

# **LG Electronics Inc.**

**Non-Consolidated Financial Statements  
December 31, 2004 and 2003**

**LG Electronics Inc.**  
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**December 31, 2004 and 2003**

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## **Report of Independent Auditors**

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

We have audited the accompanying non-consolidated balance sheets of LG Electronics Inc. (the “Company”) as of December 31, 2004 and 2003, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended expressed in Korean won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 8.5 % of the Company’s total assets as of December 31, 2004, and the equity in their net income represents 2.6 % of the Company’s income before income taxes for the year then ended. These financial statements were audited by other auditors whose reports have been furnished us, and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings and its cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 25 to the accompanying non-consolidated financial statements, for the year ended December 31, 2004, the Company sells its products to, and purchases certain materials from, affiliated companies. During 2004, the Company's total sales to and purchases from affiliated companies amounted to ₩16,795,160 million and ₩3,344,125 million, respectively, and related receivables and payables amounted to ₩632,716 million and ₩566,379 million, respectively, as of December 31, 2004. During 2003, the Company's total sales to and purchases from affiliated companies amounted to ₩12,590,720 million and ₩2,679,403 million, respectively, and related receivables and payables amounted to ₩584,407 million and ₩319,545 million, respectively, as of December 31, 2003.

As discussed in Note 10 to the accompanying non-consolidated financial statements, upon a resolution of the Board of Directors in July, 2004, the Company invested ₩289,125 million (equivalent to US\$ 250 million) in LG Electronics Wales Ltd. ("LGEWA") which, in turn, invested to its subsidiary, LG.Philips Displays Holding B.V. ("LPD") according to an agreement with the LPD's creditor financial institutions. The other conditions in the said agreement included the deferment of loan repayment and the reduction in the interest rate of the said loan.

As discussed in Notes 5 and 9 to the accompanying non-consolidated financial statements, as per the resolution of the Board of Directors dated 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 commercial papers of ₩38,124 million are scheduled to be converted to equity of LG Card and the remaining commercial papers amounting to ₩111,876 million are scheduled to be collected within December 31, 2005. The Company recognized an impairment loss of ₩41,437 million on the said commercial papers for the year ended December 31, 2004.

As discussed in Note 33 to the accompanying non-consolidated financial statements, on January 1, 2005 the Company merged a part of PC division of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. This merger is aimed to optimize business efficiency, align operational strategies, and maximize profitability.

As discussed in Note 33 to the accompanying non-consolidated financial statements, on January 24, 2005, the Company signed a memorandum of understanding with Nortel Networks Corporation of Canada for establishment of a joint venture to engage in the field of communication equipment and networking solution.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated 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 audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
January 28, 2005

This report is effective as of January 28, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**December 31, 2004 and 2003**

*(in millions of Korean won)*

	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Notes 3 and 7)	₩ 648,416	₩ 536,853
Short-term financial instruments (Note 4)	-	40,732
Short-term investments (Note 5)	89,501	-
Trade accounts and notes receivable, net (Notes 6,7 and 25)	999,023	1,005,246
Inventories, net (Notes 8 and 12)	1,675,031	1,504,164
Other accounts receivable, net (Notes 6 and 7)	544,885	438,078
Prepaid expenses	40,116	40,959
Accrued income, net (Notes 6 and 7)	12,751	176,334
Advances, net (Note 6)	46,650	28,026
Derivatives transaction debit (Note 17)	51,475	654
Other current assets, net (Note 6)	2,795	1,671
Total current assets	4,110,643	3,772,717
Property, plant and equipment, net (Notes 11, 12 and 26)	3,629,549	3,122,720
Long-term financial instruments (Note 4)	17,961	9,623
Long-term investment securities (Note 9)	65,234	246,712
Equity method investment securities (Note 10)	4,096,263	2,621,879
Refundable deposits (Note 7)	380,128	326,574
Long-term trade accounts receivable (Note 6)	-	22
Long-term prepaid expenses	141,459	85,425
Deferred income tax assets, net (Note 22)	104,765	249,728
Long-term loans receivable, net (Notes 6 and 25)	52,305	5,725
Intangible assets, net (Notes 13 and 26)	635,532	836,301
Other long-term assets	402	-
Total assets	₩ 13,234,241	₩ 11,277,426

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**December 31, 2004 and 2003**

(in millions of Korean won)

	2004	2003
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings (Note 14)	₩ 209,890	₩ 390,406
Current maturities of long-term debt (Note 14)	646,783	989,580
Trade accounts and notes payable (Notes 7 and 25)	1,758,233	1,791,833
Other accounts payable (Note 7)	1,118,603	1,100,406
Income taxes payable (Note 22)	9,119	48,761
Dividends payable	-	34
Accrued expenses (Note 7)	993,225	612,456
Withholdings	19,110	30,974
Unearned income	1,644	-
Advances from customers	200,150	116,489
Derivatives transaction credit (Note 17)	2,066	9,860
Total current liabilities	4,958,823	5,090,799
Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 15)		
	2,593,616	2,382,431
Long-term debt, net of current maturities (Note 15)	286,655	22,758
Accrued severance benefits, net (Note 16)	233,246	192,739
Product warranty reserve	145,657	83,982
Other long-term liabilities	77	115
Total liabilities	8,218,074	7,772,824
Commitments and contingencies (Note 17)		
Shareholders' equity		
Capital stock (Notes 1 and 18)	783,961	783,961
Capital surplus (Note 19)	1,907,543	1,891,986
Retained earnings (Note 20)	2,063,631	766,097
Capital adjustments (Note 21)	261,032	62,558
Total shareholders' equity	5,016,167	3,504,602
Total liabilities and shareholders' equity	₩ 13,234,241	₩ 11,277,426

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

**LG Electronics Inc.**  
**Non-Consolidated Statements of Income**  
**Years Ended December 31, 2004 and 2003**

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

	2004	2003
<b>Sales (Notes 25 and 26)</b>	₩ 24,659,317	₩ 20,176,910
<b>Cost of sales (Note 25)</b>	18,735,848	15,350,719
Gross profit	5,923,469	4,826,191
<b>Selling and administrative expenses</b>	4,673,735	3,763,998
Operating income (Note 26)	1,249,734	1,062,193
<b>Non-operating income</b>		
Gain on valuation of securities using the equity method (Note 10)	764,917	-
Foreign exchange gains	408,093	263,375
Interest income	77,140	40,057
Refund of income taxes	64,475	3,069
Gain on valuation of derivatives (Note 17)	54,716	654
Gain on disposal of investment securities	46,955	503,536
Gain on settlement of derivatives (Note 17)	38,367	9,049
Reversal of allowance for doubtful accounts	33,860	119,578
Rent income	14,059	12,216
Dividend income	7,645	5,395
Gain on disposal of property, plant and equipment	7,587	5,347
Gain on disposal of intangible assets	-	52
Gain on business transfer	-	-
Others	91,813	161,095
	1,609,627	1,123,423
<b>Non-operating expenses</b>		
Foreign exchange losses	284,301	286,625
Interest expense	198,761	208,600
Loss from transfer of trade accounts and notes receivable	120,252	96,871
Loss from disposal of property, plant and equipment	113,855	67,097
Loss from disposal of investment securities	72,286	2,616
Loss on impairment of investment securities (Note 5 and 9)	62,228	29,273
Loss on impairment of intangible assets (Note 13)	38,105	-
Additional payment of income taxes	20,490	202
Loss on settlement of derivatives (Note 17)	12,716	6,022
Donations (Note 29)	10,352	8,271
Loss on valuation of derivatives (Note 17)	3,623	9,860
Other bad debt expense	124	184
Loss on valuation of securities using the equity method (Note 10)	-	584,571
Others	62,142	48,624
	999,235	1,348,816
Income before income taxes	1,860,126	836,800
Income tax expense (Note 22)	314,172	173,976
Net income	₩ 1,545,954	₩ 662,824
<b>Earnings per share and</b>		
ordinary income per share (in won) (Note 23)	₩ 9,890	₩ 4,229
<b>Diluted earnings per share and</b>		
diluted ordinary income per share (in won) (Note 23)	₩ 9,517	₩ 4,187

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



**LG Electronics Inc.****Non-Consolidated Statements of Appropriations of Retained Earnings  
Years Ended December 31, 2004 and 2003****(Dates of Appropriations: March 11, 2005 and March 12, 2004  
for the years ended December 31, 2004 and 2003, respectively)**

<i>(in millions of Korean won)</i>	2004	2003
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior year	₩ 60	₩ 15
Effect of change in accounting principle (Note 13)	-	(3,271)
Changes in retained earnings arising from equity method accounting (Note 10)	(51,757)	(13,576)
Net income	1,545,954	662,824
	<u>1,494,257</u>	<u>645,992</u>
<b>Transfer from voluntary reserve</b>		
Reserve for research and manpower development	506,200	76,590
	<u>2,000,457</u>	<u>722,582</u>
<b>Appropriations of retained earnings</b>		
Legal reserve	23,485	19,660
Reserve for research and manpower development	1,742,000	506,200
Loss from disposal of treasury stock	-	62
Cash dividends (Note 24)	234,851	196,600
	<u>2,000,336</u>	<u>722,522</u>
<b>Unappropriated retained earnings to be carried forward to subsequent year</b>	₩ 121	₩ 60

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

**LG Electronics Inc.**  
**Non-Consolidated Statements of Cash Flows**  
**Years ended December 31, 2004 and 2003**

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>		
Net income	₩ 1,545,954	₩ 662,824
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	667,366	617,894
Amortization of discounts on debentures	31,399	17,981
Provision for severance benefits	173,582	135,750
Loss from transfer of trade accounts and notes receivable	120,252	96,871
Bad debt expense	124	31,273
Loss (gain) on foreign currency translation, net	(81,117)	25,640
Loss (gain) from disposal of investment securities, net	25,331	(500,920)
Loss on impairment of investment securities	62,228	29,273
Loss from disposal of property, plant and equipment, net	106,268	61,750
Loss (gain) on valuation of securities using the equity method	(764,917)	584,571
Loss (gain) on valuation of derivatives, net	(51,093)	9,206
Gain on settlement of derivatives, net	(25,651)	(3,027)
Provision for product warranty	61,675	4,782
Others	3,464	(104,473)
	<u>328,911</u>	<u>1,006,571</u>
Changes in operating assets and liabilities		
Decrease (increase) in trade accounts and notes receivable	(116,794)	59,626
Increase in other accounts receivable	(110,657)	(213,827)
Decrease (increase) in accrued income	163,774	(30,508)
Decrease (increase) in advances	(18,677)	139,003
Decrease in other current assets	20	21
Increase in inventories	(170,868)	(308,259)
Decrease in prepaid expenses	843	10,277
Increase in long-term prepaid expenses	(56,033)	-
Decrease (increase) in deferred income tax assets	185,962	(7,354)
Increase in trade accounts and notes payable	(19,581)	(170,511)
Increase in other accounts payable	20,225	39,633
Increase in accrued expenses	385,027	27,209
Decrease in withholdings	(11,865)	(14,385)
Increase (decrease) in advances from customers	83,661	(80,938)
Decrease in income taxes payable	(39,642)	(107,848)
Payment of severance benefits	(109,117)	(81,297)
Increase in severance insurance deposits	(27,024)	(27,341)
Decrease in contributions to the National Pension Fund	3,066	2,667
Others	1,608	-
	<u>163,928</u>	<u>(763,832)</u>
Net cash provided by operating activities	<u>2,038,793</u>	<u>905,563</u>

