

LG Electronics Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2003 and 2002

LG Electronics Inc. and Subsidiaries

Index

December 31, 2003 and 2002

	Page(s)
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Balance Sheets	3–4
Statements of Income	5–6
Statements of Changes in Shareholders' Equity	7
Statements of Cash Flows	8–9
Notes to Consolidated Financial Statements	10–51

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2003 and 2002

(in millions of Won)

(in millions of Won)	2003		2002	
Assets				
Current assets				
Cash and cash equivalents	₩	1,581,545	₩	902,877
Short-term financial instruments (Note 3)		194,964		35,118
Marketable securities (Note 4)		65,752		4,470
Trade accounts and notes receivable, net (Notes 5 and 24)		4,689,913		3,444,878
Inventories (Note 6)		4,738,465		3,640,180
Short-term loans, net (Note 5)		86,466		2,812
Other accounts receivable (Note 5)		369,904		598,830
Prepaid expenses		90,901		116,975
Accrued income (Note 5)		231,220		150,145
Advances (Note 5)		114,890		221,234
Prepaid income taxes		21,017		116,161
Derivative transaction debit		14,320		15,271
Other current assets		279,050		267,979
Total current assets		12,478,407		9,516,930
Property, plant and equipment, net (Notes 9, 11, 12 and 14)		8,928,888		7,393,223
Long-term financial instruments (Note 3)		141,002		19,598
Investment securities (Note 7)		273,708		205,606
Equity method investments (Note 8)		87,888		869,068
Refundable deposits		452,895		397,327
Long-term loans, net (Note 5)		48,473		47,753
Long-term prepaid expenses		129,917		105,834
Deferred income tax assets (Note 21)		513,913		411,466
Intangible assets (Note 10)		962,965		1,066,866
Other non-current assets		40,001		34,005
Total assets	₩	24,058,057	₩	20,067,676

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2003 and 2002

(in millions of Won)

	2003	2002
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 13)	₩ 4,185,319	₩ 3,767,173
Current maturities of long-term debt (Note 13)	1,526,286	898,256
Trade accounts and notes payable (Note 24)	4,091,383	3,173,784
Other accounts payable	2,434,498	2,243,186
Accrued expenses	1,019,557	823,977
Advances from customers	340,770	345,221
Withholdings	69,745	84,405
Income taxes payable (Note 21)	117,839	188,567
Derivative transaction credit	20,705	606
Other current liabilities	344,516	393,985
Total current liabilities	<u>14,150,618</u>	<u>11,919,160</u>
Debt		
Debentures, net of current maturities and discounts on debentures (Note 14)	3,638,935	3,654,176
Long-term debt, net of current maturities (Note 14)	579,829	201,010
Accrued severance benefits, net (Note 15)	256,138	209,116
Product warranty reserve	101,795	82,951
Deferred income tax liabilities (Note 21)	21,049	15,795
Other long-term liabilities	79,679	42,138
Total liabilities	<u>18,828,043</u>	<u>16,124,346</u>
Commitments and contingencies (Note 16)		
Shareholders' equity		
Capital stock (Note 17)	783,961	783,961
Capital surplus (Note 18)	1,723,058	1,697,161
Retained earnings (Note 19)	874,808	344,072
Capital adjustments (Note 20)	38,629	12,135
Minority interest in consolidated subsidiaries	1,809,558	1,106,001
Total shareholders' equity	<u>5,230,014</u>	<u>3,943,330</u>
Total liabilities and shareholders' equity	<u>₩ 24,058,057</u>	<u>₩ 20,067,676</u>

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

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Income
Year Ended December 31, 2003
and Nine-Month Period from April 1, 2002 (Spin-Off Date) to December 31, 2002

(in millions of Won, except per share amounts)

	2003	2002
Sales (Notes 24 and 25)	₩ 35,594,534	₩ 22,318,092
Cost of sales (Note 24)	<u>26,720,216</u>	<u>17,303,739</u>
Gross profit	8,874,318	5,014,353
Selling and administrative expenses	<u>6,447,217</u>	<u>4,102,369</u>
Operating income	<u>2,427,101</u>	<u>911,984</u>
Non-operating income		
Interest income	103,463	67,554
Gain on valuation of securities	47,823	-
Gain on disposal of securities	9,339	-
Rental income	56,635	8,256
Foreign exchange gains	701,927	568,380
Gain on disposal of investments	2,827	20,272
Gain on disposal of property, plant and equipment	9,063	8,074
Gain on derivatives transactions	7,206	23,285
Gain on valuation of derivatives	40,979	20,586
Refund of income taxes	3,170	2,641
Reversal of allowance for doubtful accounts	11,158	7,948
Others	199,704	413,994
	<u>1,193,294</u>	<u>1,140,990</u>
Non-operating expenses		
Interest expense	436,392	319,417
Foreign exchange losses	673,981	460,160
Loss on valuation of securities	7,555	-
Loss on valuation of inventories	53,125	54,140
Loss from transfer of trade accounts and notes receivable	96,871	75,377
Loss from disposal of property, plant and equipment	79,236	75,960
Loss on impairment of property, plant and equipment	534	2,227
Loss from disposal of investments	12,263	14,626
Loss from redemption of debentures	1,279	1,302
Equity in losses of affiliates, net (Note 8)	576,311	184,852
Other bad debt expense	4,231	8,948
Donations	10,027	6,825
Loss on derivatives transactions	24,860	11,506
Loss on valuation of derivatives	10,793	5,502
Additional payment of income taxes	202	7,252
Others	171,118	179,476
	<u>2,158,778</u>	<u>1,407,570</u>

LG Electronics Inc. and Subsidiaries**Consolidated Statements of Income****Year Ended December 31, 2003****and Nine-Month Period from April 1, 2002 (Spin-Off Date) to December 31, 2002***(in millions of Won, except per share amounts)*

	2003	2002
Ordinary income	1,461,617	645,404
Extraordinary gains	-	-
Extraordinary losses	-	-
Income before income taxes	1,461,617	645,404
Income tax expense (Note 21)	222,895	179,261
Income before minority interest	1,238,722	466,143
Minority interest in income of consolidated subsidiaries, net	(533,746)	(123,683)
Net income	₩ 704,976	₩ 342,460
Earnings per share and ordinary income per share (in Won) (Note 22)	₩ 4,498	₩ 2,181
Diluted earnings per share and diluted ordinary income per share (in Won) (Note 22)	4,452	2,181

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

LG Electronics Inc. and Subsidiaries
Statement of Changes in Shareholders' Equity
Year Ended December 31, 2003
and Nine-Month Period from April 1, 2002 (Spin-Off Date) to December 31, 2002
(in millions of Won)

	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interests	Total
Balance at April 1, 2002	₩ 783,961	₩ 1,699,129	₩ -	₩ 130,716	₩ 996,689	₩ 3,610,495
Net income	-	-	342,460	-	-	342,460
Acquisition of treasury stock	-	-	-	(11,651)	-	(11,651)
Loss on valuation of investments, net	-	-	-	(12,647)	-	(12,647)
Overseas operations translation adjustments	-	-	-	(97,985)	-	(97,985)
Changes in minority interest	-	-	-	-	109,312	109,312
Adjustment for changes in ownership, net	-	(1,968)	-	-	-	(1,968)
Others	-	-	1,612	3,702	-	5,314
Balance at December 31, 2002	<u>₩ 783,961</u>	<u>₩ 1,697,161</u>	<u>₩ 344,072</u>	<u>₩ 12,135</u>	<u>₩ 1,106,001</u>	<u>₩ 3,943,330</u>
Balance at January 1, 2003	₩ 783,961	₩ 1,697,161	₩ 344,072	₩ 12,135	₩ 1,106,001	₩ 3,943,330
Net income	-	-	704,976	-	-	704,976
Disposal of treasury stock	-	-	-	2,873	-	2,873
Conversion rights	-	15,833	-	-	-	15,833
Payment of dividends	-	-	(157,431)	-	-	(157,431)
Effect of change in accounting principle	-	-	(3,271)	-	-	(3,271)
Equity in losses of affiliates	-	-	(13,576)	-	-	(13,576)
Loss on valuation of investments, net	-	-	-	(80,581)	-	(80,581)
Overseas operations translation adjustments	-	-	-	104,202	-	104,202
Changes in minority interest	-	-	-	-	703,557	703,557
Adjustment for changes in ownership, net	-	10,064	-	-	-	10,064
Others	-	-	38	-	-	38
Balance at December 31, 2003	<u>₩ 783,961</u>	<u>₩ 1,723,058</u>	<u>₩ 874,808</u>	<u>₩ 38,629</u>	<u>₩ 1,809,558</u>	<u>₩ 5,230,014</u>

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

LG Electronics Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended December 31, 2003

(in millions of Won)

Cash flows from operating activities

Net income	₩	704,976
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization		1,827,482
Amortization of discounts on debentures		31,990
Provision for severance benefits		176,560
Gain from disposal of securities, net		(8,713)
Gain on valuation of securities, net		(40,268)
Loss from transfer of trade accounts and notes receivable		96,871
Loss on valuation of inventories		53,125
Bad debt expense		61,617
Gain on foreign currency translation, net		(20,147)
Loss from disposal of investment securities, net		9,436
Loss on impairment of investment securities		29,477
Loss from disposal of property, plant and equipment, net		70,173
Equity in losses of affiliates, net		576,311
Gain on valuation of derivatives, net		(30,186)
Loss on transaction of derivatives, net		17,654
Minority interest in income of consolidated subsidiaries, net		533,746
Others		1,748
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable		(1,336,653)
Decrease in other accounts receivable		240,118
Increase in accrued income		(81,014)
Decrease in advances		108,735
Increase in other current assets		(4,807)
Increase in inventories		(1,101,854)
Decrease in prepaid expenses		2,307
Decrease in prepaid income taxes		95,131
Increase in deferred income tax assets		(100,919)
Increase in trade accounts and notes payable		848,756
Decrease in other accounts payable		(81,947)
Increase in accrued expenses		189,422
Decrease in withholdings		(15,311)
Decrease in advances from customers		(4,136)
Increase in deferred income tax liabilities		4,578
Decrease in income taxes payable		(76,380)
Payment of severance benefits		(102,199)
Increase in severance insurance deposits		(35,273)
Decrease in contributions to the National Pension Fund		3,289
Others		(2,722)
Net cash provided by operating activities		<u>2,640,973</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended December 31, 2003

(in millions of Won)

Cash flows from investing activities

Disposal of available-for-sale securities	10,517
Increase in short-term and long-term loans, net	(82,302)
Acquisition of short-term financial instruments	(145,393)
Acquisition of long-term financial instruments	(121,340)
Proceeds from disposal of investment securities	979,201
Acquisition of investment securities	(1,023,652)
Payment of refundable deposits	(55,213)
Increase in other non-current assets	(6,001)
Proceeds from disposal of property, plant and equipment	308,926
Acquisition of property, plant and equipment	(3,050,253)
Acquisition of intangible assets	(108,436)
Increase in cash due to changes in the consolidated entities	79,306
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Net cash used in investing activities	(3,214,640)

Cash flows from financing activities

Proceeds from short-term borrowings	425,277
Payment of current maturities of long-term debt	(898,256)
Payment of dividends	(157,396)
Repayment of debentures	(597,564)
Proceeds from issuance of debentures	1,949,183
Early redemption of long-term debt	(243)
Proceeds from long-term debt	411,514
Proceeds from settlement of derivatives	33,582
Proceeds from disposal of treasury stock	11,936
Acquisition of treasury stock	(9,400)
Change in overseas operations translation adjustments	104,098
Others	(20,396)
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Net cash provided by financing activities	1,252,335
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Net increase in cash and cash equivalents	678,668

Cash and cash equivalents

Beginning of the year (Note 28)	902,877
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End of the year (Note 28)	₩ 1,581,545

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

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1. The Consolidated Companies

The Controlling Company

As discussed in Note 27, LG Electronics Inc. ("LGE") was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002, to engage in the manufacture and sale of electronic, and information and communication products.

