ₩47,364 million for the nine-month period ended September 30, 2007.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

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**8. Short-Term Borrowings and Current Maturities of Long-Term Debts**

Short-term borrowings as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>Annual interest rate (%) at</b>	<b>September 30, 2007</b>		<b>December 31, 2006</b>	
Foreign currency loans	3M Libor+0.5~0.7	₩	28,832	₩	37,674

Current maturities of long-term debts and debentures as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>September 30, 2007</b>		<b>December 31, 2006</b>	
Debentures	₩	-	₩	661,975
Discount on debentures		-		(668)
Conversion rights adjustment		-		(6,848)
Premium for conversion rights		-		37,092
Long-term debts		276,210		101,018
	₩	276,210	₩	792,569

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**9. Debentures, Convertible Bonds and Long-Term Debts**

Debentures and convertible bonds as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>Annual interest rate (%) at Sept 30, 2007</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Debentures</b>			
Public, non-guaranteed payable through 2009	4.0 ~ 5.27	₩ 430,000	₩ 605,000
Straight bonds of US \$600 million (2006: US \$600 million) , payable through 2010	5.0%	552,420	557,760
Floating rate notes of US \$500 million (2006: nil), payable through 2012	3M Libor+0.65	460,350	-
		<u>1,442,770</u>	<u>1,162,760</u>
<b>Convertible Bonds</b>			
Zero coupon rate convertible bonds of US\$ 250 million, payable in 2007 <sup>1</sup>	-	-	296,975
		1,442,770	1,459,735
Less: Current maturities		-	(661,975)
Discount on debentures		(7,245)	(5,563)
		<u>₩ 1,435,525</u>	<u>₩ 792,197</u>

<sup>1</sup> On May 17, 2007, convertible bonds were redeemed at the request of the bondholders, resulting in a ₩8,240 million gain on the redemption of debentures.

Long-term debts as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>Annual interest rate(%) at September 30, 2007</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Foreign currency loans<sup>1</sup></b>			
Kookmin Bank	1M Libor + 0.41	₩ 276,210	₩ 278,880
The Korea Development Bank	3M Eulibor + (1.02 ~ 1.75)	-	300,242
Shinhan Bank	3M Libor + 0.30	-	92,960
Kookmin Bank	6M Libor + 0.35	92,070	185,920
Sumimoto Mitsui	3M Libor + 0.35	-	92,960
The Korea Development Bank	3M Libor + 0.40	184,140	-
		552,420	950,962
Less: Current maturities		(276,210)	(101,018)
		<u>₩ 276,210</u>	<u>₩ 849,944</u>

<sup>1</sup> Representing US \$ 600 million (2006: US \$ 700 million and EUR 246 million).

The Company's property, plant and equipment as of September 30, 2007, are pledged for above long-term debts.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

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**10. Commitments and Contingencies**

As of September 30, 2007, the Company provided two notes to financial institutions as collaterals in relation to guarantees of indebtedness.

As of September 30, 2007, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of September 30, 2007, the Company has bank overdraft facility agreements with various banks amounting to ₩385,500 million.

As of September 30, 2007, the trade bills negotiated through banks that have not matured amount to approximately ₩2,934,728 million.

As of September 30, 2007, the Company has sales agreements for export trade accounts receivable with various banks amounting to ₩6,420,741 million. The Company has corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank and others amounting to ₩150,000 million.

As of September 30, 2007, the Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩1,165,450 million.

In accordance with the Asset Securitization Law, on May 18, 2006, the Company entered into a sales contract with LG Electronics 2nd Securitization Specialty L.L.C. to transfer its trade receivables amounting to ₩190,000 million. Through the asset-backed securitization of trade receivables, the Company acquired the 2nd class beneficiary certificate of ₩163,353 million included under the trade accounts receivable as of September 30, 2007. In addition, the Company entered into an asset-transfer contract with Hana TX Ltd. to transfer its prepaid VAT receivable amounting to ₩70,000 million on December 21, 2006. As of September 30, 2007, there was no outstanding balance receivables transferred to Hana TX Ltd.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

As of September 30, 2007, the Company is contingently liable for guarantees approximating ₩2,725,990 million (including US\$2,961 million) on the indebtedness of its subsidiaries and affiliates, as follows:

*(in millions of Korean won)*

LG Electronics European Shared Service Center B.V.(LGESC)	₩	424,695
LG Electronics U.S.A., Inc.(LGEUS)		230,175
P.T. LG Electronics Indonesia(LGEIN)		209,416
LG Electronics Mlawa SP.ZO.O(LGEMA)		169,374
LG Electronics Thailand Co.,Ltd. (LGETH)		165,213
LG Electronics Wroclaw Sp. z o.o(LGEWR)		131,591
LG Electronics Monterrey Mexico S.A de C.V. (LGEMM)		128,104
LG Electronics RUS, LLC(LGERA)		127,057
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)		114,160
LG Electronics Italia S.p.A.(LGEIS)		92,070
LG Electronics (TaiZhou) Refrigeration Co., Ltd.(LGETR)		88,384
LG Electronics Nanjing Display Co., Ltd(LGEND)		85,313
LG Electronics (China) Co., Ltd.(LGECH)		64,101
LG Electronics S.A.(Pty) Ltd (LGESA)		61,500
LG Electronics Shenyang Inc.(LGESY)		60,458
LG Electronics Mexico S.A. DE. C.V. (LGEMS)		56,173
LG Electronics Columbia, Ltda.(LGECEB)		53,401
Others		464,805
	₩	<u>2,725,990</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, 2007, the Company has outstanding forward contracts with Deutsche Bank and others for selling US dollars amounting to US\$277 million at contract exchange rates of ₩913.60 : US\$1 ~ ₩950.00 : US\$1, with contract due dates of October 2007 to March 2008.

As of September 30, 2007, the Company has outstanding forward contracts with HSBC Bank and others for selling Euro and buying US dollars amounting to €12 million at contract exchange rates of US\$ 1.3466 : EUR 1 ~ US\$ 1.4164 : EUR 1, with contract due dates of October 2007 to March 2008.

As a result of the above foreign currency forward contracts, unrealized valuation gain and loss amounting to ₩2,951 million and ₩5,194 million, respectively, were charged to operations for the nine-month period ended September 30, 2007.

In order to reduce the impact of changes in exchange rates, the Company has also entered into foreign currency option contracts. Unrealized valuation gain and loss amounting to ₩888 million and ₩9,083 million, respectively, were recorded for the nine-month period ended September 30, 2007.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

A summary of the terms of outstanding currency option contracts as of September 30, 2007, follows:

<b>Option type</b>	<b>Amount (in millions)</b>	<b>Exercise price</b>	<b>Contract due date</b>
Put Option Buy	US\$130	₩ 900.0/US\$ ~ ₩ 920.0/US\$	2007.10.22 ~ 2008.3.27
Call Option Sell	US\$130	₩ 924.0/US\$~ ₩ 937.2/US\$	2007.10.22 ~ 2008.3.27
Put Option Buy	€ 60.00	US\$ 1.353 / EUR 1	2008.1.29 ~ 2008.6.26
Call Option Sell	€ 120.00	US\$ 1.353 / EUR 1	2008.1.29 ~ 2008.6.26

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. Unrealized valuation gain and loss amounting to ₩2,278 million and ₩37,886 million, respectively, were recorded for the nine-month period ended September 30, 2007.

A summary of the terms of the outstanding cross currency swap contracts as of September 30, 2007, follows:

<i>(in millions)</i>	<b>Transaction amount</b>		<b>Annual interest rate (%)</b>		<b>Maturity</b>
	<b>Disbursement</b>	<b>Receipts</b>	<b>Receipts</b>	<b>Disbursement</b>	
JP Morgan Chase and others	US\$300	€247	5.00%	3.70%	June 17, 2010
The Korea Development Bank	US\$100	₩3	1M Libor + 0.41%	2.00%	May 27, 2008
Standard Chartered					
First Bank Korea Ltd.	₩49,000	US\$50	4.80%	6M USD Libor	March 10, 2009
ABN AMRO	₩47,530	US\$50	4.35%	6M USD Libor	May 24, 2009
Barclays	₩48,000	US\$50	4.32%	6M USD Libor	June 19, 2009

<i>(in millions)</i>	<b>Transaction amount</b>		<b>Annual interest rate (%)</b>		<b>Maturity</b>
			<b>Receipts</b>	<b>Disbursement</b>	
JP Morgan Chase and others	US\$500		3M Libor + 65bp	5.615%	May 15, 2012

As a result of the above derivatives contracts, a realized gain of ₩23,675 million and a realized loss of ₩18,295 million were recorded as non-operating income and expense, respectively, on derivative transactions for the nine-month period ended September 30, 2007.