**LG Electronics Inc.**  
**Non-Consolidated Statements of Cash Flows**  
**Years ended December 31, 2004 and 2003**

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
<b>Cash flows from investing activities</b>		
Disposal of short-term financial instruments	40,732	-
Acquisition of short-term financial instruments	-	(39,966)
Increase in short-term and long-term loans, net	(26,397)	-
Decrease in short-term and long-term loans, net	-	73,214
Acquisition of long-term financial instruments	(8,338)	(894)
Proceeds from disposal of investment securities	304,471	175,654
Acquisition of investment securities	(864,922)	(490,732)
Payment of refundable deposits	(53,888)	(32,715)
Proceeds from disposal of property, plant and equipment	41,374	39,630
Proceeds from disposal of intangible assets	1,395	291
Proceeds from disposal of derivatives	25,923	4,603
Acquisition of property, plant and equipment	(1,113,433)	(758,998)
Acquisition of intangible assets	(47,215)	(82,867)
Acquisition of derivatives	(7,794)	-
Others	(402)	(200)
Net cash used in investing activities	<u>(1,708,494)</u>	<u>(1,112,980)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	-	342,024
Payment of current maturities of long-term debt	(989,580)	(705,460)
Proceeds from issuance of debentures	906,581	1,247,738
Proceeds from long-term debt	275,120	22,242
Payment of short-term borrowings	(179,243)	-
Payment of debentures	-	(24,347)
Payment of dividends	(196,634)	(157,396)
Proceeds from disposal of treasury stock	11,318	2,536
Acquisition of treasury stock	(46,298)	-
Early redemption of long-term debt	-	(243)
Net cash provided by (used in) financing activities	<u>(218,736)</u>	<u>727,094</u>
Net increase in cash and cash equivalents	111,563	519,677
<b>Cash and cash equivalents (Note 31)</b>		
Beginning of the year	<u>536,853</u>	<u>17,176</u>
End of the year	<u>₩ 648,416</u>	<u>₩ 536,853</u>

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

# **LG Electronics Inc.**

## **Notes to Non-Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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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 electronic, and information and communication products. Former LG Electronics Inc. was incorporated in February 1959 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 December 31, 2004, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of December 31, 2004, the Company has outstanding capital stock amounting to ₩783,961 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 ("DRs") were relisted on the London Stock Exchange in September 2002.

As of December 31, 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 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.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2004 and 2003**

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**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 No. 2 *Interim Financial Reporting*, through No. 9 *Convertible Securities*, became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. As SKFAS Nos. 10 *Inventories*, 12 *Construction-Type Contracts* and 13 *Debt Restructuring and Rescheduling*, became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 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.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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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 inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

**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.

	<b>Estimated useful life</b>
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.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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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.



**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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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 (₩1,043.8: US\$1 as of December 31, 2004, ₩1,197.8: US\$1 as of December 31, 2003), and resulting translation gains or losses are recognized in current operations. However, convertible bonds in foreign currency are translated into Korean won at the agreed rate of exchange, considering the exercise of conversion rights by the creditors.

**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.

**Government grants**

The Company recognizes government grants, which are to be redeemed, as liabilities. The government grants, which are intended to be used for the acquisition of certain assets, are deducted from the cost of the acquired assets. Before the acquisition of the assets specified by the grant, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant received.

The government grants, contributed to compensate for specific expenses, are offset against the related expenses. Other government grants, for which the use or purpose is not specified, are recorded as gains from assets contributed, and are recognized in current operations.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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**3. Cash and Cash Equivalents**

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

<i>(in millions of Korean won)</i>	<b>Annual interest rate (%) at December 31, 2004</b>	<b>2004</b>	<b>2003</b>
Cash on hand	-	₩ 27	₩ 47
Checking accounts	-	3,569	2,873
Foreign currency checking accounts	-	26,921	24,977
Demand deposits	0.1 - 0.3	11,863	1,795
Foreign currency time deposits	1.2 - 1.5	74,036	120,161
Money market funds	3.0 - 3.5	502,000	127,000
Time deposits	-	-	210,000
Beneficiary certificates	3.4 - 3.5	30,000	50,000
		<u>₩ 648,416</u>	<u>₩ 536,853</u>

**4. Financial Instruments**

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

<i>(in millions of Korean won)</i>	<b>Annual interest rate (%) at December 31, 2004</b>	<b>2004</b>	<b>2003</b>
<b>Short-term financial instruments</b>			
Installment deposits	-	₩ -	₩ 732
Time deposits	-	-	40,000
		<u>-</u>	<u>40,732</u>
<b>Long-term financial instruments</b>			
Other deposits	0.2 - 4.5	17,961	9,623
		<u>₩ 17,961</u>	<u>₩ 50,355</u>

As of December 31, 2004, long-term financial instruments of ₩17,961 million (2003 : ₩9,623 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.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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**5. Short-term investments**

Short-term investments as of December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	Acquisition cost	Market value	Carrying value
Commercial papers issued by LG Card Co., Ltd.	₩ 111,876	₩ 89,501	₩ 89,501

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 commercial papers amounting to ₩111,876 million classified as short-term investments are scheduled to be collected within December 31, 2005. The remaining commercial papers amounting to ₩38,124 million are scheduled to be converted to equity of LG Card and are classified as long-term investment securities (Note 9).

**6. Receivables**

Receivables, including trade accounts and notes receivable, as of December 31, 2004 and 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	₩ 1,072,150	₩ (73,127)	₩ -	₩ 999,023
Other accounts receivable	554,436	(8,377)	(1,174)	544,885
Accrued income	12,970	(219)	-	12,751
Advances	50,650	(4,000)	-	46,650
Other current assets	2,810	(15)	-	2,795
Long-term loans receivable	52,810	(505)	-	52,305
	₩ 1,745,826	₩ (86,243)	₩ (1,174)	₩ 1,658,409

  

<i>(in millions of Korean won)</i>	2003			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
Trade accounts and notes receivable <sup>1</sup>	₩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 receivable	27,436	(21,711)	-	5,725
	₩1,778,987	₩ (120,981)	₩(2,904)	₩1,655,102

Trade accounts receivable are included.

As of December 31, 2004, trade bills negotiated through banks that have not yet matured amount to approximately ₩3,539,953 million, which includes the equivalent of US\$2,310 million and EUR555 million (Note 17).

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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**7. Assets and Liabilities Denominated in Foreign Currencies**

As of December 31, 2004 and 2003, monetary assets and liabilities denominated in foreign currencies, other than those disclosed in Notes 14 and 15, are as follows:

<i>(in millions)</i>	2004		2003			
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent		
Cash and cash equivalents	US\$	65	₩ 67,779	US\$	104	₩ 125,044
	EUR	11	16,072	EUR	6	9,093
	JP ¥	185	1,877	JP ¥	462	5,174
	Others	-	15,229	Others	-	5,823
		<u>100,957</u>			<u>145,134</u>	
Trade accounts receivable	US\$	275	287,355	US\$	306	367,064
	EUR	16	23,126	EUR	17	25,538
	JP ¥	96	973	JP ¥	762	8,528
	GBP	-	844	GBP	1	1,468
	AUD	-	84	AUD	1	518
	Others	-	1,143	Others	-	259
		<u>313,525</u>			<u>403,375</u>	
Other accounts receivable	US\$	128	133,168	US\$	4	5,212
	EUR	12	17,685	EUR	-	-
	Others	-	13,993	Others	-	573
		<u>164,846</u>			<u>5,785</u>	
Accrued income	-	-	US\$	119	142,787	
	-	-	Others	-	61	
		<u>-</u>			<u>142,848</u>	
Refundable deposits	US\$	2	1,913	US\$	1	1,720
	JP ¥	58	587	JP ¥	32	362
	Others	-	371	Others	-	410
		<u>2,871</u>			<u>2,492</u>	
Trade accounts payable	US\$	609	635,306	US\$	616	737,951
	JP ¥	12,036	121,816	JP ¥	15,446	172,933
	EUR	13	17,916	EUR	11	16,179
	Others	-	279	Others	-	1,454
		<u>775,317</u>			<u>928,517</u>	
Other accounts payable	US\$	127	132,399	US\$	164	196,867
	EUR	22	30,704	EUR	43	65,033
	JP ¥	441	4,467	JP ¥	3,743	41,910
	AUD	4	2,946	AUD	14	12,891
	CAD	1	1,114	CAD	5	5,087
	Others	-	11,715	Others	3	3,882
		<u>183,345</u>			<u>325,670</u>	

**LG Electronics Inc.**  
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<i>(in millions)</i>	2004		2003	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Accrued expenses	US\$ 36	37,593	US\$ 64	76,106
	Others -	640	Others -	4,661
		<u>38,233</u>		<u>80,767</u>

**8. Inventories**

Inventories as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004		2003	
	Acquisition cost	Inventory valuation allowance	Carrying value	Carrying value
Merchandise	₩ 29,586	₩ (1,373)	₩ 28,213	₩ 21,268
Finished products	628,626	(20,206)	608,420	550,286
Work-in-process	316,947	(3,924)	313,023	348,850
Raw materials	595,617	(6,154)	589,463	490,126
Parts and supplies	136,307	(395)	135,912	93,634
	<u>₩1,707,083</u>	<u>₩ (32,052)</u>	<u>₩ 1,675,031</u>	<u>₩ 1,504,164</u>

See Note 12 for inventories insured against various property risks.