As of December 31, 2003, LGE operates manufacturing facilities in Kuro, Pyeongtaek, Chongju, Gumi, and Changwon in the Republic of Korea.

As of December 31, 2003, LGE has outstanding capital stock amounting to ₩783,961 million, including non-voting preferred stock. LGE's stock was listed on the Korean Stock Exchange on April 22, 2002, and its depositary receipts ("DRs") were listed on the London Stock Exchange in September 2002.

As of December 31, 2003, affiliated companies comprised of the LG Group, including LG Corp., and key management personnel, including the family members of such individuals, own a total of 32.1% of LGE's common stock, and financial institutions, foreign investors and others own the rest of LGE's common stock.

Consolidated Subsidiaries and Equity Method Investees

Consolidated subsidiaries and equity method investees as of December 31, 2003 are as follows:

(in millions of Won)

(in millions of Won)

Company	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Ownership (%)
			LGE	Subsidiaries	Total	
Domestic subsidiaries						
LG.Philips LCD Co., Ltd.	₩ 2,894,036	145,000,000	72,500,000	-	72,500,000	50.00
LG Micron Ltd.	176,625	5,800,000	2,170,000	-	2,170,000	37.41
LG Innotek Co., Ltd.	191,806	8,620,800	6,017,400	-	6,017,400	69.80
Hi Plaza Inc.	80,051	1,440,000	1,440,000	-	1,440,000	100.00
Stic Ventures Co., Ltd.	32,817	3,000	2,820	-	2,820	94.00
Domestic equity method investees						
LG IBM PC Co., Ltd.	36,480	4,860,000	2,381,400	-	2,381,400	49.00
LG Sports Ltd.	4,805	1,200,000	300,000	-	300,000	25.00

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

(in millions of Won)

Company	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Ownership (%)
			LGE	Subsidiaries	Total	
Overseas subsidiaries						
LG Electronics Alabama, Inc. (LGEAI)	77,804	266	266	-	266	100.00
LG Electronics Almaty Kazak Co., Ltd. (LGEAK) (*)	23,138	-	-	-	-	100.00
LG Electronics Antwerp Logistics N.V. (LGEAL) (*)	1,650	-	-	-	-	100.00
LG Electronics Australia PTY, Ltd. (LGEAP)	9,042	2,685,000	2,685,000	-	2,685,000	100.00
LG Electronics Klima Sanayi ve Ticaret P.S. (LGEAT)	39,769	120,000	60,000	-	60,000	50.00
LG Electronics Da Amazonia Ltda. (LGEAZ) (*)	40,477	-	-	-	-	100.00
LG Electronics Colombia Ltda. (LGEGB) (*)	5,334	-	-	-	-	60.00
LG Electronics China Co., Ltd. (LGECH) (*)	45,189	-	-	-	-	100.00
LG Electronics Canada, Inc. (LGECL)	16,301	42,900	42,900		42,900	100.00
LG Collins Electronics Manila Inc. (LGECLM)	2,435	739,036	739,036		739,036	100.00
Taizhou LG Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT) (*)	48,844	-	-	-	-	100.00
LG Electronics Deutschland GmbH (LGEDG) (*)	24,947	-	-	-	-	100.00
PT LG Electronics Display Devices Indonesia (LGEDI)	76,975	41,240	41,240	-	41,240	100.00
LG Electronics Egypt Cairo S.A.E. (LGEEC)	489	13,510	13,510	-	13,510	100.00
LG Electronics Egypt S.A.E. (LGEEG)	1,929	144,000	112,320	-	112,320	78.00
LG Electronics Espana S.A. (LGEES)	12,863	53,000	53,000	-	53,000	100.00
LG Electronics Gulf FZE (LGEGF)	3,981	11	11	-	11	100.00
LG Electronics HK Limited (LGEHK)	4,390	2,852,825	2,852,825	-	2,852,825	100.00
LG Electronics Hellas S. A. (LGEHS)	7,374	1,000,000	1,000,000	-	1,000,000	100.00
LG Electronics Huizhou Inc. (LGEHZ) (*)	36,780	-	-	-	-	80.00
LG Electronics India PVT Ltd. (LGEIL)	117,526	112,649,459	112,649,459		112,649,459	100.00
PT LG Electronics Indonesia Ltd. (LGEIN)	44,462	40,700	31,200	9,500	40,700	100.00
LG Electronics Italy S.P.A. (LGEIS)	9,041	17,010,131	17,010,131	-	17,010,131	100.00
LG Electronics Japan Inc. (LGEJP)	3,682	1,380,000	1,380,000	-	1,380,000	100.00
LG Electronics Mlawa SP.Zo.O. (LGEMA) (*)	21,175	-	-	-	-	100.00
LG Electronics Morocco S.A.R.L. (LGEMC)	7,046	315,213	315,213	-	315,213	100.00
LG-Meca Electronics Haiphong, Inc. (LGEMH) (*)	4,512	-	-	-	-	70.00
LG Electronics Magyar Kft (LGEMK) (*)	10,877	-	-	-	-	100.00
LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM)	13,264	15,636	15,479	157	15,636	100.00
LG Electronics Mexico S.A. DE C.V. (LGEMS)	7,558	19,800,000	19,500,000	300,000	19,800,000	100.00
LG MITR Electronics Co., Ltd. (LGEMT)	14,582	5,076,000	4,453,800	-	4,453,800	87.74
LG Electronics North of England Ltd. (LGENE)	17,469	9,000,000	9,000,000	-	9,000,000	100.00
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT) (*)	31,963	-	-	-	-	70.00
LG Electronics Polska SP.Zo. O. (LGEPL) (*)	10,229	-	-	-	-	100.00
Nanjing LG Panda Appliances Co., Ltd. (LGEPN) (*)	27,800	-	-	-	-	70.00

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

(in millions of Won)			Shares owned by			Ownership (%)
Company	Shareholders' equity	Total issued and outstanding shares	LGE	Subsidiaries	Total	
Overseas subsidiaries						
LG Electronics Peru S.A. (LGEPR)	1,270	5,296,822	5,296,822	-	5,296,822	100.00
LG Electronics Panama S.A. (LGEPS)	3,310	21,000	21,000	-	21,000	100.00
LG Electronics Portugal (LGEPT)(*)	7,473	-	-	-	-	100.00
LG Electronics Qinhuangdao Co., Ltd. (LGEQH) (*)	8,142	-	-	-	-	100.00
LG Electronics Russia Inc. (LGERI) (*)	6,318	-	-	-	-	95.00
LG Electronics S.A. Pty Ltd. (LGESA)	27,984	18,500,000	18,500,000	-	18,500,000	100.00
LG Electronics Service Europe Netherlands B.V. (LGESE) (*)	7,205	-	-	-	-	100.00
Shanghai LG Electronics Co., Ltd. (LGESH) (*)	13,420	-	-	-	-	70.00
LG Electronics de Sao Paulo Ltda. (LGESP) (*)	11,935	-	-	-	-	100.00
LG SEL Electronics Vietnam Inc. (LGEVN) (formerly LGESV) (*)	13,377	-	-	-	-	100.00
LG Electronics Sweden AB (LGESW)	6,683	44,345	44,345	-	44,345	100.00
LG Electronics Shenyang Inc. (LGESY) (*)	31,439	-	-	-	-	78.87
LG Electronics Tianjin Appliance Co., Ltd. (LGETA) (*)	148,473	-	-	-	-	80.00
LG Electronics Thailand Co., Ltd. (LGETH)	29,323	2,050,000	1,004,500	1,045,500	2,050,000	100.00
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	1,700	19,492,542	19,492,542	-	19,492,542	100.00
LG Electronics United Kingdom Ltd. (LGEUK)	(6,823)	126,000	126,000	-	126,000	100.00
LG Electronics U.S.A., Inc. (LGEUS)	36,918	22,016	22,016	-	22,016	100.00
LG Electronics Wales Ltd. (LGEWA)	571,276	659,000	659,000	-	659,000	100.00
EIC Properties PTE, Ltd.	22,689	34,170,000	13,052,940	-	13,052,940	38.20
LG Software PVT, Ltd. (LGSi)	7,833	11,204,270	8,403,200	-	8,403,200	75.00
Zenith Electronics Corporation (Zenith)	(12,721)	2,000	2,000	-	2,000	100.00
LG Electronics LG Infocomm, U.S.A. (LGICUS)	21,503	10,000	10,000	-	10,000	100.00
LG I&C Thailand (LGICTH)	9,922	76,000	45,600	-	45,600	60.00
LG Electronics System India, Ltd. (LGSYS)	(13,915)	479,273	479,273	-	479,273	100.00
LG-TOPS (*)	2,324	-	-	-	-	40.00
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT) (*)	25,200	-	-	-	-	54.82
LG Holdings (HK) Ltd.	119,503	100,000,000	31,820,000	-	31,820,000	31.82
LGE (China) R&D Center (*)	6,539	-	-	-	-	100.00
Kunshan LGMS Computer Co., Ltd. (LGEKS) (*)	1,795	-	-	-	-	51.00
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP) (*)	13,435	-	-	-	-	100.00
Qingdao LG Langchao Digital Communication Co., Ltd. (LGEQD) (*)	5,866	-	-	-	-	60.00
LG Electronics Czech S.R.O. (LGE CZ) (*)	7,165	-	-	-	-	100.00
LG Electronics Inc. Chile Limitada (LGECL) (*)	6,401	-	-	-	-	100.00
Overseas equity method investees						
Hitachi-LG Data Storage Inc. (HLDS)	30,632	30,000	14,700	-	14,700	49.00
LG.Philips Displays Holding B.V.	(129,388)	68,182	-	34,090	34,090	50.00
Vietnam Korea Exchange, Ltd. (V.K.X.) (*)	6,343	-	-	-	-	40.00
SLD TELECOM Pte. Ltd.	50,644	54,450,000	23,958,000	-	23,958,000	44.00

(*) There are no issued and outstanding shares since they are not a corporation.