As of September 30, 2007, the Company is named as a defendant in various legal actions including one brought against the Company by Fisher & Paykel in New Zealand and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of foreign and domestic claims as the defendant amounted to approximately US\$184 million and ₩11,293 million, respectively, as of September 30, 2007. The Company believes that although the outcome of these legal actions is uncertain, they would not result in a material ultimate loss to the Company.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

LG. Philips LCD Co., Ltd., a subsidiary, is currently under investigation by the Fair Trade Commission or antitrust authorities in Korea, Japan, US and other markets with respect to possible anti-competitive activities in the LCD industry. As of September 30, 2007, LG. Philips LCD Co., Ltd., along with a number of other companies in the LCD industry, has been named as defendants in a number of federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the sale of LCD panels. LG Electronics Inc. and LG Electronics USA, Inc. were named as defendants in several class action suits in the United States in connection with the above class actions. In February 2007, LG. Philips LCD Co., Ltd. and certain of its officers and directors have been named as defendants in a federal class action suit in the United States by the shareholders of the company alleging violations of the U.S. Securities Exchange Act of 1934, as amended, by LG. Philips LCD Co., Ltd. and certain of its officers and directors in connection with possible anti-competitive activities in the LCD industry.

Each of these matters is still in the very early stages and the Company is not in a position to predict their outcome. However, the Company intends to defend itself vigorously in these matters.

As of September 30, 2007, the Company is provided with a repayment guarantee of US\$ 75,019 million from Seoul Guarantee Insurance Company relating to the completion of sales.

The Company leases equipment such as notebooks under operating leases expiring in various years through 2010. The Company's liabilities according to operating lease agreements as of September 30, 2007, are as follows:

*(in millions of Korean won)*

<b>Period</b>	<b>Amount</b>	
2007.10.1~ 2008.9.30	₩	14,100
2008.10.1~ 2009.9.30		8,331
2009.10.1~ 2010.9.30		1,879
Total lease payments	₩	<u>24,310</u>

Changes in the product warranty reserve during the nine-month period ended September 30, 2007, are as follows:

*(in millions of Korean won)*

	<b>September 30, 2007</b>	
Balance, January 1, 2007	₩	241,956
Provisions during the period		263,166
Actual payments		(349,416)
Balance, September 30, 2007	₩	<u>155,706</u>

As of September 30, 2007, the Company accrues a reserve for contingent losses relating to the estimated costs of future claims, recalls and others. This reserve is recorded as a liability.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**11. Capital Stock**

Capital stock as of September 30, 2007 and December 31, 2006, consists of the following:

	Par value per share	September 30, 2007		December 31, 2006	
		Number of shares issued	Amount (in millions)	Number of shares issued	Amount (in millions)
Common stock	₩ 5,000	144,647,814	₩ 723,239	144,647,814	₩ 723,239
Preferred stock <sup>1</sup>	5,000	17,185,992	85,930	17,185,992	85,930
		<u>161,833,806</u>	<u>₩ 809,169</u>	<u>161,833,806</u>	<u>₩ 809,169</u>

<sup>1</sup> The preferred shareholders have no voting rights and are entitled to preferred dividends at a rate of one percentage point over that of common stock. This preferred dividend rate is not applicable to stock dividends.

The Company has retained treasury stocks consisting of 763,147 shares of common stock and 4,682 shares of preferred stock as of September 30, 2007. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

**12. Stock Options**

On March 22, 2005, the Company granted 766,000 shares of stock appreciations rights (“SARs”) to certain executives. Under the terms of this plan, executives, upon exercising their SARs, are entitled to receive cash equal to the excess of the market price of the Company’s common stock over the exercise price of ₩71,130 per share. These SARs are exercisable on or after March 23, 2008, through March 22, 2012. Additionally, when the increase rate of the Company’s share price is the same or less than the increase rate of the Korea Composite Stock Price Index (“KOSPI”) over the three-year period following the grant date, only 50% of the initially granted shares can be exercised.