**9. Long-Term Investment Securities**

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

<i>(in millions of Korean won)</i>	2004	2003
Available-for-sale securities	₩ 64,383	₩ 246,668
Held-to-maturity securities	851	44
	<u>₩ 65,234</u>	<u>₩ 246,712</u>

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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Available-for-sale securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Net asset value/Market value	Carrying value	Acquisition cost	Net asset value/Market value	Carrying value
<b>Marketable equity securities</b>							
KT Corp. <sup>3</sup>	-	₩ -	₩ -	₩ -	₩ 127,441	₩ 105,257	₩ 105,257
LG Investment & Securities Co., Ltd. <sup>5</sup>	-	-	-	-	262,432	84,498	84,498
NARA MOLD & DIE Co., Ltd.	12.34	812	2,918	2,918	812	2,999	2,999
Voiceware Co., Ltd. <sup>7</sup>	3.02	142	604	604	206	1,363	1,363
Jindoo Network Inc. <sup>6</sup>	8.83	318	1,568	1,568	-	-	-
Vodavi Technology Inc.	19.86	2,928	6,761	6,761	2,928	5,992	5,992
Hutchison Telephone Company Limited <sup>4</sup>	0.09	3,462	3,622	3,622	-	-	-
		<u>7,662</u>	<u>15,473</u>	<u>15,473</u>	<u>393,819</u>	<u>200,109</u>	<u>200,109</u>
<b>Non-marketable equity securities</b>							
<b>Domestic companies</b>							
Innopla Co., Ltd.	19.90	245	854	245	245	555	245
Castec Korea Co., Ltd.	5.00	182	859	182	182	489	182
Msoltech <sup>1</sup>	10.00	635	-	-	635	242	635
AL Tech Inc.	8.53	589	272	589	589	245	589
Korea Information							
Certificate Authority Inc. Association of Electronics Environment	9.35	1,852	1,230	1,852	1,852	1,695	1,852
Megaround Co., Ltd. <sup>6</sup>	36.04	4,698	4,309	4,698	4,349	1,795	4,349
Temco, Inc.	-	-	-	-	318	315	318
Netgenetech. Co., Ltd.	13.04	1,200	1,200	1,200	1,200	1,200	1,200
Manager Society, Inc.	15.00	176	35	176	176	176	176
Thermo Metrix Technology <sup>7</sup>	3.70	200	14	200	200	200	200
Wowlinux <sup>7</sup>	-	-	-	-	158	158	158
Silicon Works	-	-	-	-	100	100	100
LG fund for small and medium Enterprises <sup>4</sup>	12.00	501	504	501	501	501	501
TU Media Corp.	50.00	2,500	2,435	2,500	-	-	-
Others	4.74	6,500	5,765	6,500	6,500	6,500	6,500
	-	4,254	2,220	2,220	1,618	1,618	1,618
<b>Overseas companies</b>							
Gemfire Corp. <sup>7</sup>	-	-	-	-	1,835	-	-
Erlang Technology Inc. <sup>1</sup>	6.90	1,129	-	-	1,129	313	1,129
Neopoint Inc. <sup>1</sup>	16.62	1,604	-	-	1,604	-	-
E2OPEN.COM <sup>1</sup>	3.64	15,694	-	-	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 <sup>1</sup>	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>50,012</u>	<u>25,425</u>	<u>27,617</u>	<u>46,938</u>	<u>24,032</u>	<u>43,499</u>
<b>Debt securities</b>							
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 <sup>2</sup>		38,124	19,062	19,062	-	-	-
		<u>40,355</u>	<u>21,293</u>	<u>21,293</u>	<u>3,060</u>	<u>3,060</u>	<u>3,060</u>
		<u>₩ 98,029</u>	<u>₩ 62,191</u>	<u>₩ 64,383</u>	<u>₩ 443,817</u>	<u>₩ 227,201</u>	<u>₩ 246,668</u>

**LG Electronics Inc.**  
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- <sup>1</sup> Carrying value was fully written down due to the negative net book value or bankruptcy of the investee company as of December 31, 2004.
- <sup>2</sup> 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. Upon the agreement with the creditors, the commercial papers of ₩38,124 million, classified as long-term investment securities, are scheduled to be converted to equity of LG Card and the remaining commercial papers amounting to ₩111,876 million are scheduled to be collected within December 31, 2005. The Company recognized an impairment loss of ₩ 41,437 million on the said commercial papers for the year ended December 31, 2004 (Note 5).
- <sup>3</sup> During 2004, the Company disposed of all the shares of KT Corp., resulting in a loss of ₩18,697 million.
- <sup>4</sup> During 2004, the Company newly purchased the investments.
- <sup>5</sup> As per the resolution of the Board of Directors dated 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, resulting in a loss from disposal of investment securities of ₩51,696 million.
- <sup>6</sup> During 2004, all the investment in Megaround Co., Ltd. were exchanged to investment in Jindoo Network Inc., marketable security because Megaround Co., Ltd. was merged by Jindoo Network Inc. Gain on valuation of investment in Jindoo Network Inc. amounting to ₩1,250 million was recorded as capital adjustments.
- <sup>7</sup> During 2004, the Company disposed of the investments, resulting in gain on disposal of investment securities of ₩487 million.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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As of December 31, 2004 and 2003, held-to-maturity securities consist of the following:

<i>(in millions of Korean won)</i>	<b>2004</b>		<b>2003</b>	
	₩		₩	
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 December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>		<b>2003</b>	
	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 <sup>1</sup>	₩ 89,501	₩ -	₩ -	₩ -
Over one year through five years	21,293	807	3,060	-
Over five years through ten years	-	44	-	44
	₩ 110,794	₩ 851	₩ 3,060	₩ 44

<sup>1</sup>These are classified as short-term investments (Note 5).



**LG Electronics Inc.**  
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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 years ended December 31, 2004 and 2003, are as follows (Note 21):

<i>(in millions of Korean won)</i>	<b>January 1, 2004</b>	<b>Gain (loss)</b>	<b>Disposal</b>	<b>December 31, 2004</b>
KT Corp.	₩ (22,184)	₩ -	₩ (22,184)	₩ -
Nara Mold & Die Co., Ltd.	2,187	(80)	-	2,107
Voiceware Co., Ltd.	1,157	(473)	222	462
Jindoo Network Inc.	-	1,250	-	1,250
LG Investment & Securities Co., Ltd.	(75,994)	23,534	(52,460)	-
Vodavi Technology Inc.	3,063	770	-	3,833
Hutchison Telephone Company Limited	-	160	-	160
E2OPEN.COM <sup>1</sup>	-	(15,190)	(15,190)	-
Bonds issued by the Korean Government	(241)	-	(241)	-
	<u>₩ (92,012)</u>	<u>₩ 9,971</u>	<u>₩ (89,853)</u>	<u>₩ 7,812</u>

<i>(in millions of Korean won)</i>	<b>January 1, 2003</b>	<b>Gain (loss)</b>	<b>Disposal</b>	<b>December 31, 2003</b>
Hynix Semiconductor Inc.	₩ (23,771)	₩ 74	₩ (23,697)	₩ -
KT Corp.	(7,788)	(14,396)	-	(22,184)
LG Card Co., Ltd.	9,022	(5,262)	3,760	-
Nara Mold & Die Co., Ltd.	2,758	(571)	-	2,187
Voiceware Co., Ltd.	1,638	(481)	-	1,157
LG Investment & Securities Co., Ltd.	-	(75,994)	-	(75,994)
Vodavi Technology Inc.	(1,075)	4,138	-	3,063
Bonds issued by the Korean Government	(2)	(245)	(6)	(241)
	<u>₩ (19,218)</u>	<u>₩ (92,737)</u>	<u>₩ (19,943)</u>	<u>₩ (92,012)</u>

<sup>1</sup> Loss of ₩ 15,190 million on valuation of available-for-sale securities is realized due to the impairment loss of the securities.

Interest income from investment in securities amounts to ₩12,338 million for the year ended December 31, 2004.

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**10. Equity Method Investment Securities**

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

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
<b>Domestic companies</b>							
LG Micron Ltd. <sup>4</sup>	36.00	₩68,100	₩120,716	₩111,651	₩52,315	₩88,030	₩86,070
LG Sports Ltd. <sup>7</sup>	-	-	-	-	1,404	1,203	1,204
LG Innotek Co., Ltd.	69.80	59,308	148,963	154,651	59,308	135,142	137,039
Hankuk Electric Glass Co., Ltd. <sup>6</sup>	20.00	119,282	140,549	125,082	-	-	-
LG.Philips LCD Co., Ltd. <sup>9</sup>	44.57	726,169	2,572,987	2,399,076	726,169	1,447,016	1,259,904
LG IBM PC Co., Ltd. <sup>10</sup>	49.00	11,907	16,689	16,522	11,907	17,739	14,548
Hi Plaza Inc. <sup>4</sup>	100.00	100,511	108,965	99,275	70,511	78,942	60,806
STIC Ventures Co., Ltd.	94.00	28,200	28,264	28,264	28,200	30,864	28,200
Hi Business Logistics	100.00	4,500	6,115	6,114	4,500	4,500	4,500
<b>Overseas companies</b>							
Goldstar Electronics Thailand Co., Ltd. (G.S.T.) <sup>2</sup>	49.00	36	36	36	36	36	36
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	22,350	30,823	7,684	30,576	33,007
LG Electronics Austria GmbH (LGEAG) <sup>2</sup>	100.00	116	116	116	116	116	116
LG Electronics Alabama, Inc. (LGEAI) <sup>8</sup>	-	-	-	-	63,940	79,784	53,116
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)	100.00	3,746	15,508	11,438	3,746	23,188	19,106
LG Electronics Antwerp Logistics N.V. (LGEAL)	100.00	967	1,637	356	967	1,660	-
LG Electronics Australia Pty, Ltd. (LGEAP) <sup>1</sup>	100.00	1,558	7,305	-	1,558	9,544	-
LG Electronics Argentina S.A. (LGEAR) <sup>3</sup>	100.00	7,410	-	-	7,410	-	-
Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT)	50.00	14,718	21,869	20,621	14,718	19,895	19,353
LG Electronics Colombia, Ltda. (LGECEB)	100.00	3,330	5,038	3,786	3,330	991	2,175
LG Electronics China Co., Ltd. (LGECH) <sup>1,4</sup>	100.00	56,154	22,484	-	37,614	44,314	25,279

