

LG Electronics Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2007 and 2006

LG Electronics Inc. and Subsidiaries

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December 31, 2007 and 2006

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of LG Electronics Inc. ("LGE") and its subsidiaries (collectively the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2007 and 2006, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries of LGE, whose financial statements, prior to the elimination of intercompany transactions, reflect 26% and 24% of the Company's consolidated total assets as of December 31, 2007 and 2006, respectively, and 38% and 37% of the Company's consolidated total sales for the years ended December 31, 2007 and 2006, respectively. These financial statements were audited by other auditors whose reports have been furnished us, and our opinion, insofar as it relates to the amounts included for LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations, changes in their shareholders' equity and their cash flows for the years ended December 31, 2007 and 2006, in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 2 to accompanying consolidated financial statements, the Company adopted the Korea Accounting Institute Opinion 06-2, *Deferred Income taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures*, and changed its method of accounting for income taxes on temporary differences in relation to investments in subsidiaries and equity method investees to comply with the new requirement. Accordingly, the prior year financial statements, presented herein for comparative purposes, have been restated to reflect the changes to conform with SFKAS No. 1.

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 21, 2008

This report is effective as of March 21, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 33)	₩ 2,524,654	₩ 2,101,302
Short-term financial instruments (Note 3)	785,106	63,067
Short-term investments (Note 4)	329	747
Trade accounts and notes receivable, net (Notes 5 and 33)	5,383,949	4,058,829
Inventories, net (Notes 6 and 12)	5,708,260	5,795,019
Short-term loans receivable (Notes 5, 31 and 33)	20,911	22,359
Other accounts receivable, net (Notes 5 and 33)	1,092,050	820,919
Prepaid expenses	226,134	153,044
Accrued income, net (Note 5)	82,369	65,996
Advance payments, net (Note 5)	131,934	111,213
Prepaid income taxes	245,630	151,614
Derivative transaction debit (Note 17)	10,207	44,916
Deferred income tax assets (Note 18)	740,743	234,052
Other current assets	374,106	414,686
Total current assets	17,326,382	14,037,763
Property, plant and equipment, net (Notes 9, 11 and 12)	14,406,331	16,322,930
Long-term financial instruments (Notes 3 and 33)	86,817	124,335
Long-term investment securities (Note 7)	42,482	56,609
Equity method investments (Note 8)	445,402	458,960
Refundable deposits	477,508	438,895
Long-term loans receivable, net (Note 5)	101,558	117,805
Long-term advance payments, net	195,937	149,505
Long-term prepaid expenses	297,958	274,453
Derivative transaction debit (Note 17)	5,641	4,507
Deferred income tax assets (Note 18)	566,828	745,130
Intangible assets, net (Note 10)	590,589	621,756
Other non-current assets	40,994	1,770
Total assets	₩ 34,584,427	₩ 33,354,418

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2007 and 2006

<i>(in millions of Korean won)</i>	2007	2006
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Notes 13 and 33)	₩ 4,258,478	₩ 5,031,265
Current maturities of long-term debts and debentures, net (Note 13)	892,433	1,468,640
Trade accounts and notes payable (Notes 31 and 33)	4,452,922	4,252,500
Other accounts payable (Note 33)	2,224,216	2,577,717
Accrued expenses	1,671,791	1,417,159
Advances from customers	305,937	401,632
Withholdings (Note 33)	323,519	375,891
Income taxes payable (Note 18)	303,623	145,368
Derivative transaction credit (Note 17)	67,040	29,071
Deferred income tax liabilities (Note 18)	687	3,064
Other current liabilities (Note 33)	115,809	58,082
Total current liabilities	<u>14,616,455</u>	<u>15,760,389</u>
Debentures and convertible bonds, net of current maturities and discounts on debentures (Note 14)	3,553,829	3,272,585
Long-term debts, net of current maturities (Notes 14 and 33)	1,986,464	2,567,905
Accrued severance benefits, net (Note 15)	352,891	356,006
Product warranty reserve (Note 16)	461,794	348,114
Derivative transaction credit (Note 17)	76,720	23,832
Deferred income tax liabilities (Notes 2 and 18)	578,227	262,423
Other long-term liabilities (Note 17)	130,093	65,597
Total liabilities	<u>21,756,473</u>	<u>22,656,851</u>
Commitments and contingencies (Note 17)	-	-
Controlling shareholders' equity		
Capital stock (Note 19)	809,169	809,169
Capital surplus (Note 20)	2,559,605	2,539,631
Capital adjustment (Note 21)	(44,893)	(44,893)
Accumulated other comprehensive income (Note 22)	98,643	84,206
Retained earnings (Note 23)		
Statutory reserve	145,107	149,323
Voluntary reserve	2,465,654	2,413,015
Unappropriated retained earnings	1,144,595	16,740
Minority interest in consolidated subsidiaries	5,650,074	4,730,376
Total shareholders' equity	<u>12,827,954</u>	<u>10,697,567</u>
Total liabilities and shareholders' equity	<u>₩ 34,584,427</u>	<u>₩ 33,354,418</u>

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

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2007 and 2006

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Sales (Notes 25, 31 and 32)	₩ 53,426,741	₩ 46,339,864
Cost of sales (Notes 26, 31 and 32)	<u>41,351,661</u>	<u>37,684,208</u>
Gross profit	12,075,080	8,655,656
Selling and administrative expenses (Note 27)	<u>9,253,647</u>	<u>8,650,571</u>
Operating income	<u>2,821,433</u>	<u>5,085</u>
Non-operating income		
Interest income	174,920	141,437
Rent income	29,897	35,371
Foreign exchange gains	1,167,055	1,109,479
Gain on disposal of investment securities	42,180	24,979
Gain on valuation of equity method investments (Note 8)	78,095	48,945
Gain on disposal of property, plant and equipment	57,898	21,730
Gain on disposal of intangible assets	267	123
Gain on settlement of derivatives	63,321	51,560
Gain on valuation of derivatives	9,802	11,279
Reversal of allowance for doubtful accounts	4,797	19,416
Others	<u>260,760</u>	<u>103,751</u>
	<u>1,888,992</u>	<u>1,568,070</u>
Non-operating expenses		
Interest expense	575,766	550,195
Foreign exchange losses	871,797	869,443
Loss from transfer of trade accounts and notes receivable	307,770	288,573
Loss from disposal of property, plant and equipment	59,701	32,235
Loss from disposal of intangible assets	1,583	823
Loss from disposal of investments	2,461	2,019
Loss on valuation of equity method investments (Note 8)	19,550	23,475
Other bad debt expense	9,449	-
Donations	20,955	27,053
Loss on settlement of derivatives	85,416	40,890
Loss on valuation of derivatives	92,641	30,832
Loss from early redemption of debentures	19,500	-
Loss on impairment of property, plant and equipment (Note 9)	79,208	3,266
Loss on impairment of investment assets	19,661	1,799
Loss on impairment of intangible assets (Note 10)	56,651	360
Others	<u>109,415</u>	<u>108,926</u>
	<u>2,331,524</u>	<u>1,979,889</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2007 and 2006

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Income (loss) before income tax expense (benefit)	2,378,901	(406,734)
Income tax expense (benefit) (Notes 2 and 18)	<u>310,203</u>	<u>(198,220)</u>
Net Income (loss)	<u>₩ 2,068,698</u>	<u>₩ (208,514)</u>
Controlling interest net income	₩ 1,228,922	₩ 245,203
Minority interest net income (loss)	839,776	(453,717)
Basic earnings per share (in won) (Note 29)	₩ 7,625	₩ 1,517
Diluted earnings per share (in won) (Note 29)	7,625	1,517

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

LG Electronics Inc. and Subsidiaries
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
Balance at January 1, 2006	₩ 800,226	₩ 2,595,157	₩ (44,893)	₩ 96,522	₩ 2,580,796	₩ 5,188,002	₩ 11,215,810
Cumulative effect of changes In accounting principles	-	(165,266)	-	(14,704)	(22,310)	-	(202,280)
Restated balance	800,226	2,429,891	(44,893)	81,818	2,558,486	5,188,002	11,013,530
Cash dividends	-	-	-	-	(199,956)	(16,490)	(216,446)
Balance after cash dividends	-	-	-	-	2,358,530	5,171,512	10,797,084
Net income (loss)	-	-	-	-	245,203	(453,717)	(208,514)
Conversion of convertible bonds	8,943	112,734	-	-	-	-	121,677
Adjustment for changes in ownership, net	-	(2,742)	-	-	-	-	(2,742)
Change in equity investees with net accumulated comprehensive expense	-	-	-	(1,277)	-	-	(1,277)
Gain on valuation of derivatives, net	-	-	-	785	-	-	785
Loss on valuation of available for sale securities	-	-	-	(6,375)	-	-	(6,375)
Income taxes added to shareholders' equity	-	(1,546)	-	-	-	-	(1,546)
Others	-	1,294	-	9,255	(24,655)	12,581	(1,525)
Balance at December 31, 2006	₩ 809,169	₩ 2,539,631	₩ (44,893)	₩ 84,206	₩ 2,579,078	₩ 4,730,376	₩ 10,697,567
Balance at January 1, 2007	₩ 809,169	₩ 2,704,897	₩ (44,893)	₩ 78,605	₩ 2,590,094	₩ 4,730,376	₩ 10,868,248
Cumulative effect of changes In accounting principles	-	(165,266)	-	5,601	(11,016)	-	(170,681)
Restated balance	809,169	2,539,631	(44,893)	84,206	2,579,078	4,730,376	10,697,567
Cash dividends	-	-	-	-	(121,659)	(8,593)	(130,252)
Balance after cash dividends	-	-	-	-	2,457,419	4,721,783	10,567,315
Net income	-	-	-	-	1,228,922	839,776	2,068,698
Changes in consideration for convertible rights	-	13,607	-	-	-	22,292	35,899
Changes in the consolidated entities	-	6,367	-	-	74,634	-	81,001
Change in equity investees with net accumulated comprehensive expense	-	-	-	(52,406)	-	-	(52,406)
Loss on valuation of derivatives, net	-	-	-	(10,287)	-	(16,857)	(27,144)
Gain on valuation of available for sale securities	-	-	-	266	-	-	266
Others	-	-	-	76,864	(5,619)	83,080	154,325
Balance at December 31, 2007	₩ 809,169	₩ 2,559,605	₩ (44,893)	₩ 98,643	₩ 3,755,356	₩ 5,650,074	₩ 12,827,954

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

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from operating activities		
Net income(loss)	₩ 2,068,698	₩ (208,514)
Adjustments to reconcile net income(loss) to net cash provided by operating activities		
Depreciation	3,814,371	3,566,344
Amortization, net	162,574	154,146
Loss on impairment of intangible assets	56,651	360
Amortization of discounts on debentures	47,736	59,632
Provision for severance benefits	371,062	265,296
Provision for product warranty reserve	1,057,943	1,037,724
Loss from transfer of trade accounts and notes receivable	307,770	288,573
Bad debt expense, net	22,479	9,458
Loss (gain) on foreign currency translation, net	14,196	(238,051)
(Gain) from disposal of investment securities, net	(39,719)	(22,960)
Loss on impairment of investment securities	19,661	1,799
Loss on impairment of property, plant and equipment	79,208	3,266
Loss from disposal of property, plant and equipment, net	1,803	10,505
Loss(gain) on valuation of equity method investments, net	(58,545)	(25,470)
Loss on valuation of derivatives, net	82,839	19,553
Loss from disposal of intangible assets	1,316	700
Loss (gain) on settlement of derivatives, net	22,095	(10,670)
Loss on early redemption of debentures	19,500	-
Others	19,218	-
	<u>6,002,158</u>	<u>5,120,205</u>
Changes in operating assets and liabilities		
Decrease in trade accounts and notes receivable	(1,796,415)	60,108
Increase in other accounts receivable	(407,357)	(176,326)
Increase in accrued income	(32,941)	(21,246)
Increase in advances	(20,820)	(41,450)
Decrease in other current assets	4,344	36,398
Increase in inventories	(46,861)	(4,075)
Increase in prepaid expenses	(144,121)	(127,401)
Increase in prepaid income taxes	(94,038)	(33,313)
Increase in deferred income tax assets	(308,707)	(271,709)
Increase in trade accounts and notes payable	469,621	744,469
Decrease in other accounts payable	(101,079)	(350,342)
Increase in accrued expenses	250,142	73,452
(Decrease) increase in withholdings	(43,346)	204,858
(Decrease) increase in advances from customers	(42,114)	70,497
Increase in unearned income	14,237	5,242
Increase (decrease) in other current liabilities	34,176	(239,880)
Increase (decrease) in deferred income tax liabilities	366,656	(79,876)
Increase in income taxes payable	108,128	75,409
Accrued severance benefits transferred from affiliated company, net	(799)	2,156
Payment of severance benefits	(212,824)	(346,680)
(Increase) decrease in severance insurance deposits	(158,376)	107,146
Decrease in contributions to the National Pension Fund	2,041	4,934
Decrease in warranty reserve	(944,263)	(832,685)
Dividends received	3,306	5,286
Increase (decrease) in other long-term debts	66,335	(44,769)
Net cash provided by operating activities	<u>5,035,781</u>	<u>3,731,894</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from investing activities		
Disposal of short-term financial instruments	63,042	17,619
Disposal of long-term financial instruments	62,771	25,201
Disposal of short-term investments assets	320	7,682
Disposal of short-term and long-term loans	30,738	31,792
Increase in short-term and long-term loans	(12,518)	(42,447)
Acquisition of short-term financial instruments	(785,080)	(20,017)
Acquisition of long-term financial instruments	(25,253)	(129,894)
Increase in other non-current assets	(25,674)	(2,553)
Disposal of investment securities	49,138	24,329
Acquisition of investment securities	(25,747)	(104,756)
Return of refundable deposits	57,554	135,873
Payment of refundable deposits	(96,266)	(77,473)
Decrease in other non-current assets	-	5,400
Proceeds from disposal of property, plant and equipment	225,449	356,636
Proceeds from disposal of intangible assets	1,156	24,619
Proceeds from disposal of derivatives	19,592	38,050
Acquisition of property, plant and equipment	(2,468,303)	(4,476,952)
Acquisition of intangible assets	(129,830)	(243,567)
Acquisition of derivatives	(10,358)	(6,405)
Net cash used in investing activities	(3,069,269)	(4,436,863)
Cash flows from financing activities		
Proceeds from short-term borrowings	4,438,102	5,333,664
Repayment of short-term borrowings	(5,164,204)	(5,412,956)
Repayment of current maturities of long-term debt	(1,469,725)	(1,709,846)
Repayment of long-term borrowings	(751,886)	(131,302)
Proceeds from issuance of debentures	1,228,020	469,259
Proceeds from long-term debts	694,230	1,394,665
Redemption of debentures	(591,398)	-
Payment of dividends	(130,252)	(216,446)
Subsidiaries' issuance of common stock	-	41,583
Change in overseas operations translation adjustments	200,290	43,928
Net cash used in financing activities	(1,546,823)	(187,451)
Increase in cash due to changes in the consolidated entities	3,663	12,220
Net increase (decrease) in cash and cash equivalents	423,352	(880,200)
Cash and cash equivalents (Note 34)		
Beginning of the year	2,101,302	2,981,502
End of the year	₩ 2,524,654	₩ 2,101,302