The options activity under the SARs since March 22, 2005, follows:

	Number of shares under SARs
Option granted as of March 22, 2005	766,000
Option canceled <sup>1</sup>	(44,000)
Balance, September 30, 2007	<u>722,000</u>
Exercise price per share	<u>₩ 71,130</u>

<sup>1</sup> Options canceled due to the retirement of an executive officer.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**13. Comprehensive Income**

Comprehensive income for the nine-month periods ended September 30, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
	<b>Nine-month period ended Sept. 30, 2007</b>		<b>Nine-month period ended Sept. 30, 2006</b>	
Net income	₩	601,134	₩	152,669
Other comprehensive income				
Decrease from equity method investments				
Tax effects : ₩32,144 (2006 : ₩(5,370))		(35,582)		35,223
Increase from equity method investments				
Tax effects : ₩2,964 (2006 : ₩(7,797))		102,804		(95,266)
Gain on valuation of available-for-sale securities				
Tax effects : ₩213 (2006: ₩(2,782))		562		(7,334)
Loss on valuation of available-for-sale securities				
Tax effects : ₩84 (2006: ₩20)		(222)		(52)
Comprehensive income	₩	<u>668,696</u>	₩	<u>85,240</u>

**14. Retained Earnings**

Retained earnings as of September 30, 2007 and December 31, 2006, consist of the following:

<i>(in million of Korean won)</i>	<b>September 30, 2007</b>		<b>December 31, 2006</b>	
Statutory reserve				
Legal reserve	₩	91,049	₩	78,883
Reserve for improvement of financial structure		<u>27,772</u>		<u>27,772</u>
		118,821		106,655
Voluntary reserve				
Reserve for research and manpower development		<u>2,226,347</u>		<u>2,204,668</u>
Unappropriated retained earnings		<u>556,537</u>		<u>110,907</u>
	₩	<u>2,901,705</u>	₩	<u>2,422,230</u>

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**15. Earnings Per Share**

Basic earnings per share for the nine-month periods ended September 30, 2007 and 2006, is calculated as follows:

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

	2007		2006	
	Three-month period ended Sept. 30, 2007	Nine-month period ended Sept. 30, 2007	Three-month period ended Sept. 30, 2006	Nine-month period ended Sept. 30, 2005
Net income as reported on the statement of income	₩ 339,199	₩ 601,134	₩ 21,582	₩ 152,669
Less: Preferred stock dividends	(3,436)	(10,309)	(5,584)	(16,752)
Additional income available for dividends allocated to preferred stock	(32,939)	(54,391)	3,090	(109)
Net income allocated to common stock	302,824	536,434	19,088	135,808
Weighted-average number of common shares outstanding	143,884,667	143,884,667	143,884,668	143,884,668
Basic earnings per share (in won)	₩ 2,105	₩ 3,728	₩ 133	₩ 944

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 earnings per share for nine-month periods ended September 30, 2007 and 2006, is calculated as follows:

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

	2007		2006	
	Three-month period ended Sept. 30, 2007	Nine-month period ended Sept. 30, 2007	Three-month period ended Sept. 30, 2006	Nine-month period ended Sept. 30, 2006
Net income allocated to common stock	₩ 302,824	₩ 536,434	₩ 19,088	₩ 135,808
Add: Interest expense on convertible bonds, net of tax	-	-	3,190	9,439
Diluted Net income	302,824	536,434	22,278	145,247
Weighted-average number of common shares and diluted securities outstanding	143,884,667	143,884,667	144	144
Diluted earnings per share (in won) <sup>1</sup>	₩ 2,105	₩ 3,728	₩ 152	₩ 989

<sup>1</sup>There was no dilutive effect as of September 30, 2007.

Earnings per share and diluted earnings per share for the year ended December 31, 2006, were ₩1,480.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**16. Sales Deduction**

Sales deduction for the three-month and nine-month periods ended September 30, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007		2006	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
	Sept. 30, 2007	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2006
Total sales	₩ 5,938,383	₩ 18,325,483	₩ 6,164,693	₩ 17,950,111
Sales deduction	<u>(248,341)</u>	<u>(698,485)</u>	<u>(110,478)</u>	<u>(299,878)</u>
Net sales	<u>₩ 5,690,042</u>	<u>₩ 17,626,998</u>	<u>₩ 6,054,215</u>	<u>₩ 17,650,233</u>