**LG Electronics Inc.**  
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<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 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	16,562	9,888	13,779	16,302	12,293
LG Electronics Inc. Chile Limitada (LGECL)	100.00	5,856	7,659	6,960	5,856	5,856	5,856
LG Electronics Czech S.R.O. (LGE CZ)	100.00	6,534	6,993	6,106	6,534	7,165	7,165
LG Electronics Deutschland GmbH (LGEDG)	100.00	26,938	24,465	9,370	26,938	24,972	16,266
PT LG Electronics Display Devices Indonesia (LGEDI)	100.00	32,085	66,687	48,348	32,085	76,826	53,673
LG Electronics Design Tech, Ltd. (LGEDT) <sup>2</sup>	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	1,467	3,032	4,382	489	2,619
LG Electronics Egypt S.A.E. (LGE EG) <sup>4</sup>	83.97	2,860	1,603	1,085	2,630	1,515	952
LG Electronics Espana S.A. (LGE ES) <sup>1,4</sup>	100.00	17,408	13,368	-	3,374	12,864	1,600
LG Electronics Gulf FZE (LGE GF) <sup>4</sup>	100.00	8,312	7,918	4,522	2,489	4,000	-
LG Electronics HK Limited (LGE HK)	100.00	4,316	4,445	4,445	4,316	4,065	3,943
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGE HN) <sup>4</sup>	49.00	4,031	3,087	3,037	3,036	3,036	3,036
LG Electronics Hellas S.A. (LGE HS)	100.00	6,063	6,820	5,402	6,063	7,380	5,676
LG Electronics Huizhou Inc. (LGE HZ)	80.00	1,277	28,405	22,038	1,277	28,069	19,943
LG Electronics India Pvt. Ltd. (LGE IL)	100.00	38,476	120,896	121,544	38,476	116,998	113,063
PT LG Electronics Indonesia (LGE IN)	100.00	29,431	18,560	18,052	29,431	30,968	23,867
LG Electronics Italy S.P.A. (LGE IS) <sup>4</sup>	100.00	28,170	21,075	8,047	14,136	9,189	3,791
LG Electronics Japan Inc. (LGE JP)	100.00	12,978	1,954	583	12,978	3,682	3,095
LG Electronics Mlawa SP.Zo.O. (LGE MA) <sup>4</sup>	100.00	36,024	48,791	45,869	7,066	21,175	16,988

**LG Electronics Inc.**  
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<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 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	3,352	3,806	1,171	3,352	7,046	2,265
LG Electronics Middle East Co., Ltd. (LGEME) <sup>2</sup>	100.00	462	462	462	462	462	462
LG-MECA Electronics Haiphong, Inc. (LGEMH)	70.00	1,690	3,007	2,782	1,690	3,423	3,328
LG Electronics Magyar Kft. (LGEMK)	100.00	5,575	9,170	3,991	5,575	11,301	4,393
LG Electronics (M) SDN.BHD (LGEML) <sup>24</sup>	100.00	7,869	7,869	7,869	11	11	11
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM) <sup>4</sup>	100.00	31,439	4,928	1,066	19,800	13,536	6,393
LG Electronics Mexico S.A. de C.V. (LGEMS) <sup>4</sup>	100.00	13,575	23,076	21,169	1,936	7,632	3,084
LG MITR Electronics Co., Ltd. (LGEMT)	87.74	15,925	10,447	6,098	15,925	12,781	8,078
LG Electronics North of England Ltd. (LGENE)	100.00	11,229	9,981	10,052	11,229	17,496	15,513
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP)	100.00	13,241	(1,822)	5,057	14,712	13,435	13,084
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	70.00	9,367	20,516	16,518	9,367	16,685	15,860
LG Electronics Philippines, Inc. (LGEPH) (formerly LGECM)	100.00	23,524	1,713	3,000	23,524	2,564	5,186
LG Electronics Polska SP.Zo.O. (LGEPL)	100.00	4,117	11,217	9,000	4,117	10,229	8,968
Nanjing LG Panda Appliance Co., Ltd. (LGEPN)	70.00	7,596	12,672	11,843	7,596	15,380	14,865
LG Electronics Peru S.A. (LGEPR) <sup>4</sup>	100.00	7,699	3,744	2,784	1,879	1,783	481
LG Electronics Panama S.A. (LGEPS)	100.00	2,333	6,144	3,755	2,333	3,444	701
LG Electronics Portugal (LGEPT) <sup>4</sup>	100.00	20,927	20,338	17,528	6,822	7,517	7,460
LG Electronics Qinhuangdao Co., Ltd. (LGEQH)	100.00	3,284	7,160	6,587	3,284	6,805	7,024
LG Electronics Russia Inc. (LGERI)	95.00	391	9,785	9,785	391	5,934	5,934
LG Electronics Romania S.R.L (LGERO) <sup>5</sup>	100.00	7,350	8,427	8,256	-	-	-
LG Electronics S.A. Pty Ltd. (LGESA)	100.00	3,382	33,045	29,028	3,382	26,418	21,870

**LG Electronics Inc.**  
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<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 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) <sup>1</sup>	100.00	10,470	14,372	-	10,470	16,601	20,203
Shanghai LG Electronics Co., Ltd. (LGESH) <sup>4</sup>	70.00	4,899	9,170	7,704	2,719	6,818	5,950
LG Electronics de Sao Paulo Ltda. (LGESP)	100.00	28,481	78,801	68,234	28,481	51,530	41,214
LG Electronics Sweden AB (LGESW)	100.00	5,668	5,780	2,581	5,668	6,683	4,348
LG Electronics Shenyang Inc. (LGESY)	78.87	11,267	16,765	13,474	11,267	19,206	11,831
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	80.00	42,948	109,743	100,046	42,948	125,388	106,851
LG Electronics Thailand Co., Ltd. (LGETH)	93.75	3,407	21,650	21,708	3,407	24,513	22,630
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	100.00	59,205	16,369	27,001	59,205	46,334	51,842
LG Taistar Electronics Taiwan Co., Ltd. (LGETT) <sup>4</sup>	100.00	19,846	12,174	10,935	8,439	1,700	-
LG Electronics United Kingdom Ltd. (LGEUK) <sup>1,4</sup>	100.00	34,723	7,501	-	20,792	(7,145)	-
LG Electronics Ukraine Co., Ltd. (LGEUR) <sup>2</sup>	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics U.S.A., Inc. (LGEUS) <sup>8</sup>	100.00	148,109	134,835	108,995	37,985	36,918	42,594
LG Electronics Vietnam Co., Ltd. (LGEVN)	100.00	6,035	9,846	8,546	6,035	13,319	12,646
LG Electronics Wales Ltd. (LGEWA) <sup>4</sup>	100.00	963,757	149,207	69,650	676,082	46,059	-
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT) <sup>4</sup>	51.00	10,188	11,067	6,821	9,669	6,422	6,422
Kunshan LGMS Computer Co., Ltd. (LGMSK) <sup>4</sup>	100.00	1,690	1,690	1,690	1,155	916	915
LG Soft India PVT, Ltd. (LGSII) <sup>4</sup>	100.00	5,084	7,543	9,338	2,920	7,833	7,418
EIC Properties PTE, Ltd.	38.20	9,636	2,198	2,198	9,636	8,493	8,493
Zenith Electronics Corporation (Zenith) <sup>8</sup>	100.00	-	-	-	487,215	(12,721)	-

**LG Electronics Inc.**  
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<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
LG Infocomm U.S.A. Inc. (LGICUS) <sup>8</sup>	100.00	-	-	-	4,673	21,503	-
LG Infocomm Thailand, Inc. (LGICTH)	60.00	3,246	5,651	4,094	3,246	5,953	5,851
Vietnam Korea Exchange, Ltd. (V.K.X.)	40.00	1,736	2,040	2,064	1,736	2,316	2,328
LG TOPS <sup>3</sup>	40.00	2,699	902	930	2,699	930	906
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd. <sup>2</sup>	49.00	824	824	824	824	824	824
LGE (China) R&D Center	100.00	8,201	6,544	6,544	8,201	6,539	6,539
Electromagnetica Goldstar S.R.L. <sup>2</sup>	50.00	508	508	508	508	508	508
SLD Telecom Pte. Ltd. <sup>4</sup>	42.74	68,487	51,711	52,279	29,001	25,190	25,190
Triveni Digital Inc. <sup>2</sup>	100.00	899	899	899	899	899	899
LG (Yantai) Information & Communication Technology Co., Ltd. <sup>2</sup>	100.00	2,720	2,720	2,720	2,720	2,720	2,720
LG Holdings (HK) Ltd. <sup>4</sup>	31.82	53,378	46,437	42,906	38,523	38,554	44,496
Qingdao LG Langchao Digital Communication Co., Ltd. <sup>4</sup>	60.00	8,749	8,215	3,910	2,973	1,223	2,973
LG Goldstar France S.A.R.L. (LGEFS) <sup>6</sup>	100.00	7,139	952	-	-	-	-
Kunshan LGMS Computer Co., Ltd. (LGEKS) <sup>6</sup>	100.00	2,649	3,027	2,649	-	-	-
Goldstar Mobilecomm France SASU (LGEMF) <sup>5</sup>	100.00	5,621	5,621	5,621	-	-	-
LG Electronics RUS, LLC (LGERA) <sup>5</sup>	100.00	5,411	5,411	5,411	-	-	-
		<u>₩3,226,666</u>	<u>₩4,598,247</u>	<u>₩4,096,263</u>	<u>₩2,969,805</u>	<u>₩3,080,042</u>	<u>₩2,621,879</u>

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

<sup>2</sup> 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 accounting principles generally accepted in the Republic of Korea.

<sup>3</sup> The operations of this subsidiary were suspended as of December 31, 2004.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
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- 4 During 2004, the Company purchased additional shares of these subsidiaries.
- 5 This subsidiary has just been established during 2004.
- 6 The Company newly purchased the shares of these subsidiaries during 2004.
- 7 The Company disposed of all the shares of LG Sports Ltd., resulting in a loss amounting to ₩598 million.
- 8 During 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 ₩38,336 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 year ended December 31, 2004 using equity method due to the change in percentage of ownership was recorded as capital adjustments.
- 10 The Company merged a part of PC Division of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. This merger is aimed to optimize business efficiency, align operational strategies, and maximize profitability.

