

# Non-Consolidated Financial Statements

December 31, 2003 and 2002



ARE YOU  
GOING  
WITH ME?



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### Report of Independent Auditors

#### To the Board of Directors and Shareholders of LG Corp. (formerly LG Chem Investment, Ltd.)

We have audited the non-consolidated balance sheets of LG Corp. (formerly LG Chem Investment, Ltd.) ("the Company") as of December 31, 2003 and 2002, 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 conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Corp. (formerly LG Chem Investment, Ltd.) as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Notes 1 and 21 to the non-consolidated financial statements, in accordance with the resolution of the Board of Directors on November 28, 2002 and the resolution of the shareholders on January 29, 2003, the Company merged with LG Electronics Investment, Ltd. and the division, which was spun-off from LG MRO, and took over LG MRO's business divisions engaged in investment and certain rental of real estate, on March 1, 2003.

The shareholders of LG Electronics Investment, Ltd. ("LGEI") received 1.8282 shares of common stock and 1.5572 shares of preferred stock for one old share of common stock and one old share of preferred stock, respectively, or a total of 169,776,144 shares of common stock and 2,973,559 shares of preferred stock of the Company were received by the shareholders of LGEI.

Under the commercial code of the Republic of Korea the Company (before the merger, LG Chem Investment, Ltd.) ("LGCI"), is considered the legal acquirer in this transaction. However, in accordance with the Standards of Accounting for Business Combination generally accepted in the Republic of Korea, LG Electronics Investment, Ltd., whose shareholders control the Company substantially after the merger, is deemed to be the acquirer and the purchase method is to be applied to the assets and liabilities of LG Chem Investment, Ltd. Therefore, in accordance with the Standards of Accounting for Business Combinations generally accepted in the Republic of Korea, the financial statements as of and for the year ended December 31, 2002 of LG Electronics Investment, Ltd., which is the acquirer in the merger, are used in the preparation of the financial statements as of and for the year ended December 31, 2002, presented herein for comparative purposes.

The merger between the Company and the Company spun-off from LG MRO, is a merger between a controlling company and its wholly owned subsidiary. The assets and liabilities of the Company spun off from LG MRO were transferred to the Company without any consideration. Accordingly, there were no shares issued by both the Company and LG MRO to effect the merger.

As discussed in Note 1 to the non-consolidated financial statements, the Company changed its company name from LG Chem Investment, Ltd. to LG Corp. on March 4, 2003.

## Report of Independent Auditors

As discussed in Note 11 to the non-consolidated financial statements, to comply with the requirements of the Anti-Trust and Fair Trade Law, the Company issued 10,403,426 shares of common stock at ₩7,000 per share on March 28, 2003 in accordance with the resolution of the Board of Directors on March 7, 2003, in exchange for the 1,488,636 shares of common stock of Siltron Co., Ltd. it received as investment in-kind.

As discussed in Note 17 to the non-consolidated financial statements, during the year ended December 31, 2003 total revenues and expenses arising from transactions with related companies, including LG Chem, Ltd. are ₩33,460 million and ₩4,754 million, respectively, and as of December 31, 2003, the related accounts receivable amounted to ₩50,336 million, and related accounts payable amounted to ₩318,248 million.

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As discussed in Note 24 to the non-consolidated financial statements, in accordance with the resolution of the Board of Directors on December 22, 2003, the Company acquired a debenture amounting to ₩300,000 million issued by LG Card for the business normalization of LG Card on January 16, 2004. In addition, in accordance with the resolution of the Board of Directors on December 22, 2003, the Company disposed of 1,614,675 shares of its investment in Hankuk Electric Glass Co., Ltd. for ₩119,163 million (₩73,800 per share) to LG Electronics Inc. on January 9, 2004.

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



Seoul, Korea  
February 14, 2004

This report is effective as of February 14, 2004, the audit report data. Certain subsequent events or circumstances, which may occur between the report data 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 impact of such subsequent events or circumstances, if any.