**17. Cost of Sales**

Cost of sales for the three-month and nine-month periods ended September 30, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007		2006	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
	Sept. 30, 2007	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2006
Beginning balance of inventories	₩ 444,667	₩ 522,621	₩ 501,489	₩ 548,115
Cost of goods manufactured or merchandise purchased <sup>1</sup>	4,625,742	14,087,812	4,789,346	13,829,657
Transfer from other accounts	<u>(1,838)</u>	<u>10,911</u>	<u>2,455</u>	<u>27,815</u>
Total	5,068,571	14,621,344	5,293,290	14,405,587
Transfer to other accounts	(157,051)	(437,344)	(152,978)	(444,865)
Ending balance of inventories	<u>(421,231)</u>	<u>(421,231)</u>	<u>(546,651)</u>	<u>(546,651)</u>
Cost of sales	<u>₩ 4,490,289</u>	<u>₩ 13,762,769</u>	<u>₩ 4,593,661</u>	<u>₩ 13,414,071</u>

<sup>1</sup> Cost of goods manufactured or merchandise purchased includes loss on valuation of inventory (Note 3).

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

**18. Selling and Administrative Expenses**

Selling and administrative expenses for the three-month and nine-month periods ended September 30, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	<b>2007</b>		<b>2006</b>	
	<b>Three-month</b>	<b>Six-month</b>	<b>Three-month</b>	<b>Six-month</b>
	<b>period ended</b>	<b>period ended</b>	<b>period ended</b>	<b>period ended</b>
	<b>Sept. 30, 2007</b>	<b>Sept. 30, 2007</b>	<b>Sept. 30, 2006</b>	<b>Sept. 30, 2006</b>
Salaries	₩ 170,405	₩ 516,186	₩ 171,192	₩ 515,991
Severance benefits	14,044	73,005	14,090	65,780
Employee benefits	28,048	85,004	26,589	85,249
Freight expenses	160,109	493,524	152,243	461,165
Rental expenses	25,705	78,265	29,105	85,818
Commission expenses	152,635	446,762	178,236	529,639
Depreciation	50,909	157,811	51,409	152,817
Taxes and dues	3,650	8,478	3,871	7,861
Advertising expenses	137,466	517,782	142,836	491,314
Promotional expenses	110,398	309,644	134,889	297,486
Research and development costs	73,754	214,038	67,393	202,149
Product warranty expenses	110,540	339,857	230,624	548,757
Others	69,681	213,131	60,896	213,868
	<u>₩ 1,107,344</u>	<u>₩ 3,453,487</u>	<u>₩ 1,263,373</u>	<u>₩ 3,657,894</u>

**19. Related Party Transactions**

The ultimate parent company is LG Corporation which is responsible for the consolidated financial statements.

Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2007 and 2006, and the related account balances outstanding as of September 30, 2007 and December 31, 2006, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Sales</b>	<b>Purchases</b>	<b>Receivables</b>	<b>Payables</b>
Parent company <sup>1</sup>	₩ 44	₩ 70,912	₩ 13,767	₩ 3,484
Subsidiaries <sup>2</sup>	11,543,354	2,098,422	439,625	472,743
Equity-method investees <sup>3</sup>	434,947	91,403	15,427	16,567
Other related parties <sup>4</sup>	537,179	849,054	205,337	193,233
2007	<u>₩ 12,515,524</u>	<u>₩ 3,109,791</u>	<u>₩ 674,156</u>	<u>₩ 686,027</u>
2006	<u>₩ 11,984,896</u>	<u>₩ 2,656,488</u>	<u>₩ 897,488</u>	<u>₩ 610,012</u>