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

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For the year ended December 31, 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>	<b>January 1, 2004</b>	<b>Addition</b>	<b>Amortization</b>	<b>December 31, 2004</b>
<b>Domestic companies</b>				
LG Micron Ltd.	₩ 2,653	₩ -	₩ (589)	₩ 2,064
LG Innotek Co., Ltd.	528	-	(150)	378
Hi Plaza Inc.	(2,275)	-	688	(1,587)
Hankuk Electric Glass Co., Ltd.	-	(17,010)	3,402	(13,608)
	<u>906</u>	<u>(17,010)</u>	<u>3,351</u>	<u>(12,753)</u>
<b>Overseas companies</b>				
LG Electronics Mlawa SP. Zo. O. (LGEMA)	(775)	-	775	-
LG Electronics Service Europe Netherlands B.V. (LGESE)	(53)	-	53	-
LG Electronics Shenyang Inc. (LGESY)	228	-	(152)	76
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	10,716	-	(2,679)	8,037
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	2,901	-	(740)	2,161
LG Electronics Wales Ltd. (LGEWA)	(125,599)	8,304	46,918	(70,377)
Others	18,169	3,858	(5,694)	16,333
	<u>(94,413)</u>	<u>12,162</u>	<u>38,481</u>	<u>(43,770)</u>
	<u>₩ (93,507)</u>	<u>₩ (4,848)</u>	<u>₩ 41,832</u>	<u>₩(56,523)</u>

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



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For the year ended December 31, 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>	<b>January 1, 2003</b>	<b>Addition</b>	<b>Amortization</b>	<b>December 31, 2003</b>
<b>Domestic companies</b>				
LG Micron Ltd.	₩ -	₩ 2,947	₩ (294)	₩ 2,653
LG Sports Ltd.	(3)	1	2	-
LG Innotek Co., Ltd.	112	-	416	528
LG Investment & Securities Co., Ltd.	25,571	(25,571)	-	-
LG.Philips LCD Co., Ltd.	1,572	-	(1,572)	-
Hi Plaza Inc.	(2,963)	-	688	(2,275)
	<u>24,289</u>	<u>(22,623)</u>	<u>(760)</u>	<u>906</u>
<b>Overseas companies</b>				
LG Electronics Mlawa SP. Zo. O. (LGEMA)	(1,550)	-	775	(775)
LG Electronics Service Europe Netherlands B.V. (LGESE)	(105)	-	52	(53)
LG Electronics Shenyang Inc. (LGESY)	380	-	(152)	228
TaiZhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	20,731	-	(10,015)	10,716
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	1,459	2,079	(637)	2,901
LG.Philips Displays Holding B.V.	(175,839)	125,599	50,240	-
LG Electronics Wales Ltd. (LGEWA)	-	(125,599)	-	(125,599)
Others	(360)	21,573	(3,044)	18,169
	<u>(155,284)</u>	<u>23,652</u>	<u>37,219</u>	<u>(94,413)</u>
	<u>₩(130,995)</u>	<u>₩ 1,029</u>	<u>₩ 36,459</u>	<u>₩ (93,507)</u>

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

**LG Electronics Inc.**  
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For the year ended December 31, 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>	<b>Inventories</b>	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Equity securities</b>	<b>Total</b>
<b>Domestic companies</b>					
LG Micron Ltd.	₩ (1,600)	₩ (4,921)	₩ -	₩ -	₩ (6,521)
LG Innotek Co., Ltd.	4,136	(177)	-	-	3,959
LG.Philips LCD Co., Ltd.	1,722	(13,975)	38,498	-	26,245
LG IBM PC Co., Ltd.	2,313	9	-	-	2,322
Hankuk Electric Glass Co., Ltd.	(1,858)	-	-	-	(1,858)
Hi Plaza Inc.	7,760	(1)	-	-	7,759
Hi Business Logistics	(1)	-	-	-	(1)
	<u>12,472</u>	<u>(19,065)</u>	<u>38,498</u>	<u>-</u>	<u>31,905</u>
<b>Overseas companies</b>					
LG Electronics China Co., Ltd. (LGECH)	(12,263)	(762)	-	-	(13,025)
LG Electronics Espana S.A. (LGEES)	(6,242)	-	-	-	(6,242)
LG Electronics Huizhou Inc. (LGEHZ)	3,378	39	-	-	3,417
LG Electronics India Pvt. Ltd. (LGEIL)	312	(334)	-	-	(22)
PT LG Electronics Indonesia (LGEIN)	2,565	(106)	-	-	2,459
LG Electronics Italy S.P.A. (LGEIS)	(6,487)	-	-	-	(6,487)
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	(174)	(32)	-	-	(206)
LG Electronics Service Europe Netherlands B.V. (LGESE)	4,901	-	-	-	4,901
LG Electronics Shenyang Inc. (LGESY)	3,770	(273)	-	-	3,497
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	8,080	300	-	-	8,380
LG Electronics U.S.A., Inc. (LGEUS)	(3,689)	(1,074)	-	(38,336)	(43,099)
LG Electronics Wales Ltd. (LGEWA)	1,989	(200)	-	-	1,789
Others	3,689	(1,218)	-	-	2,471
	<u>(171)</u>	<u>(3,660)</u>	<u>-</u>	<u>(38,336)</u>	<u>(42,167)</u>
	<u>₩ 12,301</u>	<u>₩ (22,725)</u>	<u>₩ 38,498</u>	<u>₩ (38,336)</u>	<u>₩ (10,262)</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 year ended December 31, 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>	<b>Inventories</b>	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Equity securities</b>	<b>Total</b>
<b>Domestic Companies</b>					
LG Micron Ltd.	₩ 335	₩ (3,788)	₩ -	₩ -	₩ (3,453)
LG Innotek Co., Ltd.	(4,563)	(72)	-	6,250	1,615
LG.Philips LCD Co., Ltd.	(1,926)	(3,568)	38,498	-	33,004
LG IBM PC Co., Ltd.	(527)	(52)	-	-	(579)
Hi Plaza Inc.	2,373	(1)	-	-	2,372
	<u>(4,308)</u>	<u>(7,481)</u>	<u>38,498</u>	<u>6,250</u>	<u>32,959</u>
<b>Overseas Companies</b>					
LG Electronics Alabama, Inc. (LGEAI)	2,707	(1,502)	-	-	1,205
LG Electronics Huizhou Inc. (LGEHZ)	346	-	-	-	346
LG Electronics India Pvt. Ltd. (LGEIL)	(1,223)	-	-	-	(1,223)
PT LG Electronics Indonesia (LGEIN)	1,348	(438)	-	-	910
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	965	140	-	-	1,105
LG Electronics Service Europe Netherlands B.V. (LGESE)	(10,489)	-	-	-	(10,489)
LG Electronics Shenyang Inc. (LGESY)	(124)	(260)	-	-	(384)
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	(3,183)	(1,146)	-	-	(4,329)
LG Electronics U.S.A., Inc. (LGEUS)	68	-	-	-	68
LG.Philips Displays Holding B.V.	(279)	(2,912)	-	-	(3,191)
LG Electronics Wales Ltd. (LGEWA)	(5,746)	-	-	(500,821)	(506,567)
Others	(44,325)	(4,153)	-	-	(48,478)
	<u>(59,935)</u>	<u>(10,271)</u>	<u>-</u>	<u>(500,821)</u>	<u>(571,027)</u>
	<u>₩ (64,243)</u>	<u>₩ (17,752)</u>	<u>₩ 38,498</u>	<u>₩ (494,571)</u>	<u>₩ (538,068)</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 year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Equity in earnings (losses) of affiliates, net	Others	December 31, 2004
<b>Domestic companies</b>				
LG Micron Ltd.	₩ 86,070	₩ 14,226	₩ 11,355	₩ 111,651
LG Sports Ltd.	1,204	34	(1,238)	-
LG Innotek Co., Ltd.	137,039	17,565	47	154,651
Hankuk Electric Glass Co., Ltd.	-	7,301	117,781	125,082
LG.Philips LCD Co., Ltd.	1,259,904	836,373	302,799	2,399,076
LG IBM PC Co., Ltd.	14,548	6,376	(4,402)	16,522
Hi Plaza Inc.	60,806	8,906	29,563	99,275
STIC Ventures Co., Ltd.	28,200	20,153	(20,089)	28,264
Hi Business Logistics	4,500	1,626	(12)	6,114
	<u>1,592,271</u>	<u>912,560</u>	<u>435,804</u>	<u>2,940,635</u>
<b>Overseas companies</b>				
LG Electronics Alabama, Inc. (LGEAI)	53,116	11,005	(64,121)	-
LG Electronics Huizhou Inc. (LGEHZ)	19,943	7,355	(5,260)	22,038
LG Electronics India Pvt. Ltd. (LGEIL)	113,063	25,791	(17,310)	121,544
PT LG Electronics Indonesia (LGEIN)	23,867	(73)	(5,742)	18,052
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	15,860	2,624	(1,966)	16,518
LG Electronics Service Europe Netherlands B.V. (LGESE)	20,203	(11,849)	(8,354)	-
LG Electronics Shenyang Inc. (LGESY)	11,831	4,805	(3,162)	13,474
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	106,851	10,964	(17,768)	100,047
LG Electronics U.S.A., Inc. (LGEUS)	42,594	(5,665)	72,067	108,996
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	51,842	(20,273)	(4,568)	27,001
LG Electronics Wales Ltd. (LGEWA)	-	(138,790)	208,440	69,650
Others	570,438	(33,537)	121,407	658,308
	<u>1,029,608</u>	<u>(147,643)</u>	<u>273,663</u>	<u>1,155,628</u>
	<u>₩ 2,621,879</u>	<u>₩ 764,917</u>	<u>₩ 709,467</u>	<u>₩ 4,096,263</u>

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for year ended December 31, 2003, were as follows:

<i>(in millions of Korean won)</i>	<b>January 1, 2003</b>	<b>Equity in earnings (losses) of affiliates, net</b>	<b>Others</b>	<b>December 31, 2003</b>
<b>Domestic companies</b>				
LG Micron Ltd.	₩ 35,541	₩ 4,165	₩ 46,364	₩ 86,070
LG Sports Ltd.	1,916	464	(1,176)	1,204
LG Innotek Co., Ltd.	117,645	12,654	6,740	137,039
LG Investment & Securities Co., Ltd.	145,270	-	(145,270)	-
LG.Philips LCD Co., Ltd.	715,488	539,982	4,434	1,259,904
LG IBM PC Co., Ltd.	15,133	4,078	(4,663)	14,548
Hi Plaza Inc.	55,685	5,120	1	60,806
STIC Ventures Co., Ltd.	-	-	28,200	28,200
Hi Business Logistics	-	-	4,500	4,500
	<u>1,086,678</u>	<u>566,463</u>	<u>(60,870)</u>	<u>1,592,271</u>
<b>Overseas companies</b>				
LG Electronics Alabama, Inc. (LGEAI)	58,736	1,250	(6,870)	53,116
LG Electronics Huizhou Inc. (LGEHZ)	14,938	6,431	(1,426)	19,943
LG Electronics India Pvt. Ltd. (LGEIL)	77,191	40,946	(5,074)	113,063
PT LG Electronics Indonesia (LGEIN)	16,434	5,423	2,010	23,867
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	10,520	5,359	(19)	15,860
LG Electronics Service Europe Netherlands B.V. (LGESE)	23,498	(6,232)	2,937	20,203
LG Electronics Shenyang Inc. (LGESY)	8,205	3,737	(111)	11,831
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	99,315	10,025	(2,489)	106,851
LG Electronics U.S.A., Inc. (LGEUS)	39,822	2,832	(60)	42,594
LG.Philips Displays Holding B.V.	433,819	(456,253)	22,434	-
LG Electronics Wales Ltd. (LGEWA)	54,262	(611,807)	557,545	-
Others	431,611	(152,745)	343,414	622,280
	<u>1,268,351</u>	<u>(1,151,034)</u>	<u>912,291</u>	<u>1,029,608</u>
	<u>₩ 2,355,029</u>	<u>₩ (584,571)</u>	<u>₩ 851,421</u>	<u>₩ 2,621,879</u>

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As of December 31, 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 Service Europe Netherlands B.V. (LGESE)	₩	22,565
LG Electronics China Co., Ltd. (LGECH)		18,397
LG Infocomm U.S.A.Inc. (LGICUS), subsidiary of LG Electronics U.S.A., Inc.		9,874
LG Electronics Australia PTY, Ltd. (LGEAP)		4,141
LG Electronics Espana S.A. (LGEES)		4,138
LG Electronics United Kingdom Ltd. (LGEUK)		3,990
LG Goldstar France S.A.R.L. (LGEFS)		1,040
	<u>₩</u>	<u>64,145</u>

Equity method of accounting had been suspended until December 31, 2003, for the investments in LG Electronics United Kingdom Ltd. (LGEUK) and other subsidiaries, due to the zero book value of investments in those subsidiaries. In 2004, due to net income or issuance of new shares, the losses of those subsidiaries which had not been recognized until December 31, 2003, amounting to ₩51,757 million, were deducted from retained earnings.