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2003 and 2002**

Newly consolidated subsidiaries as of December 31, 2003 are as follows:

Consolidated subsidiaries	Reason
LG Electronics (Nanjing) Plasma Co., Ltd. (LGENP)	During 2003, the subsidiaries were newly established.
LG Electronics Portugal (LGEPT)	
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd.	
Qingdao LG Lanchao Digital Communication Co., Ltd. (LGEQD)	
LG Electronics Czech S.R.O. (LGE CZ)	
LG Electronics Inc. Chile Limitada (LGECL)	
Kunshan LGMS Computer Co., Ltd. (LGEKS)	
LG Micron Ltd.	During 2003, the Company purchased additional ownership of these subsidiaries.
LG Software PVT, Ltd. (LGSI)	
LG Electronics Russia Inc. (LGERI)	
LG Electronics Hellas S.A. (LGEHS)	
Stic Ventures Co., Ltd.	Subsidiaries and affiliates whose total assets increased to more than ₩7,000 million.
EIC Properties PTE, Ltd.	

As of December 31, 2003, LG Sports Ltd. was reclassified from being a consolidated subsidiary to an equity method investee because of decrease in ownership.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by LGE and its subsidiaries (collectively referred to as the "Company") in the preparation of the accompanying consolidated financial statements are summarized as follows:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory consolidated 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 consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language 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 consolidated financial statements.

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Accounting Estimates

The preparation of the consolidated 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 be different from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. SKFAS No. 1, *Accounting Changes and Corrections of Errors*, became effective for the Company on January 1, 2002, and SKFAS No. 2, *Interim Financial Reporting*, through No. 9, *Convertible Securities*, became effective for the Company on January 1, 2003. The Company has adopted these statements in its financial statements for the year ended December 31, 2003.

LGE was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002. According to addendum 3 of the financial accounting standards for consolidated financial statements in the Republic of Korea, the consolidated statement of cash flows is not required to be prepared, since the nine-month period from April 1, 2002 (date of spin-off) to December 31, 2002 is the initial fiscal year for the consolidated financial statements.

Principles of Consolidation

The fiscal year of the consolidated subsidiaries are the same as that of the controlling company. Differences in accounting policy between the controlling company and consolidated subsidiaries are adjusted in consolidation.

The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30% of its issued share capital is held by the other company and that company is the largest shareholder. Investments in 20% to 50% owned affiliated companies or investments in affiliated companies over which the Company exerts a significant influence are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share in the undistributed earnings or losses of these companies.

All significant intercompany transactions and balances with consolidated subsidiaries have been eliminated in consolidation.

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

To eliminate the investment account of the controlling company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied, depending on the nature of the transaction. In using the purchase method, when the Company has a control over a subsidiary, the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, which is amortized over five years using the straight-line method. When the Company has a significant influence over equity method investees, differences between the initial investment accounts and corresponding capital accounts of equity method investees are also amortized over five years using the straight-line method.

Unrealized profit included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated. Unrealized profit arising from sales by the controlling company to consolidated subsidiaries or equity method investees is fully eliminated and charged to the equity of the controlling company. Unrealized profit, arising from sales by the consolidated subsidiaries or equity method investees to the controlling company or sales between consolidated subsidiaries or equity method investees, is fully eliminated and charged to the equity of the controlling company and minority interest based on the ownership ratio.

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries included in minority interest are in excess of minority interest, the deficit in excess of minority interest is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in the equity of the controlling company.

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.

Effective as of January 1, 2003, pursuant to Statement of Korean Financial Accounting Standards ("SKFAS") No. 4, *Revenue Recognition*, the Company changed its accounting method for revenue recognition related to certain sales, from recognizing revenue on a gross basis to recognizing revenue on a net basis. This change resulted in the decrease in sales and cost of sales for the year ended December 31, 2003 by ₩1,273,879 million each.

Securities

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

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

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.

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.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. If the net realizable value of the inventory is less than its cost, the carrying amount is reduced to the net realizable value.

Property, Plant and Equipment

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

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.

Interest expense and other similar expenses incurred during the construction period of assets on funds borrowed to finance construction are expensed.

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.

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.

Goodwill is stated at the amount in excess of the price paid over the acquired company's net book value. Amortization is computed using the straight-line method over five years.

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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.

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.

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.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date, and resulting translation gains or losses are recognized in current operations.

The exchange rate used to translate U.S. Dollar denominated monetary assets and liabilities as of December 31, 2003 and 2002 is ₩1,197.8: US\$1 and ₩1,200.4: US\$1, respectively.

Translation of Foreign Currency Financial Statements

Foreign currency financial statements of consolidated subsidiaries are translated into Korean Won using the basic exchange rates in effect at the balance sheet date for assets and liabilities, and average monthly exchange rates for income and expenses. Any resulting translation gain or loss is included in shareholders' equity.

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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 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 LGE and its domestic subsidiaries, 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.

Overseas subsidiaries accrue employees' retirement benefits according to the local regulations in which they operate.

Long-Term Accounts Receivable and Payable

Long-term accounts receivable or payable arising from long-term contracts are recorded at the net present value of future cash flows, calculated using the effective interest rate at the time of the contract execution. The difference between the nominal value and the present value of these accounts receivable or payable is amortized over the contract period using the effective interest rate method. The resulting amortization is recognized as interest income or expense.

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.

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.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

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.

3. Financial Instruments

As of December 31, 2003 and 2002, short-term financial instruments amounting to ₩6,749 million and ₩32 million, and long-term financial instruments amounting to ₩9,713 million and ₩8,363 million, respectively, are deposited in connection with maintaining checking accounts, various short-term and long-term borrowings, and research and development projects funded by the government. The withdrawal of these financial instruments is restricted (Note 11).

4. Marketable Securities

Marketable securities as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	2003		2002	
Available-for-sale securities	₩	57,838	₩	4,470
Trading securities (Money Market Fund)		7,914		-
	₩	<u>65,752</u>	₩	<u>4,470</u>

Available-for-sale securities as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	Percentage of ownership (%) at December 31, 2003	2003			2002		
		Acquisition cost	Fair value	Carrying value	Acquisition cost	Fair value	Carrying value
Beneficiary certificates (*)	-	₩ 50,000	₩ 50,000	₩ 50,000	₩ -	₩ -	₩ -
Others	-	₩ 6,674	₩ 7,838	₩ 7,838	₩ 4,470	₩ 4,470	₩ 4,470
		<u>₩ 56,674</u>	<u>₩ 57,838</u>	<u>₩ 57,838</u>	<u>₩ 4,470</u>	<u>₩ 4,470</u>	<u>₩ 4,470</u>

(*) This includes corporate bonds and commercial papers issued by LG Card Co., Ltd.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

5. Receivables

Receivables, including trade accounts and notes receivable, as of December 31, 2003 and 2002 comprise the following:

<i>(in millions of Won)</i>	2003				2002			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
Trade accounts and notes receivable	₩ 4,905,568	₩ 212,751	₩ 2,904	₩ 4,689,913	₩3,623,359	₩178,390	₩ 91	₩3,444,878
Short-term loans	86,476	10	-	86,466	2,827	15	-	2,812
Other accounts								
Receivable	386,320	16,416	-	369,904	650,931	52,101	-	598,830
Accrued income	231,636	416	-	231,220	152,794	2,649	-	150,145
Advances	124,410	9,520	-	114,890	225,976	4,742	-	221,234
Long-term loans	70,288	21,815	-	48,473	69,553	21,800	-	47,753
	<u>₩5,804,698</u>	<u>₩260,928</u>	<u>₩2,904</u>	<u>₩5,540,866</u>	<u>₩4,725,440</u>	<u>₩259,697</u>	<u>₩ 91</u>	<u>₩4,465,652</u>

6. Inventories

Inventories as of December 31, 2003 and 2002 comprise the following:

<i>(in millions of Won)</i>	2003	2002
Merchandise	₩ 1,211,395	₩ 1,000,964
Finished products	1,659,816	1,542,504
Work-in-process	476,014	289,394
Raw materials and supplies	1,307,857	748,843
Others	83,383	58,475
	<u>₩ 4,738,465</u>	<u>₩ 3,640,180</u>

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

7. Investment Securities

Long-term investment securities as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	2003	2002
Available-for-sale securities	₩ 272,680	₩ 205,562
Held-to-maturity securities	1,028	44
	<u>₩ 273,708</u>	<u>₩ 205,606</u>

Available-for-sale securities as of December 31, 2003 and 2002 are as follows:

(in millions of Won)	Percentage of ownership (%) at December 31, 2003	2003			2002		
		Acquisition cost	Net asset value /Market value	Carrying value	Acquisition cost	Net asset value /Market value	Carrying value
Marketable equity securities							
					₩ 24,29		
Hynix Semiconductor Inc.	-	₩ -	₩ -	₩ -	8	₩ 527	₩ 527
KT Corp.	0.83	127,441	105,257	105,257	127,441	119,653	119,653
LG Card Co., Ltd.	-	-	-	-	1,820	10,842	10,842
LG Investment & Securities Co., Ltd. (*1)	7.17	262,432	84,498	84,498	-	-	-
NARA MOLD & DIE Co., Ltd.	12.34	812	2,999	2,999	812	3,570	3,570
Voiceware Co., Ltd.	10.44	206	1,363	1,363	206	1,844	1,844
Vodavi Technology Inc.	19.86	2,928	5,992	5,992	2,928	1,853	1,853
Topfield Co.,Ltd	2.08	501	787	787	-	-	-
		394,320	200,896	200,896	157,505	138,289	138,289
Non-marketable equity securities							
Domestic companies							
LG Mart Co., Ltd.	-	-	-	-	3,331	1,268	1,895
Innopla Co., Ltd.	19.90	245	555	245	245	645	245
Castec Korea Co., Ltd.	5.00	182	489	182	150	489	150
Msoltech	10.00	635	242	635	635	242	635
AL Tech Inc.	8.53	589	245	589	589	245	589
Korea Information Certificate Authority Inc.	9.35	1,852	1,695	1,852	1,852	1,774	1,852
Stic Ventures Co., Ltd. (*3)	-	-	-	-	28,200	29,959	28,200
Association of Electronics Environment	36.04	4,349	1,795	4,349	4,349	1,795	4,349
Megaround Co., Ltd.	14.79	318	315	318	318	315	318
Temco, Inc.	13.04	1,200	1,200	1,200	1,200	1,200	1,200
Netgenetech Co., Ltd.	15.00	176	176	176	176	176	176
Machi	-	-	-	-	150	150	150
Manager Society, Inc.	3.70	200	200	200	200	200	200
Mobisys Telecom	-	-	-	-	279	279	279
Thermo Metrix Technology	19.90	158	158	158	158	158	158
Wowlinux	7.40	100	100	100	100	100	100
Silicon Works	12.00	501	501	501	-	-	-
TU Media Corporation	5.00	6,500	6,500	6,500	-	-	-
Standard Lazer System Co., Ltd.	1.54	250	250	250	250	250	250
Seil AGIC	-	-	-	-	2	-	-
Digital World Corporation	1.27	180	180	180	180	180	180
Newco Display Inc.	10.00	400	400	400	-	-	-
Eron Technologies Corporation	0.35	138	138	138	-	-	-
Korean Defense Industry Development Association	-	3,171	3,171	3,171	3,171	3,171	3,171