See Report of Independent Accountants

# LG Electronics Inc.

## Notes to Non-Consolidated Financial Statements

### September 30, 2007 and 2006, and December 31, 2006

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<sup>1</sup> LG Corporation

<sup>2</sup> Hi Plaza Inc., Hi Business Logistics, LG Micron Ltd., LG Innotek Co., Ltd., LG. Philips LCD Co., Ltd., LG Electronics Austria GmbH(LGEAG), LG Electronics Alabama, Inc.(LGEAI), LG Electronics Almaty Kazak Co.,Ltd(LGEAK), LG Electronics Antwerp Logistics N.V(LGEAL), LG Electronics Australia Pty, Ltd.(LGEAP), LG Electronics Klima Sanayi ve Ticaret P.S.(LGEAT), LG Electronics Da Amazonia Ltda.(LGEAZ), LG Electronics Benelux(LGEBN), LG Electronics Colombia Ltda.(LGECEB), LG Electronics Canada, Inc.(LGECEI), LG Electronics Inc. Chile Limitada(LGECL), LG Electronics Deutschland GmbH(LGEDG), LG Electronics Espana S.A.(LGEES), LG Goldstar France S.A.R.L.(LGEFS), LG Electronics Gulf FZE (LGEGF), LG Electronics HK Limited(LGEHK), LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN), LG Electronics Hellas S. A. (LGEHS), LG Electronics Huizhou Inc. (LGEHZ), LG Electronics India PVT Ltd. (LGEIL), PT LG Electronics Indonesia Ltd. (LGEIN), LG Electronics Italy S.P.A. (LGEIS), LG Electronics JIT Europe B.V.(LGEJE), LG Electronics Japan Inc. (LGEJP), Kunshan LGMS Computer Co., Ltd. (LGEKS), LG Electronics European Logistics & Services B.V(LGELS), LG Electronics Mlawa SP.Zo.O. (LGEMA), LG Electronics Morocco S.A.R.L. (LGEMC), LG Electronics (M) SDN.BHD (LGEML), LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM), LG Electronics Mexico S.A. DE C.V. (LGEMS), LG Electronics Mexicali S.A.D.E C.V.(LGEMX), LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP), Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND)(Formerly LGENT), LG Electronics Polska SP.Zo. O. (LGEPL), LG Electronics Peru S.A. (LGEPR), LG Electronics Panama S.A. (LGEPS), LG Electronics Portugal (LGEPT), Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD), LG Electronics RUS, LLC(LGERA), LG Electronics Russia Inc. (LGERI), LG Electronics Overseas Trading FZE(LGEOT), LG Electronics Reynosa. S.A. DEC.V. (LGERS), LG Electronics S.A. Pty Ltd. (LGESA), Shanghai LG Electronics Co., Ltd. (LGESH), LG Electronics Singapore Pte Ltd. (LGESL), LG Electronics de Sao Paulo Ltda. (LGESP), LG Electronics Sweden AB (LGESW), LG Electronics Shenyang Inc. (LGESY), LG Electronics Tianjin Appliance Co., Ltd. (LGETA), LG Electronics Thailand Co., Ltd. (LGETH), Taizhou LG-Chunlan Home Appliances Co., Ltd.(LGETR) (formerly LGETC), LG Taistar Electronics Taiwan Co., Ltd. (LGETT), LG Electronics United Kingdom Ltd. (LGEUK), LG Electronics U.S.A., Inc. (LGEUS), LG Electronics Vietnam Co., Ltd. (LGEVN), LG Electronics Wroclaw Sp.Zo.o. (LGEWR), Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT), LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS), LG Electronics Argentina S.A. (LGEAR), LG Electronics China Co., Ltd. (LGECH), LG Electronics Czech S.R.O. (LGECHZ), LG Electronics Egypt Cairo S.A.E. (LGEEC), LG Electronics Egypt S.A.E. (LGEEG), LG Electronics Service Europe Netherlands B.V. (LGEENH)(Formerly LGESE), LG Electronics Middle East Co., Ltd. (LGEME), GoldStar Mobile Comm. France S.A.S.U (LGEMF), LG Electronics Magyar Kft (LGEMK), LG Electronics Mobile Research U.S.A.,LLC(LGEMR), LG MITR Electronics Co., Ltd. (LGEMT), LG ELECTRONICS Spain Portugal Branch(LGEPB), LG Electronics Philippines, Inc. (LGEPH) (formerly LGEPM), LG Electronics Qinhuangdao Co., Ltd., (LGEQH), LG Electronics (China) R&D Center(LGERD), LG Electronics RUS-Marketing, LLC(LGERM), LG Electronics European Shared Service Center B.V. (LGESC), LG Electronics Ukraine Co., Ltd(LGEUR), LG Software PVT, Ltd. (LGS), LG Electronics Wales Ltd. (LGEWA), LG Electronics Wroclaw Sp. Zo.o. (LGEWR), LG Electronics Africa Logistics FZE(LGEAF), LG Innotek IN(LGITIN), LG Innoteck US(LGITUS), LG Innoteck HZ(LGITHZ), LG Innotek Yantai co., LTD(LGITYT), LG Innotek Poland., Ltd(LGITPL), Zenith Electronics Corporation(ZENITH), LG Holding (HK) Ltd., NanJing LG Panda Appliances Co., Ltd.(LGEPN), LG Electronics Romania S.R.L(LGERO), LG Electronics Canada Inc.(LGECEI), EICPROPERTIES, LG. Philips LCD America, Inc., LG. Philips LCD Japan Co., Ltd., LG. Philips LCD Germany GmbH, LG. Philips LCD Taiwan Co.,Ltd., LG. Philips LCD Nanjing Co., Ltd., LG. Philips LCD Hong-Kong Co.,Ltd.,LG.Philips LCD Shanghai Co.,Ltd., LG. Philips LCD Poland Sp. zo.o., LG. Philips LCD Guang Zhou Co., Ltd, LG Micron(Fujian) Electronics Co.,Ltd., EIC PROPERTIES PTE, LTD., GoldStar Mobile Comm. France S.A.S.U, Beijing LG Building Development Company, LG large & medium & small enterprises cooperation fund, Blue ocean Inverstment Association