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

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

1. The Consolidated Companies and Equity Method Investees

The accompanying consolidated financial statements include the accounts of LG Electronics Inc. (LGE or Controlling Company) and its subsidiaries (collectively referred to as the "Company"). General information on the controlling company, its consolidated subsidiaries and its equity method investees is described below:

The Controlling Company

LG Electronics Inc. (the "Company") was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002, to engage in the manufacture and sale of electronic, and information and communication products. Former LG Electronics Inc. was incorporated in October 1958 under the Commercial Code of the Republic of Korea to manufacture and sell electronics, and information and communication products, and had its shares listed on the Korea Stock Exchange in April 1970. As of December 31, 2007, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of December 31, 2007, the Company has outstanding capital stock amounting to ₩809,169 million, including non-voting preferred stock. The Company's stock was relisted on the Korean Stock Exchange on April 22, 2002, and its depositary receipts ("DRs") were relisted on the London Stock Exchange in September 2002.

As of December 31, 2007, LG Corp. and its related parties own 31.1% of the Company's total stocks including common stock and preferred stock, while financial institutions, foreign investors and others own the rest of the Company's common stocks.

Consolidated Subsidiaries and Equity Method Investees

Consolidated subsidiaries and equity method investees as of December 31, 2007, are as follows:

(in millions of Korean won)

(in millions of Korean won)

		Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
	Shareholders' equity		LGE	Subsidiaries	Total	
Domestic subsidiaries						
LG Micron Ltd.	335,692	7,500,000	2,699,702	-	2,699,702	36.00
LG Innotek Co., Ltd.	255,869	8,620,800	6,017,400	-	6,017,400	69.80
LG.Philips LCD Co., Ltd.	8,289,373	357,815,700	135,625,000	-	135,625,000	37.90
Hi Plaza Inc.	118,344	7,440,000	7,440,000	-	7,440,000	100.00
Hi Business Logistics	21,910	720,000	720,000	-	720,000	100.00
LG fund for small and medium enterprises	17,036	-	-	-	-	50.00
Innovation Investment Fund (formerly Blue Ocean Investment Association)	11,829	-	-	-	-	83.33
Domestic equity method investees						
Hankuk Electric Glass Co., Ltd.	430,050	8,073,375	1,614,675	-	1,614,675	20.00
LG-Nortel Co., Ltd.	481,032	2,000,000	999,999	-	999,999	50.00
Korea Information Certificate Authority Inc.	20,388	4,280,000	400,000	-	400,000	9.27
Paju Electric Glass Co., Ltd.	55,142	3,600,000	-	1,440,000	1,440,000	40.00
System Air-con Engineering Ltd.	1,854	340,000	340,000	-	340,000	100.00

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(in millions of Korean won)

(in millions of Korean won)	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
Overseas subsidiaries						
LG Electronics Austria GmbH (LGEAG)	10,005	1	1	1	1	100.00
LG Electronics Alabama, Inc. (LGEAI)	66,923	266	-	266	266	100.00
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)	20,562	1	1	1	1	100.00
LG Electronics Australia Pty, Ltd. (LGEAP)	35,871	2,685,000	2,685,000	-	2,685,000	100.00
LG Electronics Klima Sanayi ve Ticaret P.S. (LGEAT)	73,910	288,000	144,000	-	144,000	50.00
LG Electronics Da Amazonia Ltda. (LGEAZ)	184,213	1	1	1	1	100.00
LG Electronics Colombia Ltda. (LGEGB)	50,708	1	1	1	1	100.00
LG Electronics China Co., Ltd. (LGECH)	21,786	1	1	1	1	100.00
LG Electronics Canada, Inc. (LGECI)	35,231	42,900	42,900	-	42,900	100.00
LG Electronics Inc. Chile Limitada (LGECL)	30,034	1	1	1	1	100.00
LG Electronics Czech S.R.O. (LGECH)	14,754	1	1	1	1	100.00
LG Electronics Deutschland GmbH (LGEDG)	38,693	1	1	1	1	100.00
LG Electronics Egypt S.A.E. (LGEEG)	5,391	144,000	136,800	-	136,800	95.00
LG Electronics Espana S.A. (LGEES)	34,533	472,967	-	472,967	472,967	100.00
LG Goldstar France S.A.R.L. (LGEFS)	22,997	69,848	-	69,848	69,848	100.00
LG Electronics Gulf FZE (LGEGF)	17,245	40	40	-	40	100.00
LG Electronics HK Limited (LGEHK)	(1,052)	6,752,817	6,752,817	-	6,752,817	100.00
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN)	11,240	1	1	1	1	70.00
LG Electronics Hellas S. A. (LGEHS)	8,167	1,600,000	-	1,600,000	1,600,000	100.00
LG Electronics Huizhou Inc. (LGEHZ)	49,743	1	1	1	1	80.00
LG Electronics India PVT Ltd. (LGEIL)	252,173	113,128,726	113,128,726	-	113,128,726	100.00
PT LG Electronics Indonesia Ltd. (LGEIN)	89,156	51,920	51,920	-	51,920	100.00
LG Electronics Italy S.P.A. (LGEIS)	17,168	18,785,000	-	18,785,000	18,785,000	100.00
LG Electronics Japan Inc. (LGEJP)	4,571	1,380,000	1,380,000	-	1,380,000	100.00
Kunshan LGMS Computer Co., Ltd. (LGEKS)	10,100	1	1	1	1	100.00
LG Electronics Latvia, LLC (LGELV)	3,756	1	1	1	1	100.00
LG Electronics Mlawa SP.Zo.O. (LGEMA)	135,171	412,616	412,616	-	412,616	100.00
LG Electronics Morocco S.A.R.L. (LGEMC)	10,113	315,213	315,213	-	315,213	100.00
GoldStar MobileComm.France S.A.S.U(LGEMF)	7,857	400,000	400,000	-	400,000	100.00
LG Electronics Magyar Kft (LGEMK)	17,066	1	1	1	1	100.00
LG Electronics (M) SDN.BHD (LGEML)	4,058	28,515,181	28,515,181	-	28,515,181	100.00
LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM)	45,460	70,162	6	70,156	70,162	100.00
LG Electronics Mobile Research U.S.A.,LLC (LGEMR)	3,959	1	1	1	1	100.00
LG Electronics Mexico S.A. DE C.V. (LGEMS)	112,146	714,328	714,028	300	714,328	100.00

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(in millions of Korean won)

	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
LG Electronics Mexicali S.A.D.E C.V.(LGEMX)	14,862	899,625	-	899,625	899,625	100.00
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP)	21,188	1	1	1	1	100.00
Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND)	44,456	1	1	1	1	70.00
LG Electronics Philippines, Inc. (LGEPH) (formerly LGEPM)	4,131	739,036	739,036	-	739,036	100.00
LG Electronics Polska SP.Zo. O. (LGEPL)	30,913	28,366	-	28,366	28,366	100.00
Nanjing LG Panda Appliances Co., Ltd. (LGEPN)	35,706	1	1	1	1	70.00
Overseas subsidiaries						
LG Electronics Peru S.A. (LGEPR)	17,708	59,626,822	59,626,822	-	59,626,822	100.00
LG Electronics Panama S.A. (LGEPS)	44,223	193,747	193,747	-	193,747	100.00
LG Electronics Portugal (LGEPT)	8,088	1	1	1	1	100.00
Quingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	20,079	1	1	1	1	70.00
LG Electronics Qinhuangdao Co., Ltd. (LGEQH)	10,070	1	1	1	1	100.00
LG Electronics RUS, LLC(LGERA)	46,182	1	1	1	1	100.00
LG Electronics Russia Inc. (LGERI)	10,518	2,410	2,290	-	2,290	95.00
LG Electronics Romania S.R.L (LGERO)	12,552	2,052,000	-	2,052,000	2,052,000	100.00
LG Electronics Reynosa, S.A. DEC.V. (LGERS)	37,774	72,000	-	72,000	72,000	100.00
LG Electronics S.A. Pty Ltd. (LGESA)	30,719	293,344,000	293,344,000	-	293,344,000	100.00
LG Electronics European Holdings B.V. (LGEH)	44,639	6,544	6,544	-	6,544	100.00
LG Electronics European Logistics & Services B.V(LGELS)	9,358	1	1	1	1	100.00
LG Electronics European Shared Service Center B.V. (LGESC)	1,885	150,000	-	150,000	150,000	100.00
LG Electronics Benelux(LGEBN)	9,982	18,000	-	18,000	18,000	100.00
LG Electronics JIT Europe B.V.(LGEJE)	575	180	-	180	180	100.00
Shanghai LG Electronics Co., Ltd. (LGESH)	18,950	1	1	1	1	70.00
LG Electronics Singapore Pte Ltd. (LGESL)	5,851	11,083,999	11,083,999	-	11,083,999	100.00
LG Electronics de Sao Paulo Ltda. (LGESP)	191,363	1	1	1	1	100.00
LG Electronics Sweden AB (LGESW)	8,220	76,157	-	76,157	76,157	100.00
LG Electronics Shenyang Inc. (LGESY)	63,601	1	1	1	1	78.87
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	166,839	1	1	1	1	80.00
LG Electronics Thailand Co., Ltd. (LGETH)	43,064	6,138,995	6,138,995	-	6,138,995	100.00