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

<i>(in millions of Won)</i>	Percentage of ownership (%) at December 31, 2003	2003			2002		
		Acquisition cost	Net asset value /Market value	Carrying value	Acquisition cost	Net asset value /Market value	Carrying value
ITEC Technologies Ltd.	6.00	600	233	600	-	-	-
Reakosys Inc.	11.43	650	246	650	-	-	-
Nexphil Electronics Co., Ltd.	4.61	767	99	767	-	-	-
Plushub Inc.	12.03	848	197	848	-	-	-
Micro Circuit Technology Co., Ltd	5.51	700	23	700	-	-	-
Pentamicro Inc.	7.58	600	127	600	-	-	-
Han Kook Antenna Co., Ltd.	8.33	713	465	713	-	-	-
Pulsus Technologies, Inc.	3.73	700	198	700	-	-	-
Sevit Co., Ltd.	10.37	1,000	617	1,000	-	-	-
Eonex Technologies, Inc.	0.89	600	256	600	-	-	-
Others	-	11,618	6,675	11,160	988	988	988
Overseas companies							
Gemfire Corp. (*2)	4.41	1,835	-	-	1,835	170	1,835
Erlang Technology Inc.	8.40	1,129	313	1,129	1,129	187	1,129
Mainstreet Networks	-	-	-	-	1,468	-	-
iTV Corporation	-	-	-	-	1,957	-	-
Pocket Science	-	-	-	-	473	-	-
Neopoint Inc. (*2)	16.62	1,604	-	-	1,604	-	-
E2OPEN.COM	6.87	15,694	1,899	15,694	12,751	3,606	12,751
COMMIT Incorporated	13.47	4,990	4,990	4,990	-	-	-
Cenix Inc.	-	-	-	-	3,272	958	3,272
Monet Mobile Networks	1.90	1,299	276	1,299	1,299	871	1,299
SUNPOWER.INC	10.35	1,257	258	1,257	1,257	219	1,257
G.S. Mexicana S.A DE C.V.	-	104	104	104	-	-	-
CMEA II Venture Fund	-	1,154	1,154	1,154	-	-	-
Caspian Bank	-	1,198	1,198	1,198	-	-	-
Others	-	2,116	2,116	2,116	346	346	346
		<u>72,320</u>	<u>39,754</u>	<u>68,423</u>	<u>73,914</u>	<u>49,941</u>	<u>66,974</u>
Debt securities							
Bonds issued by the government		1,157	1,157	1,157	299	299	299
Convertible bonds issued by NeoDis Co., Ltd.		2,204	2,204	2,204	-	-	-
		<u>3,361</u>	<u>3,361</u>	<u>3,361</u>	<u>299</u>	<u>299</u>	<u>299</u>
		<u>₩ 470,001</u>	<u>₩ 244,011</u>	<u>₩ 272,680</u>	<u>₩ 231,718</u>	<u>₩ 188,529</u>	<u>₩ 205,562</u>

- (*1) Reclassified into available-for-sale security in 2003 from equity method investment security in 2002.
- (*2) Carrying value was fully written down due to the negative net book value of the investment as of December 31, 2003.
- (*3) Reclassified into a consolidated subsidiary in 2003 from available-for-sale security in 2002.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

As of December 31, 2003 and 2002, all of the held-to-maturity securities pertain to the bonds issued by the government.

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

(in millions of Won)

Due in	Available-for-sale securities	Held-to-maturity securities
Over one year through five years	₩ 3,361	₩ 984
Over five years through ten years	-	44
	<u>₩ 3,361</u>	<u>₩ 1,028</u>

The details of changes in accumulated gains (losses) on valuation of available-for-sale securities accounted for as capital adjustment for the year ended December 31, 2003 are as follows:

(in millions of Won)

	January 1, 2003	Gain (loss)	Disposal	December 31, 2003
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. (*1)	-	(75,994)	-	(75,994)
Vodavi Technology Inc.	(1,075)	4,138	-	3,063
Topfield Co., Ltd.	-	269	-	269
Bonds issued by the government	(2)	(245)	(6)	(241)
	<u>₩ (19,218)</u>	<u>₩ (92,468)</u>	<u>₩ (19,943)</u>	<u>₩ (91,743)</u>

(*1) Reclassified into available-for-sale securities in 2003 from equity method investment securities.

Upon a resolution of the Board of Directors on December 23, 2003, the Company entrusted its disposal and voting rights for the 10,180,531 shares of the common stock of LG Investment & Securities Co., Ltd. to Woori Bank, the representative of the creditor banks, as a part of the business normalization plan of LG Card Co., Ltd.

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2003 and 2002**

8. Equity Method investments

Equity method investments as of December 31, 2003 and 2002 are as follows:

(in millions of Won)	Percentage of ownership (%) at December 31, 2003	2003			2002			
		Acquisition	Net asset	Carrying value	Acquisition	Net asset	Carrying	
		cost	value		cost	value	value	
Domestic companies								
LG Sports Ltd. (*8)	25.00	₩ 1,404	₩ 1,204	₩ 1,204	₩ -	₩ -	₩ -	
LG Investment & Securities Co., Ltd. (*2)	-	-	-	-	262,432	145,270	145,270	
LG IBM PC Co., Ltd.	49.00	11,907	14,548	14,548	11,907	15,133	15,133	
Hi Logistics System (HLS) (*1)	100.00	4,500	4,500	4,500	-	-	-	
LG Micron Ltd. (*6)	-	-	-	-	32,376	60,999	60,999	
Overseas companies								
Goldstar Electronics Thailand Co., Ltd. (G.S.T.) (*1)	49.00	36	36	36	36	36	36	
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	33,007	33,007	7,684	18,094	18,094	
LG Electronics Austria GmbH (LGEAG) (*1)	100.00	116	116	116	116	116	116	
LG Electronics Argentina S.A. (LGEAR) (*3)	100.00	7,410	-	-	7,410	-	-	
LG Electronics Design Tech, Ltd. (LGEDT) (*1)	100.00	1,002	1,002	1,002	1,002	1,002	1,002	
LG Electronics Hellas S.A. (LGEHS) (*6)	-	-	-	-	6,063	6,063	6,063	
LG Electronics Middle East Co., Ltd. (LGEME) (*1)	100.00	462	462	462	462	462	462	
LG Electronics (M) SDN.BHD (LGEML) (*1)	100.00	11	11	11	11	11	11	
LG.Philips Displays Holding B.V. (*5)	50.00	1,222,322	-	-	1,222,322	569,710	569,710	
Triveni Digital Inc. (*1)	100.00	899	899	899	899	899	899	
LG Electronics Russia Inc. (LGERI)	-	-	-	-	391	391	391	
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT) (*6)	-	-	-	-	824	824	824	
LG Electronics Ukraine Co., Ltd. (LGEUR) (*1)	100.00	1,041	1,041	1,041	1,041	1,041	1,041	
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd. (*6)	-	-	-	-	9,669	9,669	9,669	
LG Soft India PVT, Ltd. (LGSI) (*6)	-	-	-	-	2,920	2,920	2,920	

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

(in millions of Won)	Percentage of ownership (%) at December 31, 2003	2003			2002		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
Electromagnetica Goldstar S.R.L. (*1)	50.00	508	508	508	508	508	508
LG (Yantai) Information & Communication Technology Co., Ltd. (*6)	-	-	-	-	2,720	2,720	2,720
Vietnam Korea Exchange, Ltd. (V.K.X.)	40.00	1,736	2,328	2,328	1,736	2,316	2,316
SLD Telecom Pte. Ltd. (*4)	44.00	29,001	25,190	25,190	10,042	10,042	10,042
COMMIT Incorporated (*7)	-	-	-	-	4,990	4,990	4,990
Chemicals and Materials Enterprise Associates II, L. P. (*9)	-	-	-	-	4,081	2,855	2,855
EIC Properties PTE, Ltd. (*6)	-	-	-	-	9,636	8,618	8,618
Athena Venture Fund II LP (*9)	-	-	-	-	12,016	4,379	4,379
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGEHN) (*1)	49.00	3,036	3,036	3,036	-	-	-
		<u>₩ 1,293,075</u>	<u>₩ 87,888</u>	<u>₩ 87,888</u>	<u>₩ 1,613,294</u>	<u>₩ 869,068</u>	<u>₩ 869,068</u>

- (*1) 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 are newly established in the current period are stated at cost, in accordance with financial accounting standards generally accepted in the Republic of Korea.
- (*2) Reclassified into available-for-sale security in 2003 from equity method investment security.
- (*3) The operation of this subsidiary was suspended as of December 31, 2003.
- (*4) In 2003, the Company purchased additional shares of common stock of these subsidiaries.
- (*5) The controlling company sold its shares of LG. Philips Displays Holding B.V. to LG Electronics Wales Ltd. (LGEWA) in 2003.
- (*6) Reclassified into a consolidated subsidiary in 2003 from equity method investment security.
- (*7) Reclassified into available-for-sale security in 2003 from equity method investment security.
- (*8) Reclassified into equity method investment security in 2003 from a consolidated subsidiary.
- (*9) In 2003, it was disposed of.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

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 in the net book value of the investee are as follows:

<i>(in millions of Won)</i>	January 1, 2003	Increase (Decrease)	Amortization	December 31, 2003
Domestic companies				
LG Sports Ltd.	₩ -	₩ (2)	₩ 2	₩ -
LG Investment & Securities Co., Ltd.	25,571	(25,571)	-	-
	<u>25,571</u>	<u>(25,573)</u>	<u>2</u>	<u>-</u>
Overseas companies				
Hitachi-LG Data Storage Inc. (HLDS)	106	-	(30)	76
LG.Philips Displays Holding B.V.	(175,839)	-	50,240	(125,599)
Vietnam Korea Exchange, Ltd. (V.K.X.)	124	-	(25)	99
	<u>(175,609)</u>	<u>-</u>	<u>50,185</u>	<u>(125,424)</u>
	<u>₩ (150,038)</u>	<u>₩ (25,573)</u>	<u>₩ 50,187</u>	<u>₩ (125,424)</u>