As per the resolution of the Board of Directors dated July 2004, the Company invested ₩289,125 million (equivalent to US\$ 250 million) in LG Electronics Wales Ltd. (“LGEWA”) which, in turn, invested to its subsidiary, LG.Philips Displays Holding B.V.(“LPD”) according to an agreement with the LPD’s creditor financial institutions. The other conditions in the said agreement included the deferment of loan repayment and the reduction in the interest rate of the said loan. Further, the Company revoked previous guarantee for LPD and provided the new guarantee of ₩57,825 million (equivalent to US\$50 million).

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**11. Property, Plant and Equipment**

Changes in property, plant and equipment for the year ended December 31, 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 December 31, 2004	Accumulated depreciation at December 31, 2004
Land	₩ 707,683	₩ 465	₩ 4	₩ (3,018)	₩ -	₩ 705,134	₩ -
Buildings	905,935	23,563	219,662	(4,530)	(29,206)	1,115,424	185,867
Structures	65,577	4,965	8,565	(694)	(4,901)	73,512	37,156
Machinery and equipment	634,708	177,075	181,176	(23,456)	(214,893)	754,610	721,582
Tools	399,837	233,757	21,567	(106,381)	(123,490)	425,290	300,941
Furniture and fixtures	207,633	111,110	2,553	(6,823)	(83,778)	230,695	350,009
Vehicles	8,088	3,839	910	(2,733)	(2,691)	7,413	10,206
Construction-in-progress	184,926	524,891	(400,505)	(9)	-	309,303	-
Machinery-in-transit	8,333	33,768	(33,933)	-	-	8,168	-
<b>Total</b>	<b>₩ 3,122,720</b>	<b>₩ 1,113,433</b>	<b>₩ (1)</b>	<b>₩ (147,644)</b>	<b>₩ (458,959)</b>	<b>₩ 3,629,549</b>	<b>₩ 1,605,761</b>

Changes in property, plant and equipment for the year ended December 31, 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 December 31, 2003	Accumulated depreciation at December 31, 2003
Land	₩ 705,980	₩ 12,497	₩ (9)	₩ (10,785)	₩ -	₩ 707,683	₩ -
Buildings	882,219	31,556	42,996	(23,981)	(26,855)	905,935	157,337
Structures	67,740	4,058	653	(1,876)	(4,998)	65,577	32,345
Machinery and equipment	563,864	79,820	176,530	(28,582)	(156,924)	634,708	580,176
Tools	345,816	169,476	39,324	(29,051)	(125,728)	399,837	299,847
Furniture and fixtures	205,579	83,370	9,553	(5,784)	(85,085)	207,633	318,917
Vehicles	7,052	3,743	273	(300)	(2,680)	8,088	12,532
Construction-in-progress	105,662	210,459	(130,420)	(775)	-	184,926	-
Machinery-in-transit	9,460	164,020	(165,147)	-	-	8,333	-
<b>Total</b>	<b>₩ 2,893,372</b>	<b>₩ 758,999</b>	<b>₩ (26,247)</b>	<b>₩ (101,134)</b>	<b>₩ (402,270)</b>	<b>₩ 3,122,720</b>	<b>₩ 1,401,154</b>

As of December 31, 2004, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩770,545 million (2003: ₩676,051 million).

A substantial portion of property, plant and equipment as of December 31, 2004 is pledged as collateral for short-term borrowings and long-term debt from Korea Development Bank, up to

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a maximum of approximately ₩883,461 million. The said amount includes the equivalent of US\$99 million, JP ¥ 150 million and EUR360 million (Notes 14 and 15).

**12. Insured Assets**

As of December 31, 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 and losses arising from the transportation of goods up to approximately ₩5,214,172 million and ₩279,365 million, respectively.

**13. Intangible Assets**

Changes in intangible assets for the year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	<b>Goodwill</b>	<b>Industrial property rights</b>	<b>Development costs</b>	<b>Other intangible assets</b>	<b>Total</b>
Balance as of January 1, 2004	₩ 256,102	₩ 381,139	₩ 115,571	₩ 83,489	₩ 836,301
Additions	753	21,787	2	24,672	47,214
Disposals	(728)	(13)	(71)	(659)	(1,471)
Amortization	(40,153)	(85,983)	(53,698)	(28,573)	(208,407)
Impairment loss <sup>1</sup>	-	(38,105)	-	-	(38,105)
Balance as of December 31, 2004	<u>₩ 215,974</u>	<u>₩ 278,825</u>	<u>₩ 61,804</u>	<u>₩ 78,929</u>	<u>₩ 635,532</u>
Accumulated amortization as of December 31, 2004	<u>₩ 182,329</u>	<u>₩ 372,003</u>	<u>₩ 207,015</u>	<u>₩ 91,538</u>	<u>₩ 852,882</u>

<sup>1</sup> The Company recognized impairment losses on intangible assets due to expiration of industrial property rights.

Changes in intangible assets for the year ended December 31, 2003, were as follows:

<i>(in millions of Korean won)</i>	<b>Goodwill</b>	<b>Industrial property rights</b>	<b>Development costs</b>	<b>Organization costs <sup>1</sup></b>	<b>Other intangible assets</b>	<b>Total</b>
Balance as of January 1, 2003	₩ 296,012	₩ 415,497	₩ 183,877	₩ 3,271	₩ 73,810	₩ 972,467
Additions	598	49,368	-	-	33,015	82,981
Disposals	(261)	-	-	-	(13)	(274)
Amortization	(40,247)	(83,726)	(68,306)	(3,271)	(23,323)	(218,873)
Balance as of December 31, 2003	<u>₩ 256,102</u>	<u>₩ 381,139</u>	<u>₩ 115,571</u>	<u>₩ -</u>	<u>₩ 83,489</u>	<u>₩ 836,301</u>
Accumulated amortization as of December 31, 2003	<u>₩ 141,619</u>	<u>₩ 285,222</u>	<u>₩ 226,057</u>	<u>₩ -</u>	<u>₩ 62,271</u>	<u>₩ 719,017</u>

<sup>1</sup> In accordance with SKFAS No. 3, the remaining balance of organization costs was



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deducted from retained earnings.

Amortization of intangible assets presented under manufacturing costs and selling and administrative expenses for the years ended December 31, 2004 and 2003, consists of the following:

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Manufacturing costs	₩ 35,660	₩ 34,631
Selling and administrative expenses	172,747	180,993
	<u>₩ 208,407</u>	<u>₩ 215,624</u>

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

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>	<b>Remaining years for amortization</b>
Goodwill	₩ 215,017	₩ 254,399	Six years
Industrial property rights	197,067	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, former LG Electronics Inc. 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 ₩39,382 million and ₩76,359 million, respectively, for the year ended December 31, 2004.

Research and development costs incurred for the year ended December 31, 2004 amounted to ₩1,235,008 million (2003: ₩799,455 million) all of which were charged to current operations as ordinary development costs and research costs.

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**14. Short-Term Borrowings and Current Maturities of Long-Term Debt**

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

<i>(in millions of Korean won)</i>	<b>Annual interest rate (%) at</b>	<b>2004</b>	<b>2003</b>
	<b>December 31, 2004</b>		
General term loans	CD + 0.8	₩ 12,000	₩ 32,000
Commercial papers	5.2 ~ 5.7	114,500	149,319
Foreign currency loans	Libor + 0.3 ~ 1.2	83,390	209,087
		<u>₩209,890</u>	<u>₩390,406</u>

CD represents the annual interest rate for certificates of deposits.

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

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Debentures	₩ 649,140	₩ 986,494
Discount on debentures	(2,357)	(1,382)
Long-term debt	-	4,468
	<u>₩ 646,783</u>	<u>₩ 989,580</u>

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**15. Debentures, Convertible Bonds and Long-Term Debt**

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

<i>(in millions)</i>	<b>Annual interest rate (%) at December 31, 2004</b>	<b>2004</b>	<b>2003</b>
<b>Debentures</b>			
Private, non-guaranteed payable through 2006	5.70 ~ 7.65	₩ 126,000	₩ 306,000
Public, non-guaranteed payable through 2009	4.00 ~ 7.00	2,070,000	2,090,000
Floating rate notes of US \$ 431 million (2003:US \$570 million) , payable through 2006	6M LIBOR + 0.5 ~ 1.25, 3M LIBOR+1.9	449,878	682,746
		<u>2,645,878</u>	<u>3,078,746</u>
<b>Convertible Bonds</b>			
Zero coupon rate convertible bonds of US\$ 287.5 million (2003 : US\$ 287.5 million), payable through 2006	-	339,796	339,796
Zero coupon rate convertible bonds of US\$ 250 million (2003:nil), payable through 2007	-	296,975	-
		<u>636,771</u>	<u>339,796</u>
		3,282,649	3,418,542
Less: Current maturities		(649,140)	(986,494)
Discount on debentures		(27,477)	(35,777)
Conversion rights adjustment		(49,508)	(13,840)
Premium for conversion rights		37,092	-
		<u>₩ 2,593,616</u>	<u>₩ 2,382,431</u>

As per the resolution of the Board of Directors dated 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 60 days 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: 3,049,221 shares
  - Conversion price: ₩96,869 per share. The conversion price was adjusted upwards from ₩91,840 to ₩96,869, because the average closing price of the common shares of the Company during the 20 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.
  - Conversion period: May 18, 2005 through May 7, 2007

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Long-term debt as of December 31, 2004 and 2003, consists of the following:

<i>(in millions)</i>	<b>Annual interest rate (%) at December 31, 2004</b>	<b>2004</b>	<b>2003</b>
<b>Foreign currency loans<sup>1</sup></b>			
Banque Paribas	-	₩ -	₩ 1,963
Societe General	-	-	2,505
Kookmin Bank	6M LIBOR + 1.25	19,832	22,758
Hong Kong and Shanghai Banking Corp.	3M LIBOR + 1.45	31,314	-
Korea Development Bank	3M EULIBOR + 1.75	204,195	-
The Export-Import Bank of Korea	6M LIBOR + 1.54	31,314	-
		<u>286,655</u>	<u>27,226</u>
Less: Current maturities		-	(4,468)
		<u>₩ 286,655</u>	<u>₩ 22,758</u>

<sup>1</sup>Representing US \$ 79 million and EUR 144 million (2003: US \$ 23 million).