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	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
Taizhou LG-Chunlan Home Appliances Co., Ltd.(LGETR) (formerly LGECT)	74,728	1	1	1	1	100.00
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	11,683	52,892,542	52,892,542	-	52,892,542	99.94
LG Electronics United Kingdom Ltd. (LGEUK)	15,431	192,000	-	192,000	192,000	100.00
LG Electronics U.S.A., Inc. (LGEUS)	111,702	32,884	32,884	-	32,884	100.00
LG Electronics Vietnam Co., Ltd. (LGEVN)	8,469	1	1	1	1	100.00
LG Electronics Wrocław Sp. z o.o. (LGEWR)	64,334	181,018	181,018	-	181,018	100.00
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	34,557	1	1	1	1	70.00
LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS)	36,288	10,000	-	10,000	10,000	100.00
LG Software PVT, Ltd. (LGSF)	14,599	9,946,000	9,946,000	-	9,946,000	100.00
Zenith Electronics Corporation (Zenith)	453,571	2,000	-	2,000	2,000	100.00
EIC Properties PTE, Ltd.	21,812	34,170,000	13,052,940	-	13,052,940	38.20
LGE (China) R&D Center	6,533	1	1	1	1	100.00
LG Holdings (HK) Ltd	283,064	204,006,285	64,914,800	-	64,914,800	31.82
Beijing LG Building Development	112,310	1	1	1	1	100.00
Overseas subsidiaries						
LG Electronics Overseas Trading FZE (Dubai)	46,893	1	1	-	1	100.00
LG.Philips LCD America, Inc.	10,297	5,000,000	-	5,000,000	5,000,000	100.00
LG.Philips LCD Japan Co., Ltd.	5,831	1,900	-	1,900	1,900	100.00
LG.Philips LCD Germany GmbH	6,645	960,000	-	960,000	960,000	100.00
LG.Philips LCD Taiwan Co., Ltd.	15,628	11,550,000	-	11,549,994	11,549,994	100.00
LG.Philips LCD Nanjing Co., Ltd.	237,881	1	-	1	1	100.00
LG.Philips LCD Hong Kong Co., Ltd.	7,564	115,000	-	115,000	115,000	100.00
LG.Philips LCD Shanghai Co., Ltd.	3,007	1	-	1	1	100.00
LG.Philips LCD Poland Sp. z o.o.	154,231	5,110,710	-	4,103,277	4,103,277	80.00
LG.Philips LCD Guangzhou Co., Ltd.	62,224	1	1	-	1	100.00
LG Innotek Huizhou Co., Ltd.	28,750	1	1	1	1	100.00
LG Innotek Yantai Co., Ltd.	51,823	1	1	1	1	100.00
PT.LG Innotek Indonesia	6,977	5,000	-	5,000	5,000	100.00
LG Innotek USA Inc.	2,249	10,000	-	10,000	10,000	100.00
LG Innotek Poland, Ltd	7,132	95,742	-	95,742	95,742	100.00
LG Micron(Fujian) Electronics Co., Ltd	17,241	1	1	1	1	80.00
LG.Philips LCD Shenzhen Co., Ltd.	1,481	1	1	1	1	100.00
Global Professional Sourcing Co., Ltd.	289	1,000,000	-	700,000	700,000	70.00
Overseas equity method investees						
Hitachi-LG Data Storage Inc. (HLDS)	55,343	30,000	14,700	-	14,700	49.00
LG Electronics Argentina S.A. (LGEAR)	11,114	36,925,000	1,846,250	35,078,750	36,925,000	100.00
LG Electronics Egypt Cairo S.A.E. (LGEEC)	2,882	13,510	13,510	-	13,510	100.00

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(in millions of Korean won)

	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
LG Electronics Middle East Co., Ltd. (LGEME)	462	32,999	32,999	-	32,999	100.00
LG MITR Electronics Co., Ltd. (LGEMT)	5,774	5,076,000	5,076,000	-	5,076,000	100.00
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	¹	¹	¹	¹	100.00
LG.Philips Displays Holding B.V.	(526,605)	68,182	-	34,090	34,090	50.00
Electromagnetica Goldstar S.R.L.	1,016	2,650	1,325	-	1,325	50.00
SLD TELECOM Pte. Ltd.	168,274	246,150,000	62,458,000	-	62,458,000	25.37
Triveni Digital Inc.	1,031	22,357,500	19,500,000	-	19,500,000	87.22
LG Electronics RUS-Marketing, LLC (LGERM)	204	¹	¹	¹	¹	100.00
Hi Logistics China Company Limited	5,390	¹	¹	¹	¹	100.00
Hi Logistics Europe B.V.	2,576	12,000	-	12,000	12,000	100.00
LG Pasig	2,567	100	-	38	38	51.00
LG Micron(Taiwan) Ltd.	27	¹	¹	¹	¹	100.00
LG SHAKER CO LTD (LGESR)	9,176	371,250	181,913	-	181,913	49.00
LG Electronics Africa Logistics FZE(LGEAF)	759	3	3	-	3	100.00
LG Electronics Antwerp Logistics N.V. (LGEAL)	1,275	10,000	-	10,000	10,000	100.00
LG Electronics Wales Ltd. (LGEWA)	836,880	2,042,203	-	2,042,203	2,042,203	100.00

¹ There are no issued and outstanding shares since these are not a corporation.

The consolidated subsidiaries and equity method investees are classified in accordance with the Enforcement Decree on External Audit for Corporations and SKFAS No. 25, *Consolidated Financial Statements*.

Newly consolidated subsidiaries as of December 31, 2007, are as follows:

Consolidated subsidiaries	Remarks
LG Electronics Austria GmbH (LGEAG)	Total assets increased to more than ₩7,000 million
LG Soft India PVT., Ltd. (LGELV)	Total assets increased to more than ₩7,000 million
LG Electronics Wrocław Sp. Zo.o. (LGEWR)	Total assets increased to more than ₩7,000 million
LG Electronics Mobile Research U.S.A., LLC. (LGEMR)	Total assets increased to more than ₩7,000 million
Innovation Investment Fund (Formerly Blue Ocean Investment Association)	Total assets increased to more than ₩7,000 million
LG.Philips LCD Shenzhen Co., Ltd.	The subsidiary was newly established in 2007
Global Professional Sourcing Co., Ltd.	The subsidiary was newly established in 2007

LG Electronics Inc. and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2007 and 2006**

Excluded subsidiaries as of December 31, 2007, but were consolidated as of December 31, 2006, is as follows:

Excluded subsidiarier	Remark
LG MITR Electronics Co., Ltd. (LGEMT)	The subsidiary is currently under liquidation as of December 31, 2007.
LG Electronics Antwerp Logistics N.V (LGEAL)	The subsidiary is currently under liquidation as of December 31, 2007.
LG Electronics Wales Ltd. (LGEWA)	The subsidiary is currently under liquidation as of December 31, 2007.

The primary business activities of the consolidated subsidiaries are as follows:

(1) LG. Philips LCD Co., Ltd.

The LG. Philips LCD Co., Ltd., a subsidiary was incorporated in 1985 under its original name of LG Soft, Ltd. and commenced its manufacture and sale of Thin Film Transistor Liquid Crystal Display ("TFT LCD") in 1999. On July 26, 1999, LG Electronics Inc., Koninklijke Philips Electronics N.V. and the Company entered into a joint venture agreement. Pursuant to the agreement, the Company changed its name from LG LCD Co., Ltd. to LG.Philips LCD Co., Ltd. on August 27, 1999.

The Company listed its shares with the Korea Stock Exchange and with US Securities and Exchange Commission in July 2004.

(2) LG Innotek Co., Ltd.

LG Innotek Co., Ltd. was incorporated in February 1976, to manufacture and sell electronics, electrical and machinery components. As of December 31, 2007, the head office is in Seoul and its manufacturing plants are in Gumi and Gwangju. It merged with LG Connect and Development Co., Ltd in March 1999 and transferred the system business to Nex1 Future Co., Ltd. in July 2004.

(3) Hi Plaza Inc.

Hi Plaza Inc. was incorporated in May 1997, to sell electronics, and information and communication products, which LGE manufactures, in the domestic market. As of December 31, 2007, the head office is in Seoul and it operates 198 distributors throughout the country. Hi Plaza Inc. changed its name in October 1998.

(4) LG Micron Ltd.

LG Micron Ltd. was incorporated in May 1983, to manufacture and sell electronic components such as shadow mask and photo mask. LG Micron Ltd. listed its shares on the Korea Stock Exchange in December 2000.

(5) LG Electronics USA Inc. ("LGEUS")

LG Electronics USA Inc. was incorporated in New Jersey, U.S.A., in August 1978, to sell electronics, and information and communication products, which LGE manufactures, in the U.S.A.

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(6) LG Electronics U.K. Ltd. ("LGEUK")

LG Electronics U.K. Ltd. was incorporated in Slough, United Kingdom, in December 1986, to sell electronics, and information and communication products, which LGE manufactures, in the United Kingdom.

(7) Other consolidated subsidiaries

Other than the subsidiaries above, there are 95 other consolidated subsidiaries including Hi Business Logistics, eleven subsidiaries of LG.Philips LCD Co., Ltd., five subsidiaries of LG Innotek Co., Ltd., a subsidiary of LG Micron Ltd. and 77 overseas subsidiaries selling and manufacturing LGE's products.

The primary business activities of the equity-method investees are as follows:

(1) LG.Philips Displays Holding B.V.

LG.Philips Displays Holding B.V. was incorporated in Netherlands in June 2001, to manufacture and sell color braun tubes and related products.

(2) LG-Nortel Co., Ltd.

LG-Nortel Co., Ltd. was incorporated in Seoul in October 2005, to manufacture and sell communication equipment.

(3) Hankuk Electric Glass Co., Ltd.

Hankuk Electric Glass Co., Ltd. was incorporated in Gumi in May 1974, to manufacture and sell glasses related to color braun tube and computer monitors.

(4) Paju Electric Glass Co., Ltd.

Paju Electric Glass Co., Ltd. was incorporated in Paju in January 2005, to manufacture and sell glass products.

(5) Other equity method investees

Other than the above, there are other 20 equity method investees consisting of two domestic investees and 18 overseas investees.

A summary of financial data of the major consolidated subsidiaries as of and for the year ended December 31, 2007, prior to the elimination of intercompany transactions, follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Net assets	Sales	Net income (loss)
LG.Philips LCD Co., Ltd. ¹	₩ 13,779,835	₩ 5,490,376	₩ 8,289,459	₩ 14,351,966	₩ 1,344,027
LG Innotek Co., Ltd. ¹	803,394	547,482	255,912	1,697,547	25,259
LG Micron Ltd. ¹	909,413	568,938	340,475	715,087	(38,812)
Hi Plaza Inc. ²	190,406	72,062	118,344	743,357	1,961
LG Electronics USA Inc. ²	1,062,007	891,060	170,947	3,704,656	20,587
LG Electronics U.K. Ltd. ²	258,289	242,334	15,955	1,024,336	7,290
Others ²	17,581,083	13,944,221	3,636,862	31,189,792	(131,390)
Total	₩ 34,584,427	₩ 21,756,473	₩12,827,954	₩ 53,426,741	₩ 1,228,922

¹ Financial data are based on consolidated financial statements.

² Financial data are based on non-consolidated financial statements.

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2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized as follows:

Basis of Consolidated 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.

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

In 2007, the Company adopted the following new Statements of Korean Financial Accounting Standards (SKFAS) issued by the Korea Accounting Standards Board:

- SKFAS No. 19, *Leases (As Revised)*
- SKFAS No. 21, *Preparation and Presentation of Financial Statements I*
- SKFAS No. 22, *Share-Based Compensation*
- SKFAS No. 23, *Earnings Per Share*
- SKFAS No. 25, *Consolidated Financial Statements*
- Korea Accounting Institute Opinion 06-2, *Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures*
- Korea Accounting Institute Opinion 07-1, *Applying SKFAS No.11, Discontinuing Operations to Demerger.*
- Financial Supervisory Service's Accounting Implementation Guide [2006-5], *Accounting Treatment of Non-Listed Equity Securities*

In accordance with SKFAS No. 21, *Preparation and Presentation of Financial Statements I* and SKFAS No. 25, *Consolidated Financial Statement*, the Company classified its capital adjustments account into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of its comprehensive income in the notes to the financial statements. In addition, the Company disclosed its earnings per share on the face of its statements of income. According to SKFAS No. 25, the Company classified net income into controlling interest net income and minority interest net income and disclosed on the face of its statements of income.

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Certain prior year accounts, presented herein for comparative purposes, have been reclassified to conform to current year's financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

The Company applied the Korea Accounting Institute Opinion 06-2. The prior year financial statements, presented herein for comparative purposes, have been restated to reflect the changes in accordance with SKFAS No. 1.

The effects of the change on significant accounts for the years ended December 31, 2006 and 2005, are as follows:

2006	Before	Adjustments	After
<i>(in millions of Korean won except per share amounts)</i>			
Deferred income tax assets (current)	₩ 200,372	₩ 33,680	₩ 234,052
Deferred income tax liabilities (non-current)	58,062	204,361	262,423
Capital surplus	2,704,897	(165,266)	2,539,631
Accumulated other comprehensive income	78,605	5,601	84,206
Unappropriated retained earnings	2,590,094	(11,016)	2,579,078
Income tax benefit	(186,926)	(11,294)	(198,220)
Controlling interest net income	233,909	11,294	245,203
Basic earnings per share	1,447	70	1,517
Diluted earnings per share	1,447	70	1,517

2005	Before	Adjustments	After
<i>(in millions of Korean won except per share amounts)</i>			
Deferred income tax assets (current)	₩ 227,417	₩ 48,871	₩ 276,288
Deferred income tax liabilities (non-current)	114,563	251,151	365,714
Capital surplus	2,595,157	(165,266)	2,429,891
Accumulated other comprehensive income (loss)	96,522	(14,704)	81,818
Unappropriated retained earnings	2,580,796	(22,310)	2,558,486
Income tax expense (benefit)	(47,735)	5,764	(41,971)
Controlling interest net income	605,562	(5,764)	599,798
Basic earnings (loss) per Share	3,797	(36)	3,761
Diluted earnings (loss) per Share	3,766	(35)	3,731

Principles of Consolidation

The fiscal year end of the consolidated subsidiaries is the same as that of the Controlling Company. Differences in accounting policy between the Controlling Company and consolidated subsidiaries are adjusted during consolidation.