For the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are as follows:

<i>(in millions of Won)</i>	April 1, 2002	Increase (Decrease)	Amortization	December 31, 2002
Domestic companies				
LG Investment & Securities Co., Ltd.	₩ 36,707	₩ -	₩ (11,136)	₩ 25,571
Overseas companies				
Hitachi-LG Data Storage Inc. (HLDS)	113	-	(7)	106
LG.Philips Displays Holding B.V.	(213,519)	-	37,680	(175,839)
Vietnam Korea Exchange, Ltd. (V.K.X.)	173	(37)	(12)	124
	<u>(213,233)</u>	<u>(37)</u>	<u>37,661</u>	<u>(175,609)</u>
	<u>₩ (176,526)</u>	<u>₩ (37)</u>	<u>₩ 26,525</u>	<u>₩ (150,038)</u>

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2003 and 2002**

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

<i>(in millions of Won)</i>	January 1, 2003	Equity in earnings (losses) of affiliates, net	Others	December 31, 2003
Domestic companies				
LG Sports Ltd.	₩ -	₩ 464	₩ 740	₩ 1,204
LG Investment & Securities Co., Ltd.	145,270	-	(145,270)	-
LG IBM PC Co., Ltd.	15,133	4,078	(4,663)	14,548
Hi Logistics System (HLS)	-	-	4,500	4,500
LG Micron Ltd.	60,999	2,346	(63,345)	-
	<u>221,402</u>	<u>6,888</u>	<u>(208,038)</u>	<u>20,252</u>
Overseas companies				
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)	36	-	-	36
Hitachi-LG Data Storage Inc. (HLDS)	18,094	12,713	2,200	33,007
LG Electronics Austria GmbH (LGEAG)	116	-	-	116
LG Electronics Design Tech, Ltd.(LGEDT)	1,002	-	-	1,002
LG Electronics Hellas S.A. (LGEHS)	6,063	-	(6,063)	-
LG Electronics Middle East Co., Ltd. (LGEME)	462	-	-	462
LG Electronics (M) SDN.BHD (LGEML)	11	-	-	11
LG.Philips Displays Holding B.V.	569,710	(592,144)	22,434	-
Triveni Digital Inc.	899	-	-	899
LG Electronics Russia Inc.(LGERI)	391	-	(391)	-
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	824	-	(824)	-
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	-	-	1,041
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd.	9,669	-	(9,669)	-
LG Soft India PVT, Ltd. (LGSII)	2,920	-	(2,920)	-
Electromagnetica Goldstar S.R.L.	508	-	-	508
LG (Yantai) Information & Communication Technology Co., Ltd	2,720	-	(2,720)	-
EIC Properties PTE, Ltd.	8,618	-	(8,618)	-
Vietnam Korea Exchange, Ltd. (V.K.X.)	2,316	43	(31)	2,328
SLD Telecom Pte. Ltd.	10,042	(3,811)	18,959	25,190
COMMIT Incorporated	4,990	-	(4,990)	-
Chemicals and Materials Enterprise Associates II,L.P	2,855	-	(2,855)	-
Athena Venture Fund II LP	4,379	-	(4,379)	-
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN)	-	-	3,036	3,036
	<u>647,666</u>	<u>(583,199)</u>	<u>3,169</u>	<u>67,636</u>
	<u>₩ 869,068</u>	<u>₩ (576,311)</u>	<u>₩ (204,869)</u>	<u>₩ 87,888</u>

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2003 and 2002**

Changes in investments in subsidiaries and affiliates accounted for using the equity method for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

<i>(in millions of Won)</i>	April 1, 2002	Equity in earnings (losses) of affiliates, net	Others	December 31, 2002
Domestic companies				
LG Investment & Securities Co., Ltd.	₩151,959	₩ (4,232)	₩ (2,457)	₩ 145,270
LG IBM PC Co., Ltd.	11,120	4,013	-	15,133
LG Micron Ltd.	54,559	12,215	(5,775)	60,999
LG Card Co., Ltd	7,183	-	(7,183)	-
	<u>224,821</u>	<u>11,996</u>	<u>(15,415)</u>	<u>221,402</u>
Overseas companies				
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)	36	-	-	36
Hitachi-LG Data Storage Inc. (HLDS)	8,866	9,165	63	18,094
LG Electronics Austria GmbH (LGEAG)	116	-	-	116
LG Electronics Argentina S.A. (LGEAR)	7,410	(7,410)	-	-
LG Electronics Design Tech, Ltd.(LGEDT)	1,002	-	-	1,002
LG Electronics Hellas S.A. (LGEHS)	6,063	-	-	6,063
LG Electronics Middle East Co., Ltd. (LGEME)	462	-	-	462
LG Electronics (M) SDN.BHD (LGEML)	11	-	-	11
LG.Philips Displays Holding B.V.	643,664	(196,343)	122,389	569,710
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	13,554	1,147	(14,701)	-
Triveni Digital Inc.	899	-	-	899
LG Electronics Russia Inc. (LGERI)	391	-	-	391
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	824	-	-	824
LG Electronics Ukraine Co., Ltd.(LGEUR)	1,041	-	-	1,041
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd.	9,669	-	-	9,669
LG Soft India PVT, Ltd. (LGSi)	2,920	-	-	2,920
Electromagnetica Goldstar S.R.L.	508	-	-	508
LG (Yantai) Information & Communication Technology Co., Ltd	2,720	-	-	2,720
EIC PROPERTIES PTE, Ltd.	9,283	(332)	(333)	8,618
Vietnam Korea Exchange, Ltd. (V.K.X.)	2,123	221	(28)	2,316
SLD Telecom Pte. Ltd.	10,042	-	-	10,042
COMMIT Incorporated	4,990	-	-	4,990
Chemicals and Materials Enterprise Associates II, L.P	2,855	-	-	2,855
Athena Venture Fund II LP	7,675	(3,296)	-	4,379
	<u>737,124</u>	<u>(196,848)</u>	<u>107,390</u>	<u>647,666</u>
	<u>₩ 961,945</u>	<u>₩ (184,852)</u>	<u>₩ 91,975</u>	<u>₩ 869,068</u>

As of December 31, 2003, accumulated loss of LG.Philips Displays Holding B.V to which the equity method of accounting has been suspended due to accumulated losses amounts to ₩56,244 million.

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2003 and 2002**

9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Others	Construction in- progress	Total
Balance as of January 1, 2003	₩ 940,788	₩ 1,713,758	₩ 188,418	₩ 2,544,766	₩ 18,567	₩ 474,452	₩ 703,124	₩ 809,350	₩ 7,393,223
Acquisitions and capital expenditure	48,487	130,776	14,414	358,141	11,887	342,268	663,281	1,710,429	3,279,683
Transfer-in (out)	10,220	165,624	25,786	1,631,402	376	51,809	(828,389)	(1,146,943)	(90,115)
Disposals	(10,943)	(32,576)	(2,206)	(39,953)	(1,137)	(139,314)	(9,209)	(775)	(236,113)
Depreciation	-	(78,253)	(14,023)	(1,175,666)	(7,143)	(172,631)	(154,835)	-	(1,602,551)
Others (*)	3,657	162,434	6,051	37,831	791	(30,081)	55,838	(51,760)	184,761
Balance as of December 31, 2003	₩ 992,209	₩ 2,061,763	₩ 218,440	₩ 3,356,521	₩ 23,341	₩ 526,503	₩ 429,810	₩ 1,320,301	₩ 8,928,888
Accumulated depreciation as of December 31, 2003	₩ -	₩ (364,218)	₩ (63,433)	₩ (4,395,854)	₩ (27,785)	₩ (467,173)	₩ (495,150)	₩ -	₩ (5,813,613)

(*) This includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Property, plant and equipment as of December 31, 2002 comprise the following:

<i>(in millions of Won)</i>	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 940,788	₩ -	₩ 940,788
Buildings	1,989,459	275,701	1,713,758
Structures	234,645	46,227	188,418
Machinery and equipment	5,667,525	3,122,759	2,544,766
Vehicles	44,647	26,080	18,567
Tools and others	2,081,262	903,686	1,177,576
Construction in-progress	809,350	-	809,350
	₩ 11,767,676	₩ 4,374,453	₩ 7,393,223

As of December 31, 2003 and 2002, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩843,134 million and ₩744,388 million, respectively.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

10. Intangible Assets

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

<i>(in millions of Won)</i>	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2003	₩334,055	₩ (11,813)	₩417,027	₩189,744	₩137,853	₩1,066,866
Additions	873	-	54,399	7,012	56,455	118,739
Disposals	(261)	-	-	-	(21)	(282)
Amortization	(40,241)	9,993	(86,806)	(75,819)	(32,058)	(224,931)
Others (*)	(8,451)	-	2,823	19,072	(10,871)	2,573
Balance as of December 31, 2003	<u>₩285,975</u>	<u>₩ (1,820)</u>	<u>₩387,443</u>	<u>₩140,009</u>	<u>₩151,358</u>	<u>₩ 962,965</u>

(*) This includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Amortization of intangible assets amounted to ₩224,931 million for the year ended December 31, 2003, which consist of manufacturing costs and selling and administrative expenses.

The carrying value of significant intangible assets as of December 31, 2003 and 2002 consist of the following:

<i>(in millions of Won)</i>	2003	2002	Remaining years for amortization
Goodwill	₩ 254,399	₩ 293,781	7 years
Industrial property rights	311,531	387,890	2 ~7 years

As a result of LG Electronics Investment Ltd. (formerly LG Electronics Inc., now merged into LG Corp.)'s merger with LG Information & Communications, Ltd. in September 2000, LG Electronics Investment Ltd. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to LGE. Related amortization expenses of goodwill and industrial property rights approximate ₩39,382 million and ₩76,359 million, respectively, for the year ended December 31, 2003.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Research and development costs incurred for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 were accounted for as follows:

<i>(in millions of Won)</i>	2003	2002
Ordinary research and development costs	₩ 312,308	₩ 166,276
Research costs	776,482	444,249
Development costs capitalized	7,012	62,056
	<u>₩ 1,095,802</u>	<u>₩ 672,581</u>

11. Pledged Assets

A substantial portion of property, plant and equipment, short-term financial instruments and inventories as of December 31, 2003 is pledged as collateral for various loans, up to a maximum Won equivalent amount of approximately ₩670,578 million (including US\$57 million, TRL 12,858 million and VND 70,000 million) (Notes 13 and 14). In addition, a portion of trade accounts and notes receivable, short-term and long-term financial instruments, and inventories as of December 31, 2003 is pledged as collateral for L/C opening and factoring contracts.