## Non-Consolidated Balance Sheets

December 31, 2003 and 2002

<i>(in millions of Korean Won)</i>	2003	2002
<b>Assets</b>		
Current assets		
Cash and cash equivalents	₩ 214,466	₩ 185,330
Short-term financial instrument	-	66,081
Other accounts receivable, net (Note 17)	50,532	289
Accrued income	250	2,075
Advance payments	43	-
Prepaid expenses	1,798	-
Derivative transaction debit	51,264	-
Others	8,524	-
Total current assets	326,877	253,775
Property, plant and equipment, net (Notes 2 and 5)	520,683	48,386
Long-term financial instruments	5	8
Investment securities (Note 3)	184,228	150,342
Equity-method investments (Note 4)	6,177,948	3,046,876
Guarantee deposits	1,535	-
Deferred income tax assets (Note 15)	-	128,680
Long-term prepaid expenses	882	465
Derivative transactions debit	-	64,974
Intangible assets (Notes 2 and 6)	(1,037,174)	415
Total assets	₩ 6,174,984	₩ 3,693,921
<i>(in millions of Korean Won)</i>		
	2003	2002
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings (Note 7)	₩ 180,000	₩ -
Short-term debentures (Note 7)	199,264	-
Other accounts payable	2,961	9,484
Withholdings	497	41,551
Accrued expenses	9,299	1,685
Income tax payable (Note 15)	-	89,475
Current maturities of long-term debt (Note 7)	489,406	-
Total current liabilities	881,427	142,195
Debtentures, net (Note 8)	636,274	185,583
Accrued severance benefits, net (Notes 2 and 9)	6,232	3,435
Deferred income tax liabilities (Note 15)	16,335	-
Guarantee deposits received (Note 17)	354,957	-
Total liabilities	1,895,225	331,213
Commitments and contingencies (Note 10)		
Shareholders' equity (Note 11)		
Common stock	1,327,362	464,326
Preferred stock	25,498	169,548
Capital surplus		
Paid-in capital in excess of par value (Note 11)	1,381,948	1,425,774
Asset revaluation surplus (Note 12)	339,619	339,619
Other capital surplus	254,080	33,491
Retained earnings (Note 13)		
Legal reserve	73,621	69,888
Other reserves	1,299,673	1,382,084
Unappropriated retained earnings	5,830	392,823
Capital adjustments		
Loss on valuation of equity-method investments	(222,226)	(318,887)
Loss on valuation of investment securities (Note 3)	(9,856)	(110,892)
Treasury stock (Note 14)	(195,790)	(50,895)
Loss on reduction of capital stock	-	(434,171)
Total shareholders' equity	4,279,759	3,362,708
Total liabilities and shareholders' equity	₩ 6,174,984	₩ 3,693,921

# Non-Consolidated Income Statements

Years Ended December 31, 2003 and 2002

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

	2003	2002
<b>Operating revenue</b>	₩ 387,430	₩ 4,714,354
<b>Operating expenses</b>	158,882	4,437,863
Operating income	228,548	276,491
<b>Non-operating income</b>		
Interest income	6,147	19,209
Foreign exchange gains	514	9,669
Gain on foreign currency translation	-	9,338
Gain on disposal of available-for-sale securities	3,007	128,680
Gain on disposal of property, plant and equipment	-	1,801
Gain on valuation of security stabilization fund	-	1,554
Royalty income	-	7,322
Gain on business transfer	-	139,372
Gain on derivative transactions	-	206
Gain on valuation of derivative instruments (Note 10)	3,861	3,098
Amortization of negative goodwill	94,418	-
Others	52	53,066
	107,999	373,315
<b>Non-operating expenses</b>		
Interest expense	87,883	81,055
Foreign exchange losses	6	11,763
Loss on foreign currency translation	-	7,520
Loss on disposal of trade accounts receivable	-	24,669
Loss on valuation of available-for-sale securities	-	717
Loss on disposal of investments using the equity method of accounting	70,713	30,649
Impairment loss on available-for-sale securities	114,057	-
Loss on disposal of property, plant and equipment	-	22,613
Loss on redemption of debentures	-	1,395
Other bad debt expense	-	3,405
Loss on derivative transactions instruments	-	11,321
Loss on valuation of derivative instruments (Note 10)	17,572	21,980
Others	1,568	26,695
	291,799	243,782
Income before income taxes	44,748	406,024
Income tax expense (Note 15)	33,949	90,213
Net income	₩ 10,799	₩ 315,811
<b>Per share data</b> (in Won)		
Earnings per share (Note 16)	₩ 49	₩ 4,636
Ordinary income per share (Note 16)	₩ 49	₩ 4,636

## Non-Consolidated Statements of Appropriations of Retained Earnings

Earnings Years Ended December 31, 2003 and 2002 (Date of appropriations : March 19, 2004 and February 28, 2003 for the years ended December 31, 2003 and 2002, respectively)