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The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under the 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. In cases where there are two or three investors with more than 30% ownership in the issued share capital of an investee and such investors, individually, are the largest shareholders, the investor, which belongs to a conglomerate along with the investee as defined by Monopoly Regulation and Fair Trade Act in the Republic of Korea, is required to consolidate such investee. 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 during consolidation.

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 over the estimated useful lives, which range from five to ten years. 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 percentage of 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 deducted from shareholders' equity as a negative minority interest.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods are recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from installation service contracts is recognized using the percentage-of-completion method.

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Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

In 2006, the Controlling Company changed its method of determining the cost of inventory from the yearly-average cost method to the monthly-average cost method. The cumulative effect from the change in accounting policy could not be reasonably estimated. Accordingly, the effect of the change was accounted for prospectively.

Investment in Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

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Equity Method Investments

Investees over which the Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in 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 the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives:

	Estimated useful life
Buildings	5 - 40 years
Structures	20 - 40 years
Machinery and equipment	4 - 10 years
Tools	2 - 5 years
Vehicles	4 - 5 years
Others	3 - 5 years

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation method and estimated useful lives:

	Estimated Useful Lives	Depreciation Methods
Goodwill	5 - 10 years	Straight-line method
Industrial property rights	5 - 10 years	Straight-line method
Development cost	4 - 5 years	Straight-line method
Other intangible assets	4 - 25 years	Straight-line method

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

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Non-Capitalization of interest expense

The Company expenses interest expense incurred on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant, and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

Impairment of assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Income tax and deferred income tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Convertible Bonds

The Company records the equity component of the convertible bonds (conversion rights) by deducting the fair value of the liability component from the proceeds. The liability component is shown as gross amount recorded as liability with a contra account (conversion rights adjustment) as a deduction from the liability to arrive at a net amount equal to its fair value. The Company is obligated to pay the guaranteed interest upon maturity without conversion and accrues this interest as an adjustment to the carrying value of the liability component.

Discounts on debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

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Accrued severance benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum 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.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. Also, the Company deposits certain portion severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as deduction from accrued severance benefits.

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

Provisions and contingent liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Translation of assets and liabilities denominated in foreign currencies

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

Share-based payments

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at balance sheet date and at settlement date. The change in fair value is recognized as an expense.

Treasury Stock

Treasury stock are stated at cost and recorded as a capital adjustment in shareholders' equity. Gains on disposal of treasury stock are recorded as a capital surplus. Any loss on disposal of treasury stock is offset against any prior gains included in capital surplus. The remaining loss is offset against retained earnings.

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.

Duty Refunds

The Company records duty refunds as a deduction from cost of sales.

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Lease Transactions

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. The annual minimum lease payments, less guaranteed residual value, are charged to expense on a regular basis over the lease term.

Government grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Reconciliation of the differences in accounting policies

For the year ended December 31, 2007, the following adjustments were made on the equity method investees to reconcile the differences in accounting policies between the Company and equity method investees:

<i>(in millions of Korean won)</i>		Adjustment	Amount
LG.Philips LCD Co., Ltd.	Adjustment capitalized interest expense to expense as incurred	₩	38,908
LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred		19,465
Subsidiary of LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred		2,924

3. Financial Instruments

As of December 31, 2007, short-term financial instruments of ₩48,387 million (2006 : ₩43,067 million), and long-term financial instruments of ₩53,539 million (2006 : ₩99,159 million) are deposited in connection with maintaining checking accounts, various short-term borrowings and long-term debts, and research and development projects funded by the government. The withdrawal of these financial instruments is restricted.

4. Short-term investments

Short-term investments as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Government bonds	₩ 329	₩ 747

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5. Receivables

Receivables, including trade accounts and notes receivable, as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007			2006		
	Original amount	Allowance for doubtful accounts	Carrying value	Original amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩ 5,535,476	₩ (151,527)	₩ 5,383,949	₩ 4,191,975	₩ (133,146)	₩ 4,058,829
Other accounts receivable	1,157,655	(65,605)	1,092,050	878,827	(57,908)	820,919
Accrued income	83,190	(821)	82,369	66,541	(545)	65,996
Advances	135,215	(3,281)	131,934	114,392	(3,179)	111,213
Short-term loans receivable	22,272	(1,361)	20,911	23,782	(1,423)	22,359
Long-term loans receivable	102,648	(1,090)	101,558	118,866	(1,061)	117,805
	<u>₩ 7,036,456</u>	<u>₩ (223,685)</u>	<u>₩ 6,812,771</u>	<u>₩ 5,394,383</u>	<u>₩ (197,262)</u>	<u>₩ 5,197,121</u>

As of December 31, 2007, trade bills negotiated through banks that have not yet matured amount to approximately ₩3,492,370 million. The ₩3,042,523 million in trade bills to overseas subsidiaries were accounted as for short-term borrowings during consolidation (Notes 13 and 17).

In accordance with the Asset Securitization Law, on May 18, 2006, the Controlling Company entered into a sales contract with LG Electronics 2nd Securitization Specialty L.L.C to transfer its trade receivables amounting to ₩190,000 million. Through the asset-backed securitization of trade receivables, the Company acquired the 2nd-class beneficiary certificate of ₩88,420 million included under the trade accounts receivable as of December 31, 2007.

The Controlling Company entered into accounts receivable selling program with Societe General Bank. The Controlling Company sells the accounts receivable of six subsidiaries, namely, LG Electronics UK., Ltd., LG Electronics Deutschland.GmbH, LG Electronics Espana S.A., LG Goldstar France S.A.R.L., LG Electronics Benelux and LG Electronics Italia S.P.A, on a revolving basis, of up to US\$853 million. As of December 31, 2007, the outstanding balance of securitized accounts receivable held by the third party conduits totaled ₩1,427,750 million.

The Controlling Company entered into accounts receivable selling program with JP Morgan Chase Bank and Sumitomo Bank. The Controlling Company sells the accounts receivable of two subsidiaries, namely, LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A. Inc., on a revolving basis, of up to US\$400 million. As of December 31, 2007, the outstanding balance of securitized accounts receivable held by the third party conduits totaled ₩654,871 million.

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In October 2006, LG. Philips LCD Co., Ltd., a subsidiary, entered into a five-year accounts receivable selling program with Standard Chartered Bank. The Company sells accounts receivable of four subsidiaries, namely, LG.Philips LCD America Inc., LG.Philips LCD Germany GmbH, LG.Philips LCD Shanghai Co., Ltd. and LG.Philips LCD Hong Kong Co., Ltd., on a revolving basis, of up to US\$600 million. The Controlling Company joined this program in April 2007. As of December 31, 2007, there are no accounts receivable (2006 : ₩185,633 million). Losses, including the loss on disposal of accounts receivable, and various program and facility fees associated with the Program totaled approximately ₩6,053 million for the year ended December 31, 2007 (2006 : ₩2,458 million).

In September 2004, LG. Philips LCD Co., Ltd., a subsidiary, entered into a five-year accounts receivable securitization program (the "Program") with ABN AMRO-Taipei Branch and ABN AMRO-Tokyo Branch. The Program allows the Company to sell, on a revolving basis, an undivided interest up to US\$350 million in eligible accounts receivables of four subsidiaries, namely, LG.Philips LCD America Inc. ("LPLA"), LG.Philips LCD Germany GmbH ("LPLG"), LG.Philips LCD Japan Co., Ltd. ("LPLJ") and LG.Philips LCD Taiwan Co., Ltd. ("LPLT"). As of December 31, 2007, there is no outstanding balance of securitized accounts receivable held by the third party conduits (2006: ₩364,785 million). Losses, including the loss on sale of receivables, and various program and facility fees associated with the Program totaled approximately ₩9,680 million for the year ended December 31, 2007 (2006: ₩15,509 million).

In June 2006, LG.Philips LCD Shanghai Co., Ltd. ("LPLSH"), a subsidiary of LG. Philips LCD Co., Ltd., entered into an accounts receivable selling program with Standard Chartered Bank for up to US\$200 million. As of December 31, 2007, there are no non-maturing accounts receivable sold (2006 : ₩41,914 million). Losses, including the loss on sale of receivables, and various programs and facility fees associated with the program totaled approximately ₩434 million for the year ended December 31, 2007 (2006: ₩ 542 million).

In September 2006, LG.Philips LCD Taiwan Co., Ltd., a subsidiary of LG. Philips LCD Co., Ltd., entered into accounts receivable selling program with ChinaTrust Bank and another bank of up to US\$505 million. As of December 31, 2007, there are no non-maturing accounts receivable sold (2006: ₩112,715 million). Losses, including the loss on sale of receivables, and various program and facility fees associated with the Program totaled approximately ₩3,121 million for the year ended December 31, 2007 (2006: ₩2,423 million).

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6. Inventories

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

<i>(in millions of Korean won)</i>	2007		
	Acquisition cost	Inventory valuation allowance	Carrying value
Merchandise and finished products	₩ 3,331,623	₩ (75,795)	₩ 3,255,828
Work-in-process	443,612	(3,460)	440,152
Raw materials and supplies	1,853,556	(27,613)	1,825,943
Other	196,407	(10,070)	186,337
	<u>₩ 5,825,198</u>	<u>₩ (116,938)</u>	<u>₩ 5,708,260</u>

<i>(in millions of Korean won)</i>	2006		
	Acquisition cost	Inventory valuation allowance	Carrying value
Merchandise and finished products	₩ 3,457,532	₩ (74,115)	₩ 3,383,417
Work-in-process	626,744	(6,564)	620,180
Raw materials and supplies	1,646,977	(39,559)	1,607,418
Other	198,385	(14,381)	184,004
	<u>₩ 5,929,638</u>	<u>₩ (134,619)</u>	<u>₩ 5,795,019</u>

For the year ended December 31, 2007, the Company recorded no ramp-up cost (2006: ₩ 18,043 million) to counter the unusual low volume of production.

As of December 31, 2007 and 2006, the inventories are insured against various property risks.

7. Investment Securities

Investment securities as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Available-for-sale securities	₩ 41,796	₩ 55,668
Held-to-maturity securities	686	941
	<u>₩ 42,482</u>	<u>₩ 56,609</u>

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Available-for-sale securities as of December 31, 2007 and 2006, are as follows:

	2007	2006
<i>(in millions of Korean won)</i>		
Marketable equity securities		
Nara Mold & Die Co., Ltd.	₩ 4,195	₩ 4,016
ADP Engineering Co., Ltd.	4,084	3,247
Digital Device, Inc. ³	-	106
Tovis Co., Ltd. ⁵	1,467	-
	<u>9,746</u>	<u>7,369</u>
Non-marketable equity securities		
Domestic companies		
Innopla Co., Ltd.	245	245
Castec Korea Co., Ltd. ³	-	182
AL Tech Inc. ³	-	589
Association of Electronics Environment ¹	-	4,698
Netgenetech. Co., Ltd. ³	-	176
Manager Society, Inc. ³	-	200
TU Media Corp. ¹	627	6,500
ADS Technologies Co., Ltd. ³	-	150
NARA M Tech, Inc.	597	597
C&M, Inc.	400	400
System Air-Con Engineering Ltd. ²	-	338
Digital World Corporation	138	4
Quantum Device Inc. ⁴	400	-
Hyundai IT ⁴	12	-
ATMS Co., Ltd. ³	-	938
3ALogics Inc.	632	632
Others	19,937	13,854
Overseas companies		
COMMIT Incorporated	-	4,990
Sunpower, Inc.	1,257	1,257
CMEA II Venture Fund	1,377	1,377
Caspian bank	930	930
Others	2,579	6,770
	<u>29,131</u>	<u>44,827</u>
Debt securities		
Bonds issued by the government ⁴	631	23
Convertible bonds issued by NeoDis Co., Ltd. ⁵	-	665
Convertible bonds issued by Pentamicro Inc.	-	131
Convertible bonds issued by Tovis Co., Ltd. ⁵	265	-
Others	2,023	2,653
	<u>2,919</u>	<u>3,472</u>
	<u>₩ 41,796</u>	<u>₩ 55,668</u>

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¹ Carrying value was fully written down due to the negative net book value or bankruptcy of the investee as of December 31, 2007.

² In 2007, the investments were reclassified as equity method investments.

³ In 2007, the Company sold the investment securities.

⁴ New or additional investments were made during the year ended December 31, 2007.

⁵ In 2007, NeoDis Co., Ltd. merged with Tovis Co., Ltd.