<sup>3</sup> Korea Information Certificate Authority Inc, LG-SHAKER Co., LTD, LG-Nortel, HLDS, LG Philips Display, Korea electric glass Co.Ltd., SLD TELECOM pte.Ltd.,Hi Logistics China Company Limited, HI Logistics Europe B.V., LG Electronics Egypt Cairo S.A.E. (LGEEC), LG Electronics Ukraine Co., Ltd. (LGEUR), LG Electronics Latvia, LLC.(LGELV), LG Electronics Middle East Co., Ltd. (LGEME), LG Electronics RUS-Marketing, LLC(LGERM), LG Electronics Argentina S.A. (LGEAR), Electromagnetia Goldstar(EMGS), Triveni

<sup>4</sup> LG-Dacom, LG-Hitachi, Serverone, LG Economic Research Institute, LG Sports, LG N-sys, Rusem, LGinternational Corp., LG Chem, LG CNS, LG Telecom, LG Powercom, Dacom Multimedia Internet Corp.,

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

LG Siltron, LG Life Sciences Ltd., LG Household & Health Care Ltd., LG Petrochem, LG MMA, Paju electric glass Co.,Ltd., LG Pasig(Philippines), LG Micron(Taiwan) Ltd.

Key management compensation for the nine-month periods ended September 30, 2007 and 2006, consists of:

	<b>September 30, 2007</b>		<b>September 30, 2006</b>	
Short-term salaries	₩	6,058	₩	6,545
Provision for severance benefits		3,919		3,046
Stock option compensation		1,185		-
	₩	<u>11,162</u>	₩	<u>9,591</u>

Key management refers to the directors who have significant duties and responsibilities over planning, operations and control of the Company's business.

**20. Segment Information**

The Company has four business divisions: Digital Display division, Digital Media division, Digital Appliance division and Mobile communications 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.

Financial data by business division as of and for the nine-month period ended September 30, 2007, are as follows:

<i>(in millions of Korean won)</i>	<b>Business Division</b>					
	<b>Total</b>	<b>Digital Display</b>	<b>Digital Media</b>	<b>Digital Appliance</b>	<b>Mobile Communications</b>	<b>Supporting Division</b>
<b>Sales</b>						
External sales	₩ 17,626,998	₩ 3,625,053	₩ 2,009,044	₩ 4,932,495	₩ 6,975,320	₩ 85,086
Inter-division sales	218,098	70,095	15,383	13,945	30,631	88,044
	<u>₩ 17,845,096</u>	<u>₩ 3,695,148</u>	<u>₩ 2,024,427</u>	<u>₩ 4,946,440</u>	<u>₩ 7,005,951</u>	<u>₩ 173,130</u>
<b>Operating income</b>						
(loss)	₩ 410,742	₩ (618,981)	₩ 4,251	₩ 455,532	₩ 600,117	₩ (30,177)
<b>Property, plant and equipment</b>						
	₩ 4,118,490	₩ 1,319,215	₩ 255,167	₩ 711,232	₩ 520,902	₩1,311,974
<b>Intangible assets</b>	397,595	38,348	17,081	52,622	79,279	210,265
	<u>₩ 4,516,085</u>	<u>₩ 1,357,563</u>	<u>₩ 272,248</u>	<u>₩ 763,854</u>	<u>₩ 600,181</u>	<u>₩1,522,239</u>
<b>Depreciation and amortization</b>						
	₩ 523,828	₩ 196,189	₩ 29,662	₩ 87,453	₩ 104,504	₩ 106,020

Financial data by business division as of and for the nine-month period ended September 30, 2006, were as follows:

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2007 and 2006, and December 31, 2006**