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

	2003	2002
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior years	₩ -	₩ 19
Changes in retained earnings resulting from the use of the equity method on investments	(4,969)	76,993
Net income	10,799	315,811
	5,830	392,823
<b>Transfer from other reserves</b>		
Reserve for technological development	784,150	82,411
	789,980	475,234
<b>Appropriations of retained earnings</b>		
Legal reserve	6,153	3,733
Loss on reduction of capital stock	-	434,171
Cash dividends	61,530	37,330
Reserve for investment	722,297	-
	789,980	475,234
<b>Unappropriated retained earnings carried forward to the subsequent year</b>	₩ -	₩ -

# Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

(in millions of Korean Won)

	2003	2002
<b>Cash flows from operating activities</b>		
Net income	₩ 10,799	₩ 315,811
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	7,565	129,992
Amortization of discounts on debentures	9,760	7,985
Provision for severance benefits	2,735	31,100
Gain on foreign currency translation, net	-	(2,013)
Loss on disposal of trade accounts receivable	-	24,669
Loss on disposal of property, plant and equipment, net	-	20,812
Loss on redemption of debentures	-	1,395
Loss (gain) on disposal of investments, net	67,706	(98,031)
(Gain) loss on valuation of investments using the equity method of accounting, net	(222,526)	101,302
Impairment loss on investments	114,057	-
Loss on valuation of derivative instruments, net	13,711	18,882
Loss on derivative transactions, net	-	11,115
Provision for product warranty	-	9,000
Gain on business transfer	-	(139,372)
Amortization of negative goodwill	(94,418)	-
Bad debt expense	2	1,992
Others, net	(11,250)	22,059
	(101,859)	456,698
<b>Changes in operating assets and liabilities</b>		
Increase in trade accounts and notes receivable	-	(140,996)
Decrease (increase) in other accounts receivable	4,806	(41,475)
Decrease in inventories	-	102,879
Increase in prepaid expenses	(1,210)	(18,014)
(Increase) decrease in advance payments	(459)	15,715
Decrease (increase) in accrued income	1,879	(9,003)
(Increase) decrease in other current assets	(8,376)	2,728
Increase (decrease) in deferred income tax, net	45,961	(68,465)
Increase in trade accounts and notes payable	-	179,226
Decrease in other accounts payable	(10,794)	(359,363)
(Decrease) increase in accrued expenses	(6,067)	165,763
Increase in advances received	-	2,850
(Decrease) increase in withholdings	(42,599)	35,791
Decrease in income tax payable	(91,793)	(7,878)
Increase in guarantee deposits, received	59,316	-
Transfer-in (out) of severance benefits from affiliated company	3,360	(5,655)
Payment of severance benefits	(3,923)	(18,754)
(Increase) decrease in other assets	(86)	19,907
Dividend income	134,748	-
	84,763	(144,744)
Net cash (used in) provided by operating activities	₩ (17,096)	₩ 311,954

# Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

(in millions of Korean Won)

	2003	2002
<b>Cash flows from investing activities</b>		
Disposal (acquisition) of short-term financial instruments, net	72,937	(66,186)
Disposal (acquisition) of long-term financial instruments, net	9	(1,836)
Acquisition of available-for-sale securities, net	(16,561)	(157,441)
(Acquisition) disposal of equity-method investments, net	(31,029)	363,939
Acquisition of property, plant and equipment, net	(12,478)	(33,474)
(Acquisition) disposal of intangible assets, net	(817)	3,673
Disposal of derivatives	-	18,034
(Increase) decrease in guarantee deposits	(583)	83,235
Decrease in short-term and long-term loans provided, net	-	3,884
Increase in cash arising from the merger	15,367	-
Decrease in cash arising from the spin-off	-	(108,975)
Proceeds from the disposal of the CRT division	-	139,372
Net cash provided by investing activities	26,845	244,225
<b>Cash flows from financing activities</b>		
Proceeds from (repayment of) short-term borrowings	₩ 40,400	₩ (33,171)
Proceeds from short-term debentures	198,824	-
Proceeds from debentures	248,499	-
Repayment of current maturities of long-term debt	(460,000)	(159,314)
Repayment of debentures	-	(46,079)
Repayment of long-term debt	-	(21,635)
Payment of dividends	(54,702)	(138,760)
Proceeds from disposal of treasury stock	197,204	-
Acquisition of treasury stock	(150,768)	(2,743)
Others	(70)	(19,110)
Net cash provided by (used in) financing activities	19,387	(420,812)
Net increase in cash and cash equivalents	29,136	135,367
<b>Cash and cash equivalents</b>		
Beginning of year	185,330	49,963
End of year	₩ 214,466	₩ 185,330