The annual maturities of debt securities classified as available-for-sale securities and held-to-maturity securities as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i> Maturity	2007		2006	
	Available-for-sale securities	Held-to-maturity securities	Available-for-sale securities	Held-to-maturity securities
Over one year to five years	₩ 2,919	₩ 686	₩ 3,472	₩ 897
Over five years to ten years	-	-	-	44
	₩ 2,919	₩ 686	₩ 3,472	₩ 941

The details of changes in accumulated gains (losses) on valuation of available-for-sale securities as recorded as capital adjustments for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2007	Gain (loss)	Disposal	Tax effect	December 31, 2007
Nara Mold & Die Co., Ltd.	₩ 2,322	₩ 179	₩ -	₩ (49)	₩ 2,452
ADP Engineering Co., Ltd.	2,300	837	-	(230)	2,907
Digital Device, Inc.	(89)	-	89	-	-
Tovis Co., Ltd	-	(739)	-	179	(560)
	₩ 4,533	₩ 277	₩ 89	₩ (100)	₩ 4,799

<i>(in millions of Korean won)</i>	January 1, 2006	Gain (loss)	Disposal	Tax effect	December 31, 2006
Nara Mold & Die Co., Ltd.	₩ 3,100	₩ (1,071)	₩ -	₩ 293	₩ 2,322
Odicorp Co., Ltd.	898	562	(1,801)	341	-
ADP Engineering Co., Ltd.	5,740	(4,745)	-	1,305	2,300
Digital Device, Inc.	(10)	(109)	-	30	(89)
IDS.	3,145	-	(4,338)	1,193	-
Others	(1,965)	1,965	745	(745)	-
	₩ 10,908	₩ (3,398)	₩ (5,394)	₩ 2,417	₩ 4,533

The fair values of non-marketable equity securities for Planet and other 23 companies, could not be reliably estimated due to the lack of financial information of the said companies. Accordingly, these equities were presented at their total acquisition cost of ₩9,363 million.

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8. Equity-Method Investments

Equity-method investments as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	Percentage of ownership (%) at December 31, 2007	2007			2006		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
Domestic companies							
Hankuk Electric Glass Co., Ltd.	20.00	₩ 119,282	₩ 86,010	₩ 82,608	₩ 119,282	₩ 102,945	₩ 96,141
Innovation Investment Fund (formerly Blue Ocean Investment Association) ⁶	83.33	-	-	-	10,000	10,000	10,000
LG-Nortel Co., Ltd	50.00	153,254	240,516	231,934	153,254	180,302	168,989
Paju Electric Glass Co., Ltd.	40.00	14,400	25,431	24,705	14,400	20,631	19,284
Korea Information Certificate Authority Inc. ⁸	9.27	1,852	1,890	1,940	1,852	1,607	1,446
System Air-Con Engineering Ltd. ^{4,5}	100.00	1,854	1,854	1,854	-	-	-
		290,642	355,701	343,041	298,788	315,485	295,860
Overseas companies							
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	27,118	32,088	7,684	24,058	29,801
LG Electronics Austria GmbH (LGEAG) ⁶	100.00	-	-	-	5,993	7,770	7,281
LG Electronics Argentina S.A. (LGEAR) ⁴	100.00	16,882	3,420	4,125	7,410	-	-
LG Electronics Egypt Cairo S.A.E. (LGEEC)	100.00	4,382	2,882	2,852	4,382	2,010	2,378
LG Mitr Electronics Co., Ltd. (LGEMT) ^{3,7}	100.00	22,899	5,774	1,926	-	-	-
LG Electronics Antwerp Logistics N.V (LGEAL) ^{3,7}	100.00	967	1,303	1,303	-	-	-
LG Electronics Middle East Co., Ltd. (LGEME) ²	100.00	462	462	462	462	462	462
LG Electronics Mobile Research U.S.A.,LLC (LGEMR) ⁶	100.00	-	-	-	2,026	3,428	2,026
LG Electronics Ukraine Co., Ltd. (LGEUR) ²	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics Wrocław Sp.Zo.o. (LGEWR) ⁶	100.00	-	-	-	55,364	58,918	53,805
LG Electronics Wales Ltd. (LGEWA) ^{3,7}	100.00	1,073,020	-	-	-	-	-
LG Philips Displays Holding B.V. ¹	50.00	1,509,997	(312,780)	-	1,509,997	(312,780)	-
Electromagnetica Goldstar S.R.L. ²	50.00	508	508	508	508	508	508
SLD Telecom Pte. Ltd.	25.37	72,194	42,691	42,805	72,194	46,750	47,067
Triveni Digital Inc. ²	87.22	899	899	899	899	899	899
LG Electronics RUS-Marketing, LLC (LGERM) ²	100.00	204	204	204	204	204	204
Hi Logistics China Company Limited	100.00	5,151	5,390	5,404	5,151	4,834	4,834
Hi Logistics Europe B.V.	100.00	2,346	3,363	3,363	2,346	2,576	2,576
LG Pasig ²	38.00	1	-	-	1	-	-
LG Micron (Taiwan) Ltd.	100.00	150	126	126	150	27	27
LG Electronics Latvia, LLC.(LGELV) ⁶	100.00	-	-	-	4,936	4,936	4,936
LG SHAKER CO LTD (LGESR) ²	49.00	4,496	4,496	4,496	4,496	4,496	4,496
LG Electronics Africa Logistics FZE (LGEAF) ²	100.00	759	759	759	759	759	759
		2,724,042	(212,344)	102,361	1,686,003	(149,104)	163,100
		₩ 3,014,684	₩ 143,357	₩ 445,402	₩ 1,984,791	₩ 166,381	₩ 458,960

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

² The equity method was suspended for investments in small-sized subsidiaries and affiliates whose total assets as of the previous year end amounted to less than ₩7,000 million, or which have just been established during the year, in accordance with accounting principles generally accepted in the Republic of Korea.

³ The operations of this subsidiary were suspended as of December 31, 2007.

⁴ The Company purchased additional shares of these subsidiaries in 2007.

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- ⁵ They were reclassified from available-for-sale securities in 2007.
- ⁶ They were reclassified from an equity-method investee to a consolidated subsidiary in 2007.
- ⁷ They were reclassified from a consolidated subsidiary to an equity-method investee in 2007.
- ⁸ Since the Company can exercise a significant Control over the Korea Information Certificate Authority Inc., it is classified as an equity method investment instead of available-for-sale securities.

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

For the year ended December 31, 2007, 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 Korean won)</i>	January 1, 2007		Addition		Amortization		December 31, 2007	
Domestic companies								
Hankuk Electric Glass Co., Ltd.	₩	(6,804)	₩	-	₩	3,402	₩	(3,402)
LG-Nortel Co., Ltd.		311		-		(82)		229
		<u>(6,493)</u>		<u>-</u>		<u>3,320</u>		<u>(3,173)</u>
Overseas companies								
LG Electronics Egypt Cairo S.A.E. (LGEEC)		449		-		(449)		-
SLD Telecom Pte. Ltd.		311		-		(196)		115
		<u>760</u>		<u>-</u>		<u>(645)</u>		<u>115</u>
	₩	<u>(5,733)</u>	₩	<u>-</u>	₩	<u>2,675</u>	₩	<u>(3,058)</u>

- ¹ Positive numbers represent goodwill while negative numbers represent negative goodwill.

For the year ended December 31, 2006, 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 Korean won)</i>	January 1, 2006		Addition		Amortization		December 31, 2006	
Domestic companies								
Hankuk Electric Glass Co., Ltd.	₩	(10,206)	₩	-	₩	3,402	₩	(6,804)
LG-Nortel Co., Ltd.		393		-		(82)		311
		<u>(9,813)</u>		<u>-</u>		<u>3,320</u>		<u>(6,493)</u>
Overseas companies								
LG Electronics Egypt Cairo S.A.E. (LGEEC)		1,049		-		(600)		449
SLD Telecom Pte. Ltd.		507		-		(196)		311
		<u>1,556</u>		<u>-</u>		<u>(796)</u>		<u>760</u>
	₩	<u>(8,257)</u>	₩	<u>-</u>	₩	<u>2,524</u>	₩	<u>(5,733)</u>

- ¹ Positive numbers represent goodwill while negative numbers represent negative goodwill.

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For the year ended December 31, 2007, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Total
Domestic companies			
LG-Nortel Co., Ltd.	₩ (52)	₩ 2,865	₩ 2,813
Paju Electric Glass Co., Ltd.	(726)	-	(726)
	<u>(778)</u>	<u>2,865</u>	<u>2,087</u>
Overseas companies			
LG Electronics Egypt Cairo S.A.E. (LGEEC)	53	-	53
LG Electronics Antwerp Logistics N.V (LGEAL)	207	-	207
Hitachi-LG Data Storage Inc. (HLDS)	(474)	-	(474)
	<u>(214)</u>	<u>-</u>	<u>(214)</u>
	<u>₩ (992)</u>	<u>₩ 2,865</u>	<u>₩ 1,873</u>

For the year ended December 31, 2006, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting were as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Total
Domestic companies			
Hankuk Electric Glass Co., Ltd.	₩ 3	₩ -	₩ 3
LG-Nortel Co., Ltd.	2,017	2,865	4,882
Paju Electric Glass Co., Ltd.	(1,347)	-	(1,347)
	<u>673</u>	<u>2,865</u>	<u>3,538</u>
Overseas companies			
LG Electronics Egypt Cairo S.A.E. (LGEEC)	(83)	-	(83)
LG Electronics Austria GmbH (LGEAG)	(8)	-	(8)
Hitachi-LG Data Storage Inc. (HLDS)	(40)	-	(40)
LG Electronics Wrocław Sp.Zo.o. (LGEWR)	(4,076)	(1,047)	(5,123)
	<u>(4,207)</u>	<u>(1,047)</u>	<u>(5,254)</u>
	<u>₩ (3,534)</u>	<u>₩ 1,818</u>	<u>₩ (1,716)</u>

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	Equity in earnings (losses) of affiliates, net			Others ¹	December 31, 2007
January 1, 2007					
Domestic companies					
Hankuk Electric Glass Co., Ltd.	W 96,141	W (12,540)	W (993)	W 82,608	
Innovation Investment Fund (formerly Blue Ocean Investment Association)	10,000	-	(10,000)	-	
LG-Nortel Co., Ltd	168,989	63,350	(405)	231,934	
Paju Electric Glass Co., Ltd.	19,284	6,860	(1,439)	24,705	
Korea Information Certificate Authority Inc.	1,446	510	(16)	1,940	
System Air-Con Engineering Ltd.	-	-	1,854	1,854	
	<u>295,860</u>	<u>58,180</u>	<u>(10,999)</u>	<u>343,041</u>	
Overseas companies					
Hitachi-LG Data Storage Inc. (HLDS)	29,801	4,030	(1,743)	32,088	
LG Electronics Austria GmbH (LGEAG)	7,281	-	(7,281)	-	
LG Electronics Argentina S.A. (LGEAR)	-	(216)	4,341	4,125	
LG Electronics Egypt Cairo S.A.E. (LGEEC)	2,378	356	118	2,852	
LG Mitr Electronics Co., Ltd. (LGEMT)	-	-	1,926	1,926	
LG Electronics Antwerp Logistics N.V. (LGEAL)	-	184	1,119	1,303	
LG Electronics Middle East Co., Ltd. (LGEME)	462	-	-	462	
LG Electronics Mobile Research U.S.A., LLC (LGEMR)	2,026	-	(2,026)	-	
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	-	-	1,041	
LG Electronics Wrocław Sp. z o.o. (LGEWR)	53,805	-	(53,805)	-	
Electromagnetica Goldstar S.R.L.	508	-	-	508	
SLD Telecom Pte. Ltd.	47,067	(4,664)	402	42,805	
Triveni Digital Inc.	899	-	-	899	
LG Electronics RUS-Marketing, LLC (LGERM)	204	-	-	204	
Hi Logistics China Company Limited	4,834	163	407	5,404	
Hi Logistics Europe B.V.	2,576	417	370	3,363	
LG Pasig	-	(2)	2	-	
LG Micron(Taiwan) Ltd.	27	97	2	126	
LG Electronics Latvia, LLC (LGELV)	4,936	-	(4,936)	-	
LG-SHAKER Co., Ltd.(LGESR)	4,496	-	-	4,496	
LG Electronics Africa Logistics FZE (LGEAF)	759	-	-	759	
	<u>163,100</u>	<u>365</u>	<u>(61,104)</u>	<u>102,361</u>	
	<u>W 458,960</u>	<u>W 58,545</u>	<u>W (72,103)</u>	<u>W 445,402</u>	

¹ Includes changes resulting from acquisitions, disposals, dividends, capital adjustment and changes in consolidated subsidiaries.