12. Insured Assets

As of December 31, 2003, 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 ₩24,810,063 million. In addition, the Company is insured against business interruption losses and losses arising from the transportation of goods up to approximately ₩3,967,740 million and ₩2,293,287 million, respectively.

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

Short-term borrowings as of December 31, 2003 and 2002 comprise the following:

<i>(in millions of Won)</i>	Annual interest rate (%) at December 31, 2003	2003	2002
Bank overdrafts	-	₩ -	₩ 40,976
Won currency loans	4.8 - 6.85, CD+1.4 - 1.6	147,950	88,000
Foreign currency loans	0.35 - 10.49	3,833,525	3,638,197
Commercial papers	4.8 - 6.85	169,318	-
Others	CD+1.5	34,526	-
		<u>₩ 4,185,319</u>	<u>₩ 3,767,173</u>

(*) CD represents the annual interest rate for certificates of deposits.

See Note 11 for collateral arrangements for these borrowings.

Current maturities of long-term debt as of December 31, 2003 and 2002 comprise the following:

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

<i>(in millions of Won)</i>	2003	2002
Debentures	₩ 1,455,087	₩ 715,040
Discount on debentures	(2,961)	(2,475)
Long-term debt	74,160	182,938
Long-term other accounts payable	-	2,753
	<u>₩ 1,526,286</u>	<u>₩ 898,256</u>

14. Long-Term Debt

Long-term debt as of December 31, 2003 and 2002 comprises the following:

<i>(in millions)</i>	Annual interest rate (%) at December 31, 2003	2003	2002
Debentures			
Public, guaranteed payable through 2005	5.0	₩ 1,000	₩ 5,000
Private, non-guaranteed payable through 2006	5.7 - 16.5	316,000	415,000
Public, non-guaranteed payable through 2006	5.0 - 6.0	90,000	1,820,000
Public, non-guaranteed payable through 2008	4.5 - 7.0	3,140,000	800,000
Fixed rate notes in foreign currency, payable through 2006	11.1	4,124	-
Floating rate notes in foreign currency, payable through 2006	LIBOR + 0.5 - 1.9	1,285,947	1,390,692
Convertible bonds in foreign currency, payable through 2006	-	339,796	-
		(US\$ 1,363)	(US\$ 1,159)
		(INR 160)	
		<u>5,176,867</u>	<u>4,430,692</u>
Less: Current maturities		(1,455,087)	(715,040)
Discount on debentures		(69,005)	(61,476)
Conversion rights adjustment		(13,840)	-
		<u>₩ 3,638,935</u>	<u>₩ 3,654,176</u>

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

- Type of bonds: Public convertible bond
- Total face value of bonds: US\$287.5 million (fixed exchange rate of ₩1,179.2: US\$1)
- Date of issuance: August 11, 2003
- Terms and conditions for issuance of bonds
 - Coupon rate: 0%
 - Maturity: August 11, 2006
 - Call option: The Company holds the right to redeem the bonds at face value on or at any time after August 12, 2005, provided that the market value per share of common stock on the trading day immediately prior to the date of the redemption

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

notice, for at least 20 consecutive trading days within a 30 trading day period ending on the trading day immediately prior to the date of the redemption notice, is at least 115% of the conversion price.

- 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 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: 4,887,500 shares
 - Conversion price: ₩68,900 per share
 - Conversion period: September 12, 2003 through July 28, 2006

	Annual interest			
(in millions)	rate (%) at			
	December 31, 2003	2003		2002
Won currency loans				
Kookmin Bank	-	₩ -	₩	249
Shinhan Bank and others	3.33 -6.50	3,843		5,331
Hana Bank and others	6.27	20,000		30,000
Chohung Bank and others	5.0	68		184
Korea Development Bank	1.00 - 6.24	44,622		17,555
Export-Import Bank of Korea	5.9	58,700		-
		127,233		53,319
Foreign currency loans				
Woori Bank	3M LIBOR + 1.2	41,802		976
Korea First Bank	-	-		2,620
Export-Import Bank of Korea	2.2- 5.9, LIBOR 1.10 -1.7	217,562		43,776
Banque Paribas	LIBOR + 0.7	1,963		3,934
Societe General	LIBOR + 0.6	2,505		7,532
Bank of Tokyo-Mitsubishi	-	-		2,568
Wachovia Securities	-	-		6,365
Barclays Bank	8.25	59,770		59,957
ICICI Ltd.	-	-		41,035
Bank of China	1.68	1,198		3,426
Others	-	201,956		158,440
		526,756		330,629
		USD 269	USD	233
		INR 3	INR	249
		MXN 787	MXN	361
		CNY 344	CNY	24
		GBP 12	GBP	-
		THB 319	THB	-
		TRL 23,667,539	TRL	-
		SGD 16	SGD	-
Less: Current maturities		(74,160)		(182,938)
		₩ 579,829	₩	201,010

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

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

The maturities of long-term debt outstanding as of December 31, 2003 are as follows:

(in millions of Won)

For the year ending

December 31,	Debentures	Long-term debt	Total
2005	₩ 985,680	₩ 277,794	₩ 1,263,474
2006	2,096,100	195,433	2,291,533
2007	300,000	43,910	343,910
2008	340,000	50,660	390,660
2009 and thereafter	-	12,032	12,032
	<u>₩ 3,721,780</u>	<u>₩ 579,829</u>	<u>₩ 4,301,609</u>

15. Accrued Severance Benefits

Changes in accrued severance benefits for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

(in millions of Won)

	2003	2002
Beginning balance	₩ 600,109	₩ 568,227
Severance payments	(110,140)	(93,586)
Transfer-in (out) from (to)		
affiliated companies, net	8,085	(3,816)
Changes in consolidated companies	11,438	-
Provisions	<u>176,560</u>	<u>129,284</u>
	686,052	600,109
Severance insurance deposits	(406,739)	(365,123)
Contributions to the National Pension Fund	<u>(23,175)</u>	<u>(25,870)</u>
	<u>₩ 256,138</u>	<u>₩ 209,116</u>

As of April 1, 2002 (date of spin-off), ₩483,591 million of accrued severance benefits for employees of LGE was transferred from LG Electronics Investment Ltd. As of December 31, 2003 and 2002, the severance benefits are funded at approximately 59.3% and 60.8%, respectively, through employee severance insurance plans with Kyobo Life Insurance Co., Ltd. and other life insurance companies. The amounts funded under employee severance insurance plans (severance insurance deposits) are presented as a deduction from accrued severance benefits.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

16. Commitments and Contingencies

As of December 31, 2003, 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, 2003, the Company has a joint liability on its guarantees with LG Corp. (formerly LGEI) on the liability which was incurred prior to April 1, 2002 (date of spin-off).

As of December 31, 2003, the Company is a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of December 31, 2003, the outstanding balance of export trade accounts receivable sold at a discount to various financial institutions with recourse amounts to ₩398,686 million.

As of December 31, 2003, the Company has entered into sales contracts with several companies, the undelivered portions of which amounted to approximately ₩659 million for KT Freetel Co., Ltd., ₩47,355 million for LG Telecom, Ltd., ₩16,248 million for KT Corp., and ₩2,900 million for SK Telecom Co. and others.

The Company has entered into various lease agreements for the rental of certain machinery and equipment. The Company accounts for these leases as operating leases under which lease payments are charged to expense as incurred.

As of December 31, 2003, future lease payments under operating lease agreements are as follows:

(in millions of Won)

For the year ending December 31,

2004	₩	14,220
2005		8,975
2006		5,362
2007		4,292
2008 and thereafter		6,721
	₩	<u>39,570</u>

As of December 31, 2003, the Company is contingently liable for guarantees approximating ₩479 million on indebtedness of the other company, and has received guarantees approximating ₩1,088 million, JP ¥ 800 million and GBP2.2 million from various banks for the repayment of certain debentures of the Company. In addition, the Company is obliged to pay late payment charges if the Company could not meet the due date of its long-term contracts. Companies related to the contracts give guarantees to each other in order to fulfill the contracts. As of December 31, 2003, the Company received guarantees amounting to ₩451,871 million in relation to the contracts.

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

As of December 31, 2003, LGE has outstanding forward contracts with Credit Lyonnais and others for selling US Dollars amounting to US\$ 50 million (contract rates: ₩1,156.50: US\$ 1 ~ ₩1,170.45: US\$ 1, contract due dates: February through April 2004).

As of December 31, 2003, LGE has outstanding forward contracts with UFJ Bank and others for selling Euro and buying US Dollars amounting to EUR 25 million (contract rates: € 0.7968: US\$1 ~ € 0.8733: US\$1, contract due dates: January through March 2004).

In addition, as of December 31, 2003, LGE has outstanding forward contracts with UFJ Bank and others for selling US Dollars and buying Japanese Yen amounting to US\$ 25 million (contract rates: ¥ 106.57: US\$1 ~ ¥ 111.42: US\$1, contract due dates: January through March 2004).

As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩654 million and ₩3,715 million, respectively, were charged to current operations for the year ended December 31, 2003.

In order to reduce the impact of changes in exchange rates, LGE has entered into foreign currency option contracts. An unrealized valuation loss amounting to ₩4,461 million was charged to current operations for the year ended December 31, 2003. A summary of the terms of outstanding currency option contracts as of December 31, 2003 is as follows:

	Option type	Amount (in millions)	Exercise price	Contract due date
Deutsche Bank	Put	US\$ 10.0	₩ 1,150.0/US\$	January 8, 2004
	Call	US\$ 10.0	₩ 1,161.25/US\$	January 8, 2004
	Put	US\$ 10.0	₩ 1,150.0/US\$	January 8, 2004
	Call	US\$ 10.0	₩ 1,165.4/US\$	January 8, 2004
	Put	US\$ 10.0	₩ 1,180.0/US\$	February 11, 2004
	Call	US\$ 10.0	₩ 1,208.35/US\$	February 11, 2004
	Put	US\$ 10.0	₩ 1,175.0/US\$	March 4, 2004
	Call	US\$ 10.0	₩ 1,199.0/US\$	March 4, 2004
Standard Chartered Bank	Put	US\$ 10.0	₩ 1,170.0/US\$	January 19, 2004
	Call	US\$ 10.0	₩ 1,189.6/US\$	January 19, 2004
	Put	US\$ 10.0	₩ 1,155.0/US\$	March 12, 2004
	Call	US\$ 10.0	₩ 1,177.9/US\$	March 12, 2004
	Put	US\$ 10.0	₩ 1,150.0/US\$	April 6, 2004
	Call	US\$ 10.0	₩ 1,177.35/US\$	April 6, 2004
Citi Bank	Put	US\$ 10.0	₩ 1,150.0/US\$	January 28, 2004
	Call	US\$ 10.0	₩ 1,168.0/US\$	January 28, 2004
	Put	US\$ 5.0	₩ 1,185.0/US\$	June 16, 2004
	Call	US\$ 5.0	₩ 1,222.9/US\$	June 16, 2004