<i>(in millions of Korean won)</i>	<b>Business Division</b>					
	<b>Total</b>	<b>Digital Display</b>	<b>Digital Media</b>	<b>Digital Appliance</b>	<b>Mobile Communications</b>	<b>Supporting Division</b>
<b>Sales</b>						
External sales	₩ 17,650,233	₩ 4,551,138	₩ 2,064,358	₩ 4,519,648	₩ 6,523,519	₩ (8,430)
Inter-division sales	285,112	83,676	13,058	8,710	28,531	151,137
	<u>₩ 17,935,345</u>	<u>₩ 4,634,814</u>	<u>₩ 2,077,416</u>	<u>₩ 4,528,358</u>	<u>₩ 6,552,050</u>	<u>₩ 142,707</u>
<b>Operating income (loss)</b>	<u>₩ 578,268</u>	<u>₩ 92,839</u>	<u>₩ 42,694</u>	<u>₩ 367,437</u>	<u>₩ 110,231</u>	<u>₩ (34,933)</u>
<b>Property, plant and equipment</b>	₩ 4,214,807	₩ 1,708,414	₩ 229,108	₩ 687,056	₩ 601,251	₩ 988,978
<b>Intangible assets</b>	450,215	26,181	7,364	27,497	54,590	334,583
	<u>₩ 4,665,022</u>	<u>₩ 1,734,595</u>	<u>₩ 236,472</u>	<u>₩ 714,553</u>	<u>₩ 655,841</u>	<u>₩ 1,323,561</u>
<b>Depreciation and amortization</b>	<u>₩ 526,704</u>	<u>₩ 197,816</u>	<u>₩ 35,987</u>	<u>₩ 95,429</u>	<u>₩ 98,104</u>	<u>₩ 99,368</u>

Financial data by geographic area for the nine-month period ended September 30, 2007, are as follows:

<i>(in millions of Korean won)</i>	<b>Total</b>	<b>Domestic</b>	<b>North America</b>	<b>Europe</b>	<b>Central &amp; South America</b>	<b>Central Asia &amp; Africa</b>	<b>Asia</b>	<b>Oceania</b>	<b>CIS</b>
<b>Sales</b>									
External sales	₩ 17,626,998	₩ 5,056,021	₩ 4,617,287	₩ 2,086,363	₩ 868,831	₩ 952,593	₩ 3,232,446	₩ 392,825	₩ 420,632
Inter-division sales	218,098	218,098	-	-	-	-	-	-	-
	<u>₩ 17,845,096</u>	<u>₩ 5,274,119</u>	<u>₩ 4,617,287</u>	<u>₩ 2,086,363</u>	<u>₩ 868,831</u>	<u>₩ 952,593</u>	<u>₩ 3,232,446</u>	<u>₩ 392,825</u>	<u>₩ 420,632</u>
<b>Ratio (%)</b>	<u>100%</u>	<u>29%</u>	<u>26%</u>	<u>12%</u>	<u>5%</u>	<u>5%</u>	<u>18%</u>	<u>2%</u>	<u>3%</u>

Financial data by geographic area for the nine-month period ended September 30, 2006, were as follows:

<i>(in millions of Korean won)</i>	<b>Total</b>	<b>Domestic</b>	<b>North America</b>	<b>Europe</b>	<b>Central &amp; South America</b>	<b>Central Asia &amp; Africa</b>	<b>Asia</b>	<b>Oceania</b>	<b>CIS</b>
<b>Sales</b>									
External sales	₩ 17,650,233	₩ 4,568,801	₩ 3,950,899	₩ 2,387,359	₩ 917,081	₩ 847,551	₩ 4,138,378	₩ 404,705	₩ 435,459
Inter-division sales	285,112	285,112	-	-	-	-	-	-	-
	<u>₩ 17,935,345</u>	<u>₩ 4,853,913</u>	<u>₩ 3,950,899</u>	<u>₩ 2,387,359</u>	<u>₩ 917,081</u>	<u>₩ 847,551</u>	<u>₩ 4,138,378</u>	<u>₩ 404,705</u>	<u>₩ 435,459</u>
<b>Ratio (%)</b>	<u>100%</u>	<u>26%</u>	<u>22%</u>	<u>14%</u>	<u>5%</u>	<u>5%</u>	<u>23%</u>	<u>2%</u>	<u>3%</u>

See Report of Independent Accountants