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the year ended December 31, 2006, were as follows:

<i>(in millions of Korean won)</i>	January 1, 2006		Equity in earnings (losses) of affiliates, net		Others ¹	December 31, 2006
Domestic companies						
Hankuk Electric Glass Co., Ltd.	W	111,087	W	(14,192)	W (754)	W 96,141
LG fund for small and medium Enterprises		5,000		-	(5,000)	-
Blue Ocean Investment Fund		5,000		-	5,000	10,000
LG-Nortel Co., Ltd		130,560		38,290	139	168,989
Paju Electric Glass Co., Ltd.		14,156		5,129	(1)	19,284
Korea Information Certificate Authority Inc.		-		(381)	1,827	1,446
		<u>265,803</u>		<u>28,846</u>	<u>1,211</u>	<u>295,860</u>
Overseas companies						
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)		36		-	(36)	-
Hitachi-LG Data Storage Inc. (HLDS)		30,643		4,082	(4,924)	29,801
LG Electronics Austria GmbH (LGEAG)		5,993		1,226	62	7,281
LG Electronics Egypt Cairo S.A.E. (LGEEC)		3,194		(628)	(188)	2,378
LG Electronics Middle East Co., Ltd. (LGEME)		462		-	-	462
Goldstar Mobilecomm France SASU (LGEMF)		5,621		-	(5,621)	-
LG Electronics Mobile Research U.S.A., LLC (LGEMR)		2,026		-	-	2,026
LG Electronics RUS, LLC (LGERA)		10,621		-	(10,621)	-
LG Electronics Ukraine Co., Ltd. (LGEUR)		1,041		-	-	1,041
LG Electronics Wrocław Sp. z o.o. (LGEWR)		1,004		(4,004)	56,805	53,805
Electromagnetica Goldstar S.R.L.		508		-	-	508
SLD Telecom Pte. Ltd.		49,760		(3,957)	1,264	47,067
Triveni Digital Inc.		899		-	-	899
LG Electronics RUS-Marketing, LLC (LGERM)		204		-	-	204
Hi Logistics China Company Limited		5,089		(192)	(63)	4,834
Hi Logistics Europe B.V.		2,309		218	49	2,576
LG Pasig		-		(1)	1	-
LG Micron(Taiwan) Ltd.		31		(120)	116	27
LG Innotek Poland Co., Ltd.		17		-	(17)	-
LG Electronics Latvia, LLC (LGELV)		-		-	4,936	4,936
LG-SHAKER Co., Ltd. (LGESR)		-		-	4,496	4,496
LG Electronics Africa Logistics FZE (LGEAF)		-		-	759	759
		<u>119,458</u>		<u>(3,376)</u>	<u>47,018</u>	<u>163,100</u>
	W	<u>385,261</u>	W	<u>25,470</u>	W <u>48,229</u>	W <u>458,960</u>

¹ Includes changes resulting from acquisitions, disposals, dividends, capital adjustment and changes in consolidated subsidiaries.

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A summary of financial information of major equity method investees as of and for the year ended December 31, 2007, follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Sales	Net income (loss)
LG-Nortel Co., Ltd.	₩ 1,045,232	₩ 564,201	₩ 930,639	₩ 121,769
Hankuk Electric Glass Co., Ltd.	442,654	12,604	132,749	(79,711)
Paju Electric Glass Co., Ltd.	117,347	62,205	313,773	14,329
SLD TELECOM Pte. Ltd.	191,396	23,146	-	(15,420)

A summary of financial information of major equity method investees as of and for the year ended December 31, 2006, follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Sales	Net income (loss)
LG-Nortel Co., Ltd.	₩ 774,162	₩ 413,558	₩ 761,364	₩ 66,980
Hankuk Electric Glass Co., Ltd.	541,908	27,182	242,217	(88,319)
Paju Electric Glass Co., Ltd.	91,262	46,880	164,379	8,991
SLD TELECOM Pte. Ltd.	241,996	57,724	6,302	(14,822)
LG Electronics Wrocław Sp. Z o.o.	270,354	211,434	83,111	1,118

As of December 31, 2007, the market value of a marketable equity method investment is as follows:

	Number of shares owned	Market price per share (in won)	Market value (in millions)	Book value (in millions)
Hankuk Electric Glass Co., Ltd.	1,614,675	₩ 34,050	₩ 54,980	₩ 82,608

The changes in the respective accumulated losses of equity method investees from which the application of the equity method of accounting has been suspended due to their accumulated losses for the year ended December 31, 2007, are as follows:

	2007	
<i>(in millions of Korean won)</i>	Accumulated losses	Accumulated capital adjustment
LG. Philips Displays Holding B.V.	₩ 312,780	₩ -

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Others	Construction- in-progress	Total
Balance as of January 1, 2007	₩1,169,337	₩4,328,785	₩ 296,133	₩ 7,808,430	₩ 29,551	₩ 604,325	₩ 460,920	₩ 1,625,449	₩ 16,322,930
Acquisitions and capital expenditure	4,990	116,949	11,840	181,465	23,392	232,921	262,363	1,634,383	2,468,303
Transfer-in (out)	72,012	557,956	10,634	950,407	2,354	94,661	31,162	(2,018,343)	(299,157)
Disposals	(90,752)	(31,252)	(2,292)	(36,472)	(4,917)	(10,741)	(47,638)	(3,188)	(227,252)
Depreciation	-	(180,145)	(19,376)	(3,082,952)	(12,010)	(363,439)	(184,423)	-	(3,842,345)
Impairment	(11,931)	(493)	(544)	(35,605)	(72)	(1,398)	(467)	(28,698)	(79,208)
Others ¹	13,652	99,663	(2,061)	118,202	(1,612)	12,844	(143,628)	(34,000)	63,060
Balance as of December 31, 2007	₩1,157,308	₩4,891,463	₩ 294,334	₩ 5,903,475	₩ 36,686	₩ 569,173	₩ 378,289	₩ 1,175,603	₩ 14,406,331
Acquisition cost	₩1,169,239	₩5,744,816	₩ 423,961	₩ 18,976,004	₩ 86,035	₩ 1,913,466	₩ 1,615,582	₩1,204,301	₩ 31,133,404
Accumulated depreciation as of December 31, 2007	₩ -	₩ 852,860	₩ 129,083	₩ 13,034,397	₩ 49,277	₩ 1,342,669	₩ 1,236,353	₩ -	₩ 16,644,639
Accumulated impairment as of December 31, 2007	₩ 11,931	₩ 493	₩ 544	₩ 38,132	₩ 72	₩ 1,624	₩ 940	₩ 28,698	₩ 82,434

¹ Includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Changes in property, plant and equipment for the year ended December 31, 2006, were as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Others	Construction- in-progress	Total
Balance as of January 1, 2006	₩1,208,431	₩ 3,909,419	₩ 256,702	₩ 7,322,126	₩ 27,068	₩ 528,361	₩ 538,087	₩ 1,949,133	₩ 15,739,327
Acquisitions and capital expenditure	33,651	187,125	14,796	445,708	6,931	192,511	151,375	3,444,855	4,476,952
Transfer-in (out)	(69,862)	114,297	53,941	3,276,641	4,718	130,218	101,525	(3,513,475)	98,003
Disposals	(21,947)	(17,899)	(3,164)	(138,324)	(3,941)	(49,393)	(55,856)	(79,882)	(370,406)
Depreciation	-	(152,208)	(18,913)	(2,896,364)	(10,344)	(304,636)	(183,879)	-	(3,566,344)
Impairment	-	-	-	(2,527)	-	(226)	(473)	-	(3,226)
Others ¹	19,064	288,051	(7,229)	(198,830)	5,119	107,490	(89,859)	(175,182)	(51,376)
Balance as of December 31, 2006	₩1,169,337	₩ 4,328,785	₩ 296,133	₩ 7,808,430	₩ 29,551	₩ 604,325	₩ 460,920	₩ 1,625,449	₩ 16,322,930
Acquisition cost	₩ 1,169,337	₩5,026,040	₩ 400,968	₩ 17,843,699	₩ 65,649	₩ 1,682,348	₩ 1,221,508	₩ 1,625,449	₩ 29,034,998
Accumulated depreciation as of December 31, 2006	₩ -	₩ 697,255	₩ 104,835	₩ 10,032,742	₩ 36,098	₩ 1,077,797	₩ 760,115	₩ -	₩ 12,708,842
Accumulated impairment as of December 31, 2006	₩ -	₩ -	₩ -	₩ 2,527	₩ -	₩ 226	₩ 473	₩ -	₩ 3,226

¹ Includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

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As of December 31, 2007, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩1,575,703 million (2006 : ₩1,558,859 million).

The total book value of idle property, plant and equipment related to PDP A1 Line is ₩146,628 million.

10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2007	₩ 80,954	₩ (26)	₩ 337,001	₩ 118,336	₩ 85,491	₩ 621,756
Additions	2,552	-	61,720	44,283	91,010	199,565
Disposals	(100)	-	(1,877)	(65)	(447)	(2,489)
Amortization	(22,658)	21	(52,377)	(42,689)	(44,871)	(162,574)
Impairment(Reversal)	-	-	(46,922)	(8,773)	(389)	(56,084)
Others ¹	(409)	-	(1,081)	24,769	(32,864)	(9,585)
Balance as of December 31, 2007	₩ 60,339	₩ (5)	₩ 296,464	₩ 135,861	₩ 97,930	₩ 590,589
Acquisition cost	₩ 219,179	₩(11,813)	₩ 825,835	₩ 453,611	₩ 261,234	₩ 1,748,046
Accumulated amortization	₩ 158,840	₩(11,808)	₩ 482,449	₩ 308,977	₩ 162,555	₩ 1,101,013
Accumulated impairment	₩ -	₩ -	₩ 46,922	₩ 8,773	₩ 749	₩ 56,444

¹ Includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Changes in intangible assets for the year ended December 31, 2006, were as follows:

<i>(in millions of Korean won)</i>	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2006	₩ 101,736	₩ (233)	₩ 334,832	₩ 75,839	₩ 46,232	₩ 558,406
Additions	1,931	-	110,601	56,459	74,576	243,567
Disposals	(55)	-	(24,374)	(1)	(1,270)	(25,700)
Amortization	(19,819)	(1)	(69,573)	(31,821)	(32,932)	(154,146)
Impairment(Reversal)	-	-	-	-	(360)	(360)
Others ¹	(2,839)	208	(14,485)	17,860	(755)	(11)
Balance as of December 31, 2006	₩ 80,954	₩ (26)	₩ 337,001	₩ 118,336	₩ 85,491	₩ 621,756
Acquisition cost	₩ 219,023	₩ (11,813)	₩ 876,812	₩ 397,375	₩ 232,430	₩ 1,713,827
Accumulated amortization	₩ 138,069	₩ (11,787)	₩ 539,811	₩ 279,039	₩ 146,579	₩ 1,091,711
Accumulated impairment	₩ -	₩ -	₩ -	₩ -	₩ 360	₩ 360

¹ Includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

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Amortization of intangible assets was presented under manufacturing costs, and selling and administrative expenses. Total amortization expenses for the year ended December 31, 2007 amount to ₩162,574 million (2006 : ₩154,146 million).

The carrying value of significant intangible assets as of December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007	2006	Remaining years for amortization
Goodwill	₩ 50,373	₩ 70,852	3 years
Industrial property rights	15,507	75,148	3 years

As a result of LG Electronics Investment Ltd. (formerly LG Electronics Inc., now merged into LG Corp.)'s merger with LG Information & Communications, Ltd. in September 2000, former LG Electronics Inc. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to the Company. Related amortization expenses of goodwill and industrial property rights approximate ₩20,479 million and ₩5,884 million, respectively, for the year ended December 31, 2007.

Research and development costs incurred for the years ended December 31, 2007 and 2006, were accounted for as follows:

<i>(in millions of Korean won)</i>	2007	2006
Expensed	₩ 1,644,120	₩ 1,613,101
Development costs capitalized	42,652	56,459
	<u>₩ 1,686,772</u>	<u>₩ 1,669,560</u>

Significant expenditures, which are expected to have future economic benefits but are not capitalized in the year incurred because they are not under the Company's control, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Training expenses	₩ 62,666	₩ 60,277
Advertising expenses	1,061,462	932,989
Overseas advertising expenses	169,193	210,796
	<u>₩ 1,293,321</u>	<u>₩ 1,204,062</u>

11. Pledged Assets

A certain portion of property, plant and equipment as of December 31, 2007, is pledged as collateral for various loans from banks of up to a maximum of approximately ₩728,666 million (Notes 13 and 14).

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12. Insured Assets

As of December 31, 2007, property, plant and equipment, other than land and certain construction in-progress, and inventories are insured against fire and other casualty losses for up to approximately ₩49,020,564 million. In addition, the Company has insurance against loss arising from the transport of goods.

13. Short-Term Borrowings and Current Maturities of Long-term Debts

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

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2007	2007	2006
Bank overdrafts	4.40~11.10	₩ 128,610	₩ 175,847
General term loans	5.51~6.89	143,349	211,880
Foreign currency loans ¹	3.70~11.12	3,738,831	4,315,034
Commercial papers	4.70~6.98	17,210	64,449
Others	3.70~14.50	230,478	264,055
		<u>₩ 4,258,478</u>	<u>₩ 5,031,265</u>

¹ Includes trade bills to overseas subsidiaries negotiated through banks but not yet matured as of December 31, 2007, amounting to ₩3,042,523 million (2006: ₩3,585,076 million) (Note 5).