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

	Option type	Amount (in millions)	Exercise price	Contract due date
KorAm Bank	Put	US\$ 10.0	₩ 1,150.0/US\$	January 28, 2004
	Call	US\$ 10.0	₩ 1,168.0/US\$	January 28, 2004
	Put	US\$ 10.0	₩ 1,175.0/US\$	February 18, 2004
	Call	US\$ 10.0	₩ 1,207.8/US\$	February 18, 2004
	Put	US\$ 10.0	₩ 1,150.0/US\$	March 9, 2004
	Call	US\$ 10.0	₩ 1,171.5/US\$	March 9, 2004
	Put	US\$ 5.0	₩ 1,180.0/US\$	May 6, 2004
	Call	US\$ 5.0	₩ 1,212.0/US\$	May 6, 2004
	Put	US\$ 5.0	₩ 1,175.0/US\$	May 19, 2004
	Call	US\$ 5.0	₩ 1,208.5/US\$	May 19, 2004
	Put	US\$ 5.0	₩ 1,180.0/US\$	June 14, 2004
	Call	US\$ 5.0	₩ 1,219.3/US\$	June 14, 2004
	Put	US\$ 10.0	₩ 1,170.0/US\$	March 12, 2004
	Call	US\$ 10.0	₩ 1,199.1/US\$	March 12, 2004
	Put	US\$ 5.0	₩ 1,180.0/US\$	June 14, 2004
	Call	US\$ 5.0	₩ 1,219.3/US\$	June 14, 2004
Credit Agricole Indosuez	Put	US\$ 5.0	₩ 1,170.0/US\$	May 13, 2004
	Call	US\$ 5.0	₩ 1,200.25/US\$	May 13, 2004
Bank One	Put	US\$ 5.0	₩ 1,180.0/US\$	May 6, 2004
	Call	US\$ 5.0	₩ 1,208.1/US\$	May 6, 2004
	Put	US\$ 5.0	₩ 1,170.0/US\$	May 14, 2004
	Call	US\$ 5.0	₩ 1,199.4/US\$	May 14, 2004
ABN-AMRO Bank	Put	US\$ 10.0	₩ 1,150.0/US\$	April 7, 2003
	Call	US\$ 10.0	₩ 1,177.1/US\$	April 7, 2003
	Put	US\$ 10.0	₩ 1,190.0/US\$	June 22, 2004
	Call	US\$ 10.0	₩ 1,225.4/US\$	June 22, 2004
Korea Exchange Bank	Put	US\$ 10.0	₩ 1,170.0/US\$	January 16, 2004
	Call	US\$ 10.0	₩ 1,192.8/US\$	January 16, 2004
	Put	US\$ 10.0	₩ 1,190.0/US\$	July 2, 2004
	Call	US\$ 10.0	₩ 1,230.0/US\$	July 2, 2004
Societe Generale	Put	US\$ 10.0	₩ 1,150.0/US\$	April 6, 2004
	Call	US\$ 10.0	₩ 1,178.6/US\$	April 6, 2004

In order to reduce the impact of changes in interest rates and exchange rates, LGE has entered into a cross currency swap contract. An unrealized valuation loss of ₩1,684 million was charged to current operations for the year ended December 31, 2003. A summary of the terms of the outstanding cross currency swap contract as of December 31, 2003 is as follows:

(in millions)	Transaction amount		Annual interest rate (%)		Maturity
	Receipts	Disbursement	Receipts	Disbursement	
Standard Chartered Bank	₩110,000	US\$93	4.50%	3M Libor + 0.79%	November 7, 2005

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

As a result of the above derivatives contracts, a realized gain of ₩9,049 million and a realized loss of ₩6,022 million were recorded as a non-operating income and expense, respectively, for the year ended December 31, 2003.

LG.Philips LCD Co., Ltd., a subsidiary, enters into foreign currency forward contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. The use of foreign currency forward contracts allows LG.Philips LCD Co., Ltd. to reduce its exposure to the risk that the eventual Korean Won cash outflows resulting from operating expenses, capital expenditures, purchasing of materials and debt service will be adversely affected by changes in exchange rates.

A summary of these contracts is as follows:

<i>(in millions)</i>	Contracting party	Selling position	Buying position
HSBC and others		US\$ 967	₩ 1,167,096
BNP Paribas and others		US\$ 238	JP ¥ 25,940

As of December 31, 2003, LG.Philips LCD Co., Ltd. recorded unrealized gains and losses on outstanding foreign currency forward contracts of ₩13,666 million and ₩10,662 million, respectively. ₩5,938 million and ₩10,662 million of the total unrealized gains and losses, respectively, were charged to current operations for the year ended December 31, 2003, because these contracts do not meet the requirements for a cash flow hedge. Unrealized gains amounting to ₩7,728 million were incurred relating to cash flow hedges from forecasted exports which were recorded as capital adjustments. The hedged forecasted transactions are expected to occur in 2004, and the aggregate amount of all deferred gains recorded in capital adjustments, which is expected to be realized as income within 12 months from December 31, 2003, is ₩7,728 million. For the years ended December 31, 2003 and 2002, the Company recorded realized exchange gains of ₩40,978 million and ₩37,446 million, respectively, on foreign currency forward contracts upon settlement, and for the years ended December 31, 2003 and 2002, realized exchange losses amounted to ₩16,648 million and ₩7,753 million.

LG.Philips LCD Co., Ltd. entered into cross-currency swap contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

A summary of these contracts is as follows:

(in millions)

Contracting party	Buying position		Selling position	
HSBC	US\$	100	₩	120,420
ABN-AMRO	US\$	400	₩	477,660

As of December 31, 2003, unrealized gains and losses of ₩166 million and ₩3,752 million, respectively, were charged to current operations, because these contracts do not meet the requirements for hedge accounting for financial statement purposes.

As of December 31, 2003, nine overseas subsidiaries, including LG Electronics Mexico S.A. de C. V. (LGEMS), have entered into foreign currency forward contracts for buying US Dollars, Euro and Japanese Yen amounting to US\$62 million, € 17 million and JP ¥ 36 million, respectively, in order to reduce the impact of changes in exchange rates on future cash flows from the purchase of raw materials and finished goods. As of December 31, 2003, LG Electronics Da Amazonia Ltda. (LGEAZ), an overseas subsidiary, has entered into foreign currency swap contracts for buying US\$7 million and selling BRL18 million in order to reduce the impact of changes in exchange rates on future cash flows from borrowings and related interest expense.

As of December 31, 2003, the Company is named as the defendant in legal actions which were brought against the Company by AVS Corporation in Canada and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

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

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

17. Capital Stock

Capital stock as of December 31, 2003 and 2002 is as follows:

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

As of December 31, 2003 and 2002, the number of shares authorized is 600,000,000 shares.

- (*) The preferred shareholders have no voting rights and are entitled to non-participating and non-cumulative preferred dividends at a rate of one percentage point over those for common stock. This preferred dividend rate is not applicable to stock dividends.

18. Capital Surplus

Capital surplus as of December 31, 2003 and 2002 is as follows:

<i>(in millions Won)</i>	2003	2002
LGE's capital surplus		
Additional paid-in capital	₩ 1,876,153	₩ 1,876,153
Others	15,833	-
LGE's share in subsidiaries' and equity method investees' capital surplus	<u>(168,928)</u> ₩ 1,723,058	<u>(178,992)</u> ₩ 1,697,161

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. amounting to ₩2,815,707 million, and ₩939,554 million, comprising of capital stock amounting to ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. amounting to ₩155,593 million.

As a result of the issuance of foreign currency convertible bonds on August 11, 2003, a premium for conversion rights amounting to ₩15,833 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.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

19. Retained Earnings

Retained earnings as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	2003	2002
Legal reserve	₩ 15,743	₩ -
Other reserves		
Reserve for improvement of financial structure	27,771	-
Reserve for research and manpower development	76,590	-
	<u>120,104</u>	<u>-</u>
Unappropriated retained earnings to be carried forward to the subsequent period	754,704	344,072
	<u>₩ 874,808</u>	<u>₩ 344,072</u>

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

In accordance with the regulations regarding securities' issuance and disclosure, the Company is required to appropriate, as a reserve for improvement of financial structure, a portion of retained earnings equal to a minimum of 10% of its annual income plus at least 50% of the net gain from the disposal of property, plant and equipment after deducting related taxes, until shareholders' equity equals 30% of total assets. This reserve is not available for the payment of dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Pursuant to the Special Tax Treatment Control Law, the Company is allowed to appropriate retained earnings as a reserve for research and manpower development. This reserve is not available for the payment of dividends until used for the specified purposes or reversed.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

20. Capital Adjustments

Capital adjustments as of December 31, 2003 and 2002 comprise the following:

<i>(in millions of Won)</i>	2003	2002
Loss on valuation of available-for-sale securities	₩ (161,526)	₩ (80,945)
Overseas operations translation credit	209,194	105,096
Treasury stock	(8,977)	(11,850)
Loss from disposal of treasury stock	(62)	(166)
	<u>₩ 38,629</u>	<u>₩ 12,135</u>

The Company retains treasury stock consisting of 194,953 shares of common stock and 4,678 shares of preferred stock as of December 31, 2003, and 215,973 shares of common stock and 4,678 shares of preferred stock as of December 31, 2002. The Company intends to grant the treasury stock to employees and directors as compensation or to sell these in the future.

21. Income Taxes

Income tax expense for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

<i>(in millions of Won)</i>	2003	2002
Current income taxes	₩ 320,007	₩ 210,049
Deferred income taxes	(97,112)	(30,788)
	<u>₩ 222,895</u>	<u>₩ 179,261</u>

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Components of deferred income tax assets (liabilities) as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	2003	2002
Depreciation	₩ 2,768	₩ 462
Amortization of intangible assets	(309)	(7,226)
Accrued severance benefits	2,807	1,845
Bad debt expense	44,163	62,407
Reserve for research and manpower development	(167)	(62,486)
Deferred income tax for investment securities	-	(89,815)
Product warranty	36,576	23,522
Development costs	(21,470)	(38,055)
Loss on valuation of securities using the equity method, net	266,193	420,524
Loss carried forward	-	34,730
Tax credits carried forward	115,820	89,040
Others	47,579	12,607
	<u>493,960</u>	<u>447,552</u>
Valuation allowance	<u>(1,096)</u>	<u>(51,881)</u>
	<u>₩ 492,864</u>	<u>₩ 395,671</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 LGE was approximately 29.7% in 2003 and 2002, 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 by 2004, and by applying the amended tax rate of 27.5% for the temporary differences expected to be realized in fiscal years beginning January 1, 2005 and thereafter.

22. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted-average number of common shares outstanding during the period. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the period.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Basic earnings per share for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are calculated as follows:

<i>(in millions of Won, except per share amounts)</i>	2003	2002
Net income as reported on the statement of income	₩ 704,976	₩ 342,460
Less: Preferred stock dividends (Note 23)	(22,336)	(18,040)
Additional income available for dividends allocated to preferred stock	<u>(55,779)</u>	<u>(20,304)</u>
Net income allocated to common stock	626,861	304,116
Weighted-average number of common shares outstanding	<u>139,357,190</u>	<u>139,414,824</u>
Basic earnings per share (in Won)	<u>₩ 4,498</u>	<u>₩ 2,181</u>

Basic ordinary income per share for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are the same as basic earnings per share for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002, respectively, because there were no extraordinary gains or losses.

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

Diluted earnings per share for the year ended December 31, 2003 is calculated as follows:

<i>(in millions of Won, except per share amounts)</i>	2003
Net income allocated to common stock	₩ 626,861
Add: Interest expense on convertible bonds, net of tax (*)	<u>2,129</u>
	628,990
Weighted-average number of common shares and diluted securities outstanding	<u>141,272,019</u>
Diluted earnings per share and ordinary income per share (in Won)	<u>₩ 4,452</u>

(*) This is computed based on the effective tax rate of 20.79%.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Diluted ordinary income per share for the year ended December 31, 2003 is the same as diluted earnings per share, because there were no extraordinary gains or losses.

The diluted securities outstanding as of December 31, 2003 are as follows:

Diluted security	Face value	Conversion period	Number of shares of common stock to be issued	Conversion price
Foreign currency denominated convertible bonds, issued in 2003	₩339,796 million (US\$287.5 million)	September 12, 2003 through July 28, 2006	4,887,500 shares	₩68,900 per share

23. Dividends

Details of LGE's dividends declared for the year ended December 31, 2003 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

(in Korean Won)	2003		2002	
	Dividend ratio (%)	Dividend amount	Dividend ratio (%)	Dividend amount
Common stock	25.0%	₩ 174,264,137,500	20.0%	₩ 139,390,290,000
Preferred stock	26.0%	22,335,708,200	21.0%	18,040,379,700
		<u>₩ 196,599,845,700</u>		<u>₩ 157,430,669,700</u>

LGE's dividend payout ratio for the year ended December 31, 2003 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 is computed as follows:

(in Korean Won)	2003	2002
Total dividends (A)	₩ 196,599,845,700	₩ 157,430,669,700
Net income (B)	<u>662,824,222,611</u>	<u>277,716,219,383</u>
Dividend payout ratio ((A)/(B))	<u>29.66%</u>	<u>56.69%</u>

LGE's dividend yield ratio for the year ended December 31, 2003 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 is computed as follows:

(in Korean Won)	2003		2002	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (A)	₩ 1,250	₩ 1,300	₩ 1,000	₩ 1,050
Market price as of balance sheet date (B)	<u>58,600</u>	<u>25,950</u>	<u>41,300</u>	<u>18,800</u>
Dividend yield ratio ((A)/(B))	<u>2.13%</u>	<u>5.01%</u>	<u>2.42%</u>	<u>5.59%</u>

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

24. Transactions with Related Parties

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, and the related account balances as of December 31, 2003 and 2002, are summarized as follows:

Transactions between LGE and its consolidated subsidiaries

<i>(in millions of Won)</i>		2003		2002
Sales and other income	₩	11,001,774	₩	6,068,082
Purchases and other expenses		1,400,860		769,217
Receivables		2,650,146		2,329,429
Payables		430,995		49,677
Guarantees		1,350,064		1,396,365

Transactions between consolidated subsidiaries

<i>(in millions of Won)</i>		2003		2002
Receivables and payables	₩	1,550,579	₩	1,336,486
Sales, purchases and others		7,349,975		3,958,440
Guarantees		59,551		12,844

Transactions between the Company and equity method investees

<i>(in millions of Won)</i>		2003		2002
Receivables and payables	₩	117,995	₩	130,215
Sales, purchases and others		1,604,048		1,159,008
Guarantees		239,560		240,080

25. Segment Information

The Company has organized reportable business divisions comprising of the Digital Display & Media division, Digital Appliance division, Telecommunication Equipment & Handset division and LCD division. In addition, the Company has a centralized supporting division to provide general and administrative, marketing and sales and research and development services to each business division.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

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

Digital Display & Media division:	VCR, CD-ROM, audio, TV and PDP
Digital Appliance division:	Refrigerator, washing machine, air conditioner, microwave oven and vacuum cleaner
Telecommunication	
Equipment & Handset division:	CDMA handset, GSM handset, wireless telephone, WLL handset, mobile telecommunication, transmitter, switchboard, keyphone system and PC
LCD division:	TFT-LCD
Other business divisions:	Electronics components, defense systems, spectrum analyzer, and others

Financial data by business division as of December 31, 2003 and 2002, and for the year ended December 31, 2003 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

(in millions of Won)	2003		2002	
	External sales	Operating Income (loss)	External sales	Operating Income (loss)
Business Division				
Digital Display & Media	₩ 13,343,503	₩ 481,554	₩ 9,588,456	₩ 51,121
Digital Appliance	8,587,184	567,523	6,067,339	504,382
Telecommunication				
Equipment & Handset	8,218,024	293,581	3,708,249	182,755
LCD	4,726,531	1,087,646	2,769,544	190,902
Other businesses and supporting division	2,794,520	83,204	1,402,979	(59,356)
Elimination of internal transactions	(2,075,228)	(86,407)	(1,218,475)	42,180
	<u>₩ 35,594,534</u>	<u>₩ 2,427,101</u>	<u>₩ 22,318,092</u>	<u>₩ 911,984</u>

(*1) As of January 1, 2003, LGE reorganized its business structure and transferred the PC business from the Digital Display & Media division to the Telecommunication Equipment & Handset division.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

Financial data by geographic area for the year ended December 31, 2003 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 is as follows:

(in millions of Won)	2003		2002	
	External sales	Ratio	External sales	Ratio
Domestic	₩ 6,039,966	17%	₩ 5,180,389	23%
North America	8,153,919	23%	4,554,537	20%
Europe	5,635,523	16%	2,980,838	13%
South America	1,186,900	3%	786,889	4%
Central Asia	1,843,333	5%	944,098	4%
Asia	7,338,556	21%	4,381,869	20%
China	3,314,080	9%	2,482,193	11%
Others	2,082,257	6%	1,007,279	5%
	₩ 35,594,534	100%	₩ 22,318,092	100%

26. Value Added Information

Details of accounts included in the computation of value added for the year ended December 31, 2003 and the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002 are as follows:

(in millions of Won)	2003			2002		
	Selling and administrative expenses	Manufacturing costs	Total	Selling and administrative expenses	Manufacturing costs	Total
Salaries	₩ 490,534	₩ 590,443	₩ 1,080,977	₩ 197,477	₩ 441,879	₩ 639,356
Depreciation and amortization	293,181	324,713	617,894	204,759	243,050	447,809
Welfare expenses	82,149	123,289	205,438	32,274	79,579	111,853
Severance benefits	57,248	78,502	135,750	32,587	53,456	86,043
Rental charges	44,770	13,946	58,716	24,907	8,500	33,407
Taxes and dues	9,449	8,376	17,825	4,188	5,380	9,568
	₩ 977,331	₩ 1,139,269	₩ 2,116,600	₩ 496,192	₩ 831,844	₩ 1,328,036

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

27. Spin-Off

Upon a resolution of the Board of Directors on November 15, 2001 and a resolution of the shareholders on December 28, 2001, the controlling company was spun off from LG Electronics Investment Ltd. on April 1, 2002. On April 2, 2002, the controlling company completed the registration process required for new companies, in accordance with the Commercial Code of the Republic of Korea. In addition, on March 1, 2003, LG Electronics Investment Ltd. was legally merged into LG Chem Investment Ltd. (LGCI), which changed its name into LG Corp. after the merger.

In accordance with the provisions in the Commercial Code Article No. 530-2, LG Electronics Investment Ltd. established LGE to engage in the electronics and information and communications businesses.

LGE issued shares within the amount of net assets, which is the difference between the transferred assets and liabilities, and the shares were distributed to the shareholders of LG Electronics Investment Ltd. in proportion to their shares.

Accrued severance liabilities for employees working for LGE were transferred effective April 1, 2002.

LGE and LG Corp. jointly and severally hold a guarantee for the obligations before the spin-off.

Condensed financial information as of April 1, 2002 of the two companies after the spin-off is as follows:

<i>(in millions of Won)</i>	Prior to spin-off	Post spin-off	
		LG Electronics Investment Ltd.	LG Electronics Inc.
Assets	₩ 11,982,532	₩ 2,972,213	₩ 9,443,488
Liabilities	7,514,855	887,074	6,627,781
Equity	4,467,677	2,085,139	2,815,707

Depository receipts (4,383,591 shares of non-voting preferred stock) which were transferred to LGE upon the spin-off were listed on the London Exchange in September 2002.

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

28. Supplemental Cash Flow Information

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

(in millions of Won)

Transfer to building, machinery and others from construction in-progress	₩ 435,366
Increase in payables due to purchases of property, plant and equipment	229,430
Reclassification of current maturities of debentures	985,251
Reclassification of current maturities of long-term debt	4,475
Increase in assets due to changes in consolidated companies	537,049
Increase in liabilities due to changes in consolidated companies	258,515

29. Subsequent Events

In January to March 2004, the Company purchased commercial papers (a face value of ₩200,000 million at an annual interest rate of 7.5%, and maturing at the end of three months from the issuance date) of LG Card Co., Ltd., as part of the fulfillment of LG Card Co., Ltd.'s business normalization agreement with the creditor financial institutions. The commercial paper is scheduled to be substituted for LG Card Co., Ltd.'s subordinated convertible bonds whose terms such as interest rate and conversion price will be agreed by the creditor financial institutions and LG Group reflecting market condition after debt-for-equity swap implemented by the creditor financial institutions.

Upon a resolution of the Board of Directors on December 23, 2003, the Company purchased 1,614,675 shares (20%) of the common stock of Hankuk Electric Glass Co., Ltd. from LG Corp., for ₩119,163 million on January 13, 2004.

30. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the consolidated financial statements as of December 31, 2002 and for the nine-month period from April 1, 2002 (spin-off date) to December 31, 2002, presented herein for comparative purposes, have been reclassified to conform to the consolidated financial statements presentation as of and for the year ended December 31, 2003. These reclassifications had no effect on previously reported net income or shareholders' equity.