See Note 11 for the related collateral arrangements for the Company's long-term debt.

The maturities of long-term debt outstanding as of December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	<b>For the year ending December 31,</b>	<b>Debentures and Convertible bonds</b>	<b>Long-term debt</b>	<b>Total</b>
	2006	₩ 1,626,534	₩ 71,610	₩ 1,698,144
	2007	766,975	91,028	858,003
	2008	90,000	84,766	174,766
	2009	150,000	39,251	189,251
		<u>₩ 2,633,509</u>	<u>₩ 286,655</u>	<u>₩ 2,920,164</u>

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**16. Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Beginning balance	₩ 555,362	₩ 500,909
Severance payments	(114,516)	(87,879)
Transfer-in from affiliated companies, net	5,399	6,582
Provisions	173,582	135,750
	<u>619,827</u>	<u>555,362</u>
Severance insurance deposit	(370,240)	(343,217)
Contributions to the National Pension Fund	(16,341)	(19,406)
	<u>(16,341)</u>	<u>(19,406)</u>
	<u>₩ 233,246</u>	<u>₩ 192,739</u>

The severance benefits are funded at approximately 59.7% (2003: 61.8%) as of December 31, 2004 through employee severance insurance plans with Kyobo Life Insurance Co., Ltd. and other life insurance companies. The severance insurance deposits, which are amounts funded under employee severance insurance plans, are presented as a deduction from accrued severance benefits.

**17. Commitments and Contingencies**

As of December 31, 2004, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of December 31, 2004, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of December 31, 2004, the Company has bank overdraft facility agreements with various banks amounting to ₩510,500 million.

As of December 31, 2004, the Company has sales agreements for export trade accounts receivable with various banks amounting to ₩4,858,304 million. The Company has corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank amounting to ₩180,000 million (Note 6).

As of December 31, 2004, the Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩880,000 million.

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As of December 31, 2004, the Company has sales contracts with several companies, the undelivered portions of which amounted to approximately ₩6,438 million for KT Corp., ₩1,519 million for Hanarotelecom Inc., ₩37,924 million for Public Telecommunication Corporation in Yemen and others.

As of December 31, 2004, Hana Bank has provided guarantees of ₩26,264 million to the Company. The Company is contingently liable for guarantees approximating ₩1,766,502 million, including US\$1,180 million, on the indebtedness of its subsidiaries and affiliates as follows:

*(in millions of Korean won)*

PT LG Electronics Display Device Indonesia (LGEDI)	₩	171,183
LG Electronics Wales Ltd. (LGEWA)		134,045
LG Electronics Service Europe Netherlands B.V. (LGESE)		125,065
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)		123,820
LG Electronics Mexico S.A. de C.V. (LGEMS)		99,186
LG Electronics Mlawa SP.Zo.O. (LGEMA)		88,906
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)		72,168
LG Electronics Gulf FZE (LGEGF)		55,321
PT LG Electronics Indonesia (LGEIN)		54,800
LG Electronics Japan Inc. (LGEJP)		54,486
LG Electronics da Amazonia Ltda. (LGEAZ)		52,190
LG Electronics de Sao Paulo Ltda. (LGESP)		52,190
LG.Philips Displays Holding B.V.		52,190
LG Electronics U.S.A., Inc. (LGEUS)		40,708
LG Electronics Italy S.P.A. (LGEIS)		28,963
Zenith Electronics Corporation		6,263
Others		555,018
	₩	<u>1,766,502</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 December 31, 2004, the Company has outstanding forward contracts with ABN-AMRO and others for selling US dollars amounting to US\$198 million at contract exchange rates of ₩1,035.70 : US\$1 ~ ₩1,180.30 : US\$1, with contract due dates of January through July 2005.

As of December 31, 2004, the Company has outstanding forward contracts with Societe General Bank and others for selling euro and buying US dollars amounting to €37 million at contract exchange rates of €1.2459 : US\$1 ~ €1.3436 : US\$1, with contract due dates of January through March 2005.

As of December 31, 2004, the Company has outstanding forward contracts with UFJ Bank and others for selling US dollars and buying Japanese yen amounting to US\$75 million at contract exchange rates of ¥102.84 : US\$1 ~ ¥107.08 : US\$1, with contract due dates of January through March 2005.

As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩11,097 million and ₩2,201 million, respectively, were charged to current operations for the year ended December 31, 2004.

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In order to reduce the impact of changes in exchange rates, the Company has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩12,051 million and ₩1,422 million, respectively, were recorded to current operations for the year ended December 31, 2004.

A summary of the terms of outstanding currency option contracts as of December 31, 2004, is as follows:

<b>Option type</b>	<b>Amount (in millions)</b>	<b>Exercise price</b>	<b>Contract due date</b>
Put	US\$160	₩1,035.0/US\$ ~ ₩1,170.0/US\$	January 4, 2005 through June 10, 2005
Call	US\$150	₩1,053.1/US\$ ~ ₩1,188.0/US\$	January 4, 2004 through June 10, 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 ₩31,568 million was recorded to current operations for the year ended December 31, 2004.

A summary of the terms of the outstanding cross currency swap contract as of December 31, 2004, is as 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>	
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 ₩38,367 million and a realized of ₩12,716 million were recorded as a non-operating income and expense, respectively, for the year ended December 31, 2004.

As of December 31, 2004, the Company is named as a defendant in legal actions which were brought against the Company by Matsushita Electric Industrial Co., Ltd. in Japan and AVS Corporation in Canada. 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 ₩17,232 million as of December 31, 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.



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**18. Capital Stock**

Capital stock as of December 31, 2004 and 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 <sup>1</sup>	17,185,992	5,000	85,930
	<u>156,792,255</u>		<u>₩ 783,961</u>

As of December 31, 2004, the number of shares authorized is 600 million shares.

<sup>1</sup> 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.

**19. 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 ₩1,919 million were recorded as a capital surplus.

**20. 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, with the ratification of the Company's majority 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, with the ratification of the Company's majority 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.

**21. Capital Adjustments**

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

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Treasury stock	₩ (46,657)	₩ (8,977)
Gain on valuation of equity method investment securities	299,877	163,609
Gain (loss) on (from) valuation of available-for-sale securities	7,812	(92,012)
Loss from disposal of treasury stock	-	(62)
	<u>₩ 261,032</u>	<u>₩ 62,558</u>

The Company has retained treasury stocks consisting of 793,208 shares (2003 : 194,953 shares) of common stock and 4,680 shares (2003 : 4,678 shares) of preferred stock as of December 31, 2004. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell them in the future.

**22. Income Taxes**

Income tax expense for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Current income taxes	₩ 146,352	₩ 185,718
Deferred income taxes	144,963	(17,557)
Income taxes added to shareholders' equity	22,857	5,815
Income tax expense	<u>₩ 314,172</u>	<u>₩ 173,976</u>

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The reconciliations from income before income taxes to taxable income for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Income before income taxes	₩ 1,860,126	₩ 836,800
Temporary differences:		
Allowance for doubtful accounts	(34,646)	(80,514)
Product warranty reserve	61,675	4,782
Amortization of intangible assets	38,270	53,122
Equity method investment securities	(1,180,816)	(448,201)
Deferred income of investment securities	61,694	302,506
Duty drawback	(30,080)	(25,471)
Others	41,652	76,046
	<u>817,875</u>	<u>719,070</u>
Permanent differences	(67,202)	32,307
Taxable income	<u>₩ 750,673</u>	<u>₩ 751,377</u>

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

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Depreciation	₩ (42,943)	₩ 1,499
Allowance for doubtful accounts	21,658	37,829
Product warranty	40,056	23,095
Amortization of intangible assets	(10,104)	(21,470)
Equity method investment securities	(156,360)	169,227
Accrued expenses	108,978	41,006
Others	55,581	(1,458)
	<u>16,866</u>	<u>249,728</u>
Deferred tax from temporary differences	16,866	249,728
Tax credit carried forward	87,899	-
Deferred income tax assets	<u>₩ 104,765</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

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realized in fiscal years beginning January 1, 2005 and thereafter, except for 29.7% for certain temporary differences expected to be filed as revision of the prior years' tax return in 2005.

As a result of tax adjustments, effective tax rate of the Company for the year ended December 31, 2004 is approximately 16.9% (2003: 20.8%).

**23. 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 year. 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 year.

Basic earnings per share for the years ended December 31, 2004 and 2003, are calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	<b>2004</b>	<b>2003</b>
Net income as reported on the statement of income	₩ 1,545,954	₩ 662,824
Less: Preferred stock dividends (Note 24)	(26,631)	(22,336)
Additional income available for dividends allocated to preferred stock	<u>(144,406)</u>	<u>(51,154)</u>
Net income allocated to common stock	1,374,917	589,334
Weighted-average number of common shares outstanding	<u>139,016,745</u>	<u>139,357,190</u>
Basic earnings per share and ordinary income per share (in won)	<u>₩ 9,890</u>	<u>₩ 4,229</u>

Basic ordinary income per share is identical to the basic earnings per share since there was no extraordinary gain or loss.

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 year. 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 year.

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Diluted earnings per share for years ended December 31, 2004 and 2003, are calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	<b>2004</b>	<b>2003</b>
Net income allocated to common stock	₩ 1,374,917	₩ 589,334
Add: Interest expense on convertible bonds, net of tax <sup>1</sup>	14,027	2,129
	1,388,944	591,463
Weighted-average number of common shares and diluted securities outstanding	145,949,525	141,272,019
Diluted earnings per share and diluted ordinary income per share (in won)	₩ 9,517	₩ 4,187

<sup>1</sup> This is computed based on the effective tax rate of 16.9% (2003: 20.8%) for the year ended December 31, 2004 (Note 22).

Diluted ordinary income per share is identical to the diluted earnings per share since there were no extraordinary gains or loss.