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

<i>(in millions of Korean won)</i>	2007	2006
Debentures	₩ 430,000	₩ 1,217,895
Discount on debentures	(1,483)	(5,101)
Conversion rights adjustment	-	(6,848)
Premium for conversion rights	-	37,092
Long-term debts	463,916	225,602
	<u>₩ 892,433</u>	<u>₩ 1,468,640</u>

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14. Debentures, Convertible Bonds and Long-Term Debts

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

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2007	2007	2006
Debentures			
Guaranteed debentures	4.81	₩ 1,000	₩ 600,000
Non-guaranteed debentures	3.50~5.89	2,490,000	2,385,000
Foreign currency, guaranteed debentures of US\$ 200 million in 2006	-	-	185,920
Foreign currency, non-guaranteed debentures of US \$1,100 million (2006:US \$ 600 million)	5.00, LIBOR + 0.65	1,032,020	557,760
		<u>3,523,020</u>	<u>3,728,680</u>
Convertible Bonds			
Zero coupon rate convertible bonds of US\$ 250 million in 2006, payable through 2007 ¹	-	-	296,975
Zero coupon rate convertible bonds of US\$ 475 million in 2006, payable after 2010 ²	-	-	483,780
Zero coupon rate convertible bonds of US\$ 550 million (2006: nil), payable through 2012.	-	511,555	-
		<u>511,555</u>	<u>780,755</u>
		4,034,575	4,509,435
Less: Current maturities		(430,000)	(1,217,895)
Conversion rights adjustment		(136,533)	(103,568)
Premium for conversion rights		85,787	84,613
		<u>₩ 3,553,829</u>	<u>₩ 3,272,585</u>

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

² On September 19, 2007, the LG. Philips LCD Co., Ltd., a subsidiary's put option for US\$459.6 million was exercised and bonds were paid on October 19, 2007. On the same date, the Company exercised its call option to pay off the rest of convertible bonds amounting to US\$15.4 million which were paid in November 2007. For the year ended December 31, 2007, the Company recorded a loss on redemption of debentures of ₩19,216 million due to the redemption of convertible bonds.

On April 18, 2007, LG. Philips LCD Co., Ltd., a subsidiary, issued US dollar-denominated convertible bonds totaling US\$550 million, with a zero coupon rate. On or after April 19, 2008 through April 3, 2012, the bonds are convertible into common shares at a conversion price of ₩49,070 per share of common stock, subject to adjustment based on certain events. The bonds will mature in five years from the issue date and will be repaid at 116.77 % of their principal amount at maturity. The bondholders have a put option to be repaid at 109.75 % of their principal

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amount on April 18, 2010. As of December 31, 2007, the number of non-converted common shares is 10,464,234. LG. Philips LCD Co., Ltd., is entitled to exercise a call option after three years from the closing date at the amount of the principal and interests, calculated at 3.125% of the yield to maturity, from the closing date to the repayment date. The call option can be exercised only when the market price of the common shares on each of 20 trading days in 30 consecutive trading days ending on the trading day immediately prior to the date upon which notice of such redemption is published exceeds at least 130% of the conversion price. In addition, in the event that at least 90% of the initial principal amount of the bonds has been redeemed, converted, or purchased and cancelled, the remaining bonds may also be redeemed, at the Company's option, at the amount of the principal and interests from the closing date to the repayment date prior to their maturity.

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

(in millions)	Annual interest rate(%) at December 31, 2007	2007		2006	
		Foreign currency	In Korean won	Foreign currency	In Korean won
Long-term debts in won currency	4.25~6.34	-	₩ 173,757	-	₩ 272,483
	3.90~6.89	US\$ 1,866	1,750,687	US\$ 1,928	1,791,939
Long-term debts in foreign currency	3.90~4.39	EUR 195	268,745	EUR 357	436,431
	5.28~6.89	CNY 114	14,643	CNY 613	72,882
	-	Others	242,548	Others	219,772
			2,450,380		2,793,507
Less: Current maturities			(463,916)		(225,602)
			₩ 1,986,464		₩ 2,567,905

The non-current maturities of long-term debts outstanding as of December 31, 2007, are as follows:

(in millions of Korean won)				
For the year ending December 31,	Long-term debts		Debentures and Convertible bonds	Total
2009	₩	509,381	₩ 761,000	₩ 1,270,381
2010		448,049	1,232,920	1,680,969
Thereafter		1,029,034	1,610,655	2,639,689
	₩	1,986,464	₩ 3,604,575	₩ 5,591,039

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15. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Beginning balance	₩ 731,386	₩ 820,582
Severance payments	(212,824)	(346,680)
Others ¹	12,004	(7,812)
Provisions	371,062	265,296
	<u>901,628</u>	<u>731,386</u>
Less : Deposits to the National Pension Fund	(7,529)	(9,571)
Severance insurance deposits	<u>(541,208)</u>	<u>(365,809)</u>
	<u>₩ 352,891</u>	<u>₩ 356,006</u>

¹ Includes the amounts from the absorption of a portion from transfer-in from (transfer-out to) affiliated companies, from changes in consolidated subsidiaries and from translation of foreign currency financial statements.

As of December 31, 2007, the severance benefits are funded at approximately 60% (2006: 50%) through employee severance insurance plans with Kyobo Life Insurance Co., Ltd. and other life insurance companies. The severance insurance deposits, which are amounts funded under employee severance insurance plans, are presented as a deduction from accrued severance benefits.

16. Product Warranty Reserve

Changes in the product warranty reserve for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Beginning balance	₩ 348,114	₩ 143,075
Provisions during the year	1,057,943	1,037,724
Actual payments	<u>(944,263)</u>	<u>(832,685)</u>
Ending balance	<u>₩ 461,794</u>	<u>₩ 348,114</u>

As of December 31, 2007, the Company accrues product warranty reserve for the estimated costs of future services, repairs and recalls, based on historical experience and terms of guarantees over two years.

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

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17. Commitments and Contingencies

As of December 31, 2007, the Controlling Company provided one note to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness. The subsidiaries including LG Innotek Co., Ltd. also provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of December 31, 2007, the Controlling Company has bank overdraft facility agreements with various banks, and the upper limit of Controlling Company is ₩355,700 million.

As of December 31, 2007, the Controlling Company has sales agreements for export trade accounts receivable with various banks amounting to ₩ 6,694,227 million, and also has sales agreements for domestic trade accounts receivable with Woori Bank amounting to ₩50,000 million. The Controlling Company corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank and others amounting to ₩150,000 million. The subsidiaries also have a revolving credit facility agreement and sales agreements for accounts receivable with several banks (Note 5).

As of December 31, 2007, the Controlling Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩ 1,165,450 million.

As of December 31, 2007, the Controlling Company has agreements with several banks in relation to the opening of letters of credit.

As of December 31, 2007, the Controlling Company is provided with repayment guarantee of ₩62,652 million from Seoul Guarantee Insurance Company relating to the completion of sales.

As of December 31, 2007, the Controlling Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines and trademark licenses agreements with LG Corporation and Philips Electronics.

The Controlling Company entered into an asset-transfer contract with Hana TX Ltd. to transfer its prepaid VAT receivable amounting to ₩70,000 million on December 21, 2007. There was no outstanding balance receivables transferred to Hana TX Ltd.

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As of December 31, 2007 and 2006, the Company is contingently liable for guarantees approximating ₩2,666,671 million (US\$ 2,842 million) and 3,093,836 million (US\$ 3,328 million), respectively, on the indebtedness of its subsidiaries and affiliates, as follows:

<i>(in millions of Korean won)</i>	2007	2006
LG Electronics U.S.A., Inc. (LGEUS)	₩ 215,786	₩ 260,288
LG Electronics Mława SP.ZO.O (LGEMA)	151,939	228,711
P.T. LG Electronics Indonesia (LGEIN)	233,769	208,880
LG Electronics Italia S.P.A (LGEIS)	93,820	195,216
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	134,912	169,967
LG Electronics European Shared Service Center B.V.(LGESC)	446,171	167,414
LG Electronics Thailand Co.,Ltd. (LGETH)	168,409	151,525
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)	130,585	150,956
Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND) (formerly LGENT)	90,693	141,820
LG Electronics European Holdings B.V.(LGEEH)	-	134,446
LG Electronics Wrocław Sp.Zo.o. (LGEWR)	70,444	129,557
LG Electronics Mexico S.A. DE. C.V. (LGEMS)	57,289	85,493
LG Electronics U.K. Ltd. (LGEUK)	-	83,664
LG Electronics (TaiZhou) Refrigeration Co., Ltd.(LGETR)	90,117	80,801
LG Electronics RUS, LLC(LGERA)	129,472	72,509
LG Electronics (Nanjing) Plasma Co., Ltd.(LGENP)	-	71,839
LG Electronics Shenyang Inc.(LGESY)	62,386	70,315
LG Electronics Columbia, Ltda.(LGECEB)	54,416	69,720
LG Electronics China Co., Ltd. (LGECH)	67,693	65,434
LG Electronics S.A. Ltd. (LGESA)	62,878	61,809
Others	405,892	493,472
	<u>₩ 2,666,671</u>	<u>₩ 3,093,836</u>

As of December 31, 2007, the Controlling Company is named as a defendant in legal actions which were brought against the Company by Fisher & Paykel in New Zealand and Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Controlling Company is named either as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of foreign and domestic claims as the defendant and plaintiff amounted to approximately EUR 11 million, US\$90 million and ₩10,014 million, respectively, as of December 31, 2007. The Controlling Company believes that although the outcome of these legal actions is uncertain, they would not result in a material ultimate loss for the Company.

The Controlling Company is currently under investigation by the fair trade or antitrust authorities in Korea, EU and other markets with respect to possible anti-competitive activities among CRT manufacturers. The Superior Court of Justice of the Court of Ontario in the Toronto Region has issued an injunction the LG Electronics Canada, Inc., a subsidiary, to submit the documents related anti-competitive activities among CRT manufacturers. As of December 31, 2007, the Controlling Company has been named as defendant in a number of federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the anti-competitive activities among CRT manufactures. Several federal class actions in the United States are consolidated in Northern District of California. LG Electronics USA, Inc., a subsidiary, is also

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named as a defendant in several class actions in the United States in connection with above class actions. The outcome of the cases could not be ascertained as of balance sheet date.

The LG. Philips LCD Co., Ltd., a subsidiary, is currently under investigation by the fair trade or antitrust authorities in Korea, Japan, US and other markets with respect to possible anti-competitive activities in the LCD industry. As of December 31, 2007, the LG. Philips LCD Co., Ltd., along with a number of other companies in the LCD industry, has been named as a defendant in a number of federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the sale of LCD panels. Also, LG Electronics Inc. and LG Electronics USA, Inc. were named as defendants in several class action in the United States in connection with above class actions. In February 2007, LG. Philips LCD Co., Ltd. and certain of its officers and directors have been named as defendants in a federal class action suit in the United States by the shareholders of the Company alleging violations of the U.S. Securities Exchange Act of 1934, as amended, by LG. Philips LCD Co., Ltd. and certain of its officers and directors in connection with possible anti-competitive activities in the LCD industry.

These matters remain in the very early stages and the Company is not in a position to predict their outcome. However, the Company intends to defend itself vigorously in matters.

For the year ended December 31, 2007, the Controlling Company recognized gain on disposal of investment securities amounting to ₩ 27,295 million upon the redemption of one redeemable preferred share of LG Nortel Co. Ltd.

The Company leases equipment such as notebooks under operating leases expiring in various years through 2012. The Company's liabilities according to operating lease agreements as of December 31, 2007, are as follows:

(in millions of Korean won)

Year ended December 31

2008	₩	22,421
2009		28,936
2010		16,101
2011		1,906
2012		161
Total lease payments	₩	69,525

In order to reduce the impact of changes in exchange rates on future cash flows, the Controlling Company has entered into foreign currency forward contracts. As of December 31, 2007, the Company has outstanding forward contracts with Deutsche Bank and others for selling US dollars amounting to US\$192 million at contract exchange rates of ₩902.70 : US\$1 ~ ₩938.60 : US\$1, with contract due dates of January through May 2008.

As of December 31, 2007, the Controlling Company has outstanding forward contracts with HSBC Bank and others for selling euro and buying US dollars amounting to EUR67.5 million at contract exchange rates of US\$1.3709 : EUR1 ~ US\$1.4938 : EUR1, with contract due dates of January through June 2008.

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As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩349 million and ₩5,912 million, respectively, were charged to operations for the year ended December 31, 2007.

In order to reduce the impact of changes in exchange rates, the Controlling Company has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩316 million and ₩13,770 million, respectively, were recorded for the year ended December 31, 2007.