The diluted securities outstanding as of December 31, 2004, are as follows:

*(in millions, except conversion price)*

<b>Diluted security</b>	<b>Face value</b>	<b>Conversion period</b>	<b>Number of shares of common stock to be issued</b>	<b>Conversion price</b>
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	3,049,221 shares	₩96,869 per share

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**24. Dividends**

Details of dividends declared for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>		<b>2003</b>	
	<b>Dividend ratio (%)</b>	<b>Dividend amount</b>	<b>Dividend ratio (%)</b>	<b>Dividend amount</b>
Common stock	30%	₩ 208,220	25%	₩ 174,264
Preferred stock	31%	26,631	26%	22,336
		<u>₩ 234,851</u>		<u>₩ 196,600</u>

The Company's dividend payout ratio for the years ended December 31, 2004 and 2003, is computed as follows:

<i>(in millions of Korean won, except for ratios)</i>	<b>2004</b>	<b>2003</b>
Total dividends (A)	₩ 234,851	₩ 196,600
Net income (B)	1,545,954	662,824
Dividend payout ratio ((A)/(B))	15.19%	29.66%

The Company's dividend yield ratio for the years ended December 31, 2004 and 2003, is computed as follows:

<i>(in Korean won)</i>	<b>2004</b>		<b>2003</b>	
	<b>Common stock</b>	<b>Preferred stock</b>	<b>Common stock</b>	<b>Preferred stock</b>
Dividend per share (A)	₩ 1,500	₩ 1,550	₩ 1,250	₩ 1,300
Market price as of balance sheet date (B)	64,100	36,000	58,600	25,950
Dividend yield ratio ((A)/(B))	2.34%	4.31%	2.13%	5.01%

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**25. Transactions with Related Parties**

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

<i>(in millions of Korean won)</i>	<b>Sales</b>	<b>Purchases</b>	<b>Receivables</b>	<b>Payables</b>
LG Infocomm U.S.A. Inc. (LGICUS)	₩ 3,088,021	₩ 7,110	₩ 5,719	₩ 183
LG Electronics U.S.A. Inc. (LGEUS)	1,021,092	4,707	1,107	-
Hitachi-LG Data Storage Inc. (HLDS)	997,625	37,934	25,120	475
LG Electronics Service Europe Netherlands B.V. (LGESE)	914,416	36,129	54,277	1,635
LG Electronics Huizhou Inc. (LGEHZ)	817,745	2,062	11	16
LG Electronics Italy S.P.A. (LGEIS)	760,432	91,233	435	10,415
LG Electronics United Kingdom Ltd. (LGEUK)	710,424	109,526	6,413	47,422
LG Telecom, Ltd.	694,471	1,020	160,077	372
LG Electronics Australia PTY, Ltd. (LGEAP)	632,622	5,171	1,407	48
Hi Plaza Inc.	485,871	43,444	1,119	18,178
LG IBM PC Co., Ltd.	292,754	33,496	57,484	2,817
LG Electronics Wales Ltd. (LGEWA)	239,174	1,722	72	34
PT LG Electronics Display Devices Indonesia (LGEDI)	222,097	2,784	12,914	46
LG.Philips LCD Co., Ltd.	149,248	461,660	29,521	84,407
LG.Philips Displays Holding B.V. <sup>1</sup>	25,964	478,811	7,577	29,575
LG Chem, Ltd.	4,725	351,535	2,451	27,443
Zenith Electronics Corporation (Zenith)	2,955	69	-	-
LG MRO	1,573	112,431	7,580	60,130
Others <sup>2</sup>	5,733,951	1,563,281	259,432	283,183
2004	<u>₩16,795,160</u>	<u>₩ 3,344,125</u>	<u>₩ 632,716</u>	<u>₩ 566,379</u>
2003	<u>₩ 12,590,720</u>	<u>₩ 2,679,403</u>	<u>₩ 584,407</u>	<u>₩ 319,545</u>

<sup>1</sup> For year ended December 31, 2004, purchases of ₩478,811 million include the purchase of LG.Philips Displays Holding B.V.'s trade accounts receivable from the Company's subsidiaries amounting to ₩245,895 million.

<sup>2</sup> It includes purchase and sale of investment securities from (to) LG Corp.

**26. 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

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division.

The main products that each business division manufactures and sells are as follows:

Digital Display & Media division: VCR, CD-ROM, audio, TV, monitor, PDP and PC

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 year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	<b>Total</b>	<b>Business Division</b>			<b>Supporting Division</b>
		<b>Digital Display &amp; Media</b>	<b>Digital Appliance</b>	<b>Telecommunication Equipment &amp; Handset <sup>1</sup></b>	
<b>Sales</b>					
External sales	₩ 24,659,317	₩ 9,037,195	₩ 6,215,601	₩ 9,232,673	₩ 173,848
Inter-division sales	347,725	66,757	15,236	27,669	238,063
	<u>₩ 25,007,042</u>	<u>₩ 9,103,952</u>	<u>₩ 6,230,837</u>	<u>₩ 9,260,342</u>	<u>₩ 411,911</u>
<b>Operating income (loss)</b>	<u>₩ 1,249,734</u>	<u>₩ 289,247</u>	<u>₩ 448,038</u>	<u>₩ 610,279</u>	<u>₩ (97,830)</u>
<b>Property, plant and equipment</b>	₩ 3,629,549	₩ 1,536,095	₩ 845,981	₩ 472,464	₩ 775,009
<b>Intangible assets</b>	635,532	43,410	16,260	245,734	330,128
	<u>₩ 4,265,081</u>	<u>₩ 1,579,505</u>	<u>₩ 862,241</u>	<u>₩ 718,198</u>	<u>₩ 1,105,137</u>
<b>Depreciation and amortization</b>	<u>₩ 667,366</u>	<u>₩ 233,098</u>	<u>₩ 108,407</u>	<u>₩ 174,165</u>	<u>₩ 151,696</u>

<sup>1</sup> 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 year ended December 31, 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	₩ 20,176,910	₩ 6,885,305	₩ 5,648,794	₩ 7,463,418	₩ 179,393
Inter-division sales	281,742	107,668	15,706	33,251	125,117
	<u>20,458,652</u>	<u>6,992,973</u>	<u>5,664,500</u>	<u>7,496,669</u>	<u>304,510</u>
Operating income (loss)	<u>1,062,193</u>	<u>397,482</u>	<u>496,743</u>	<u>285,711</u>	<u>(117,743)</u>
Property, plant and equipment	3,122,720	929,461	881,809	512,034	799,416
Intangible assets	836,301	47,124	14,240	366,316	408,621
	<u>3,959,021</u>	<u>976,585</u>	<u>896,049</u>	<u>878,350</u>	<u>1,208,037</u>
Depreciation and amortization	<u>617,894</u>	<u>167,677</u>	<u>120,660</u>	<u>160,139</u>	<u>169,418</u>

Financial data by geographic area for the year ended December 31, 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	₩24,659,317	₩ 5,086,207	₩6,223,292	₩3,847,650	₩663,953	₩1,035,247	₩5,810,769	₩683,620	₩1,308,579
Ratio (%)	100%	20%	25%	16%	3%	4%	24%	3%	5%
Inter-division sales	347,725	347,725	-	-	-	-	-	-	-
	<u>₩25,007,042</u>	<u>₩ 5,433,932</u>	<u>₩6,223,292</u>	<u>₩3,847,650</u>	<u>₩663,953</u>	<u>₩1,035,247</u>	<u>₩5,810,769</u>	<u>₩683,620</u>	<u>₩1,308,579</u>

Financial data by geographic area for the year ended December 31, 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	₩20,176,910	₩ 4,793,702	₩5,760,389	₩1,787,823	₩413,315	₩942,978	₩4,894,076	₩460,057	₩ 1,124,570
Ratio (%)	100%	24%	28%	9%	2%	5%	24%	2%	6%
Inter-division sales	281,742	281,742	-	-	-	-	-	-	-
	<u>₩20,458,652</u>	<u>₩ 5,075,444</u>	<u>₩5,760,389</u>	<u>₩1,787,823</u>	<u>₩413,315</u>	<u>₩942,978</u>	<u>₩4,894,076</u>	<u>₩460,057</u>	<u>₩ 1,124,570</u>

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**27. Value Added Information**

Details of accounts included in the computation of value added for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004			2003		
	Selling and administrative expenses	Manufacturing costs	Total	Selling and administrative expenses	Manufacturing costs	Total
Salaries	₩ 632,759	₩ 736,913	₩ 1,369,672	₩ 490,534	₩ 590,443	₩ 1,080,977
Depreciation and amortization	284,198	383,168	667,366	293,181	324,713	617,894
Welfare expenses	88,818	125,454	214,272	82,149	123,289	205,438
Severance benefits	67,667	105,915	173,582	57,248	78,502	135,750
Rental charges	55,694	11,165	66,859	44,770	13,946	58,716
Taxes and dues	14,346	10,559	24,905	9,449	8,376	17,825
	<u>₩ 1,143,482</u>	<u>₩ 1,373,174</u>	<u>₩ 2,516,656</u>	<u>₩ 977,331</u>	<u>₩ 1,139,269</u>	<u>₩ 2,116,600</u>

**28. Environmental Investments**

For the year ended December 31, 2004, the Company's environmental investments, pursuant to environmental laws and the Company's environmental policies, amounted to ₩38,552 million (2003: ₩22,427 million).

**29. Employee Welfare and Social Contribution**

The Company's investments in employee welfare for the year ended December 31, 2004 amounted to ₩221,146 million (2003: ₩214,955 million).

The Company's social contributions for the year ended December 31, 2004 amounted to ₩10,352 million (2003: ₩8,271 million).

**30. Operating Results for the Final Interim Period**

Significant operating results for the three-month periods ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2004	2003
Sales	₩ 6,521,349	₩ 5,417,450
Cost of sales	5,065,431	4,144,519

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Operating income	94,909	197,694
Net income (loss) for the period	163,381	(17,206)
Basic earnings (loss) per share ( <i>in won</i> )	1,046	(164)
Diluted earnings (loss) per share ( <i>in won</i> )	1,023	(164)

**31. Supplemental Cash Flow Information**

Significant transactions not affecting cash flows for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	<b>2004</b>	<b>2003</b>
Reclassification of current maturities of debentures	₩ 649,140	₩ 985,112
Transfer to buildings, machinery and others from construction-in-progress	400,505	102,259
Changes in capital adjustments arising from the equity method of accounting for investments	136,267	7,641
Transfer to machinery and equipment from machinery-in-transit	33,933	108,299
Reclassification of current maturities of long-term debt	-	4,468
Changes in retained earnings arising from deducting organization costs	-	3,271

**32. Approval of Non-Consolidated Financial Statements**

The non-consolidated financial statements of the Company will be approved by the Board of Directors on February 19, 2005.

**33. Subsequent Event**

On January 1, 2005, the Company merged a part of PC division of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. This merger is aimed to optimize business efficiency, align operational strategies, and maximize profitability.

On January 24, 2005, the Company signed a memorandum of understanding with Nortel Networks Corporation of Canada for establishment of a joint venture to engage in the field of communication equipment and networking solution.