A summary of the terms of outstanding currency option contracts as of December 31, 2007, follows:

Option type	Amount (in millions)	Exercise price	Contract due date
Put Option Buy	US\$120	₩ 895.0/US\$ ~ ₩ 925.0/US\$	2008.1.16 ~ 2008.6.24
Call Option Sell	US\$120	₩ 911.3/US\$~ ₩ 939.2/US\$	2008.1.16 ~ 2008.6.24
Put Option Buy	EUR60.00	US\$ 1.353 / EUR 1	2008.1.29 ~ 2008.6.26
Call Option Sell	EUR120.00	US\$ 1.353 / EUR 1	2008.1.29 ~ 2008.6.26

In order to reduce the impact of changes in interest rates and exchange rates, the Controlling Company has also entered into a cross currency swap contract. An unrealized valuation gain and loss amounting to ₩1,134 million and ₩52,889 million, respectively, were recorded on the currency swap for the year ended December 31, 2007.

A summary of the terms of the outstanding cross currency swap contract as of December 31, 2007, follows:

(in millions)	Transaction amount		Annual interest rate (%)		Maturity
	Disbursement	Receipts	Receipts	Disbursement	
JP Morgan Chase and others	US\$300	EUR247	5.00%	3.70%	June 17, 2010
The Korea Development Bank	US\$100	EUR83	1M Libor + 0.41%	2.00%	May 27, 2008
Standard Chartered First Bank Korea Ltd.	₩49,000	US\$50	4.80%	6M USD Libor	March 10, 2009
ABN-AMRO	₩47,530	US\$50	4.35%	6M USD Libor	May 24, 2009
Barclays	₩48,000	US\$50	4.32%	6M USD Libor	June 19, 2009

(in millions)	Transaction amount		Annual interest rate (%)		Maturity
			Receipts	Disbursement	
Goldman Sachs and others	US\$500	3M Libor + 65bp		5.62%	May 15, 2012

As a result of the above derivatives contracts, a realized gain of ₩35,851 million and a realized loss of ₩40,280 million were recorded as a non-operating income and expense, respectively, on derivative transactions for the year ended December 31, 2007.

LG. Philips LCD Co., Ltd., a subsidiary, has entered 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 the

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Company 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 said contracts follows:

<i>(in millions)</i>				
Contracting party	Selling position	Buying position	Contract foreign exchange rate	Maturity date
ABN-AMRO and others	US\$ 1,550	₩ 1,420,488	₩898.90: US\$1- ₩938.80: US\$1	January 2, 2008 - March 3, 2008
Woori Bank and others	EUR 80	₩ 104,989	₩1,297.76: EUR 1- ₩1,352.36: EUR1	January 2, 2008 - February 27, 2008
BNP Paribas and others	₩ 39,934	JP¥ 5,000	₩7.922: JP¥1- ₩8.052: JP¥1	January 14, 2008 - February 14, 2008
ABN-AMRO and others	US\$ 87	JP¥ 10,000	JP¥113.46: US\$1- JP¥116.05: US\$1	January 1, 2008 - February 20, 2008

As a result of the above foreign currency forward contracts, the Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of ₩4,610 million and ₩34,974 million, respectively. Total unrealized gains and losses of ₩2,544 million and ₩21,409 million, respectively, were charged to operations for the year ended December 31, 2007, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, incurred relating to cash flow hedges from forecasted exports, were recorded as comprehensive income.

The forecasted hedged transactions are expected to be completed on March 3, 2008. The aggregate amount of all deferred gains and losses of ₩2,066 million and ₩13,565 million, respectively, recorded net of tax under capital adjustments, are expected to be included in the determination of gain and loss within a year from December 31, 2007.

For the year ended December 31, 2007, the Company recorded realized exchange gains of ₩55,132 million on foreign currency forward contracts upon settlement, and realized exchange losses of ₩53,562 million.

LG. Philips LCD Co., Ltd., a subsidiary, has 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 and to manage the exposure to changes in interest rates related to floating rate notes.

A summary of such contracts follows:

<i>(in millions)</i>				
Contracting party	Buying position	Selling position	Contract foreign exchange rate	Maturity date
Kookmin Bank and other	US\$ 150	-	3M Libor~3M Libor+0.53%	January 31, 2012
	-	₩ 143,269	4.54%~5.35%	

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As of December 31, 2007, no unrealized gains and unrealized losses of ₩ 3,452 million were recognized as accumulated other comprehensive income as these contracts fulfilled the requirements for hedge accounting for financial statement purposes, while unrealized losses of ₩ 671 million were charged to current income as these contracts did not fulfill those requirements.

For the year ended December 31, 2007, the Company recorded realized gains of ₩919 million (2006: ₩ 361 million) and no realized loss (2006: ₩ 26,174 million) on cross-currency swap contracts upon settlement.

LG. Philips LCD Co., Ltd., a subsidiary, entered into interest rate swap contracts to manage the exposure to changes in interest rates related to floating rate notes.

A summary of these contracts follows:

<i>(in millions)</i>		Contract		Contract Foreign Exchange Rate	Maturity date
Contracting party		Amount			
SC First Bank	US\$	150	Accept floating rate	6 M Libor	May 21, 2009 –
			Pay fixed rate	5.375% - 5.644%	May 24, 2010

As of December 31, 2007, unrealized losses of ₩4,910 million were recognized as accumulated other comprehensive income as these contracts fulfill the requirements for hedge accounting for financial statement purposes.

For the year ended December 31, 2007, the Company recorded realized gains of ₩ 4 million (2006 : ₩ 6 million) and realized losses of ₩ 257 million (2006 : ₩ 27 million) on interest rate swap contracts upon settlement.

LG. Philips LCD Co., Ltd., a subsidiary, entered into option contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. These transactions do not meet the requirements for hedge accounting for financial statement purposes. Therefore, the resulting realized and unrealized gains or losses, measured by quoted market prices, are recognized in current operations as gains or losses as the exchange rates change.

A summary of these contracts follows:

<i>(in millions)</i>				Strike Price	Maturity date
Contracting party		USD Put Buying	USD Call Selling		
KDB and others	US\$	180	US\$ 180	₩ 917.00:US\$1	January 11, 2008 –
				₩ 932.00:US\$1	March 31, 2008

<i>(in millions)</i>				Strike Price	Maturity date
Contracting party		JPY Call Buying	JPY Put Selling		
Citi bank and others	JP¥	10,000	JP¥ 10,000	₩7.850:JP¥1	January 11, 2008–
				₩8.300:JP¥1	February 14, 2008

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As of December 31, 2007, unrealized gains of ₩ 4,080 million and unrealized losses of ₩ 775 million were charged to current income, as these contracts did not fulfill the requirement for hedge accounting for financial statement purposes.

For the year ended December 31, 2007, the Company recorded realized gains of ₩54 million (2006: nil) and no losses (2006: nil) upon settlement of target forward option contracts, and realized gains of ₩5,808 million and losses of ₩832 million (2006 : nil) upon settlement of range forward options.

The consolidated subsidiaries including LG Electronics Mlawo Sp.oz.o. have entered into several derivative contracts with financial institutions.

In certain cases, the generally accepted accounting principles in Korea require the use of assumptions and measurements of specific assets, liabilities, incomes and expenses, mainly focusing on outstanding or post-balance sheet date transactions. These assumptions and measurements are based on judgment and available information and, consequently, actual results could differ from those assumptions and measurements.

18. Income Tax

Income tax expense(benefit) for the years ended December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007	2006
Current income tax	₩ 374,532	₩ 141,979
Deferred income taxes from temporary differences	144,046	4,462
Deferred income taxes from tax credit	(93,242)	(130,970)
Income taxes added to shareholders' equity	(65,547)	34,802
Deferred income taxes from losses carried forward	(49,586)	(248,493)
Income tax expense(benefit)	<u>₩ 310,203</u>	<u>₩ (198,220)</u>

Deferred income taxes charged directly to the shareholders' equity are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Gain on valuation of available-for-sale securities	₩ (279)	₩ 3,153
Loss on valuation of available-for-sale securities	179	30
Gain on valuation of equity-method investments	1,207	(1,196)
Loss on valuation of equity-method investments	18,671	1,680
Gain on valuation of derivatives	8,696	(676)
Loss on valuation of derivatives	1,546	(1,081)
Consideration for convertible rights	(13,617)	(4,078)
Others	(81,950)	36,970
	<u>₩ (65,547)</u>	<u>₩ 34,802</u>

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Components of deferred income taxes as of December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	Deferred income tax assets (liabilities)	
	2007	2006
Depreciation	₩ 30,846	₩ (7,804)
Allowance for doubtful accounts	4,813	6,711
Product warranty reserve	45,384	66,538
Equity method investment securities	(565,593)	(281,993)
Accrued expenses	201,044	135,530
Derivative transaction debit(credit)	3,898	492
Accrued severance benefits	11,692	3,227
Deferred income tax liabilities added to shareholders' equity	(215,081)	(149,534)
Tax credits carried forward	580,778	647,063
Less : Valuation allowance	-	(159,527)
Loss carry forward	307,895	258,309
Others	322,981	194,683
	<u>₩ 728,657</u>	<u>₩ 713,695</u>
Deferred income tax assets	₩ 1,307,571	₩ 979,182
Deferred income tax liabilities	<u>₩ (578,914)</u>	<u>₩ (265,487)</u>

The gross balances of deferred tax assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current	₩ 740,743	₩ (687)	₩ 234,052	₩ (3,064)
Non - current	566,828	(578,227)	745,130	(262,423)

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 realize such assets, the assets are reduced to its estimated net realizable value. As of December 31, 2007, deferred income tax assets resulting from equity method investment securities are not recorded because the Company's ability to realize those deferred income tax assets is uncertain.

The statutory income tax rate, including resident tax surcharges, applicable to the Company is 27.5% for the years ended December 31, 2007 and 2006. However, as a result of tax adjustment, tax credits and other items, the effective tax rate of the Company for the years ended December 31, 2007, was approximately negative 13.04%. Since the Company has loss before income tax benefit, the Company did not compute any effective tax rate during the year ended December 31, 2006.

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19. Capital Stock

Capital stock as of December 31, 2007 and 2006, consists of:

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

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

As of December 31, 2007 and 2006, the number of shares authorized is 600 million shares.

For the year ended December 31, 2006, changes in capital stock and capital surplus were as follows:

(in millions of Korean won)

Date	description	Common stock	Preferred stock	Capital Surplus
January 1, 2006		₩ 714,296	₩ 85,930	₩ 2,091,012
January, 2006	Conversion of convertible bonds	6,945	-	90,783
February, 2006	Conversion of convertible bonds	1,998	-	26,124
Balance, December 31, 2006		<u>₩ 723,239</u>	<u>₩ 85,930</u>	<u>₩ 2,207,919</u>

20. Capital Surplus

Capital surplus as of December 31, 2007 and 2006, consists of:

<i>(in millions Korean won)</i>	2007	2006
LGE's capital surplus		
Additional paid-in capital	₩ 2,207,919	₩ 2,207,919
Others	12,074	12,074
LGE's share in subsidiaries' and equity method investees' capital surplus	339,612	319,638
	<u>₩ 2,559,605</u>	<u>₩ 2,539,631</u>

As a result of the spin-off on April 1, 2002, ₩1,876,153 million was recorded as capital surplus representing the difference between the net assets transferred from LG Electronics Investment Ltd. of ₩2,815,707 million, net of capital stock of ₩783,961 million, and capital adjustments

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transferred from LG Electronics Investment Ltd. of ₩155,593 million. In addition, for the year ended December 31, 2006, ₩116,907 million was recorded as capital surplus due to conversion of convertible bonds.

As a result of the issuance of foreign currency convertible bonds in 2003 and 2004, a premium for conversion rights of ₩9,891 million, net of tax was recorded as capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. In addition, as a result of disposal of treasury stock, a gain on disposal of treasury stock of ₩2,183 million was recorded as capital surplus.

21. Capital Adjustment

The Controlling Company has retained treasury stock consisting of 763,152 shares (2006 : 763,147 shares) of common stock and 4,682 shares (2006 : 4,682 shares) of preferred stock as of December 31, 2007. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

22. Accumulated other comprehensive income

Accumulated other comprehensive income as of December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007	2006
Net accumulated comprehensive income of equity method investees	₩ 720	₩ 3,902
Net accumulated comprehensive expense of equity method investees	(68,650)	(19,426)
Gain on valuation of available for sale securities	5,359	4,622
Loss on valuation of available for sale securities	(560)	(89)
Gain (Loss) valuation of derivatives, net	(5,511)	4,776
Overseas operations translation adjustments and others	167,285	90,421
	<u>₩ 98,643</u>	<u>₩ 84,206</u>

These amounts were net of tax effects(Note 18).

23. Retained Earnings

Retained earnings as of December 31, 2007 and 2006, consist of the followings:

<i>(in millions of Korean won)</i>	2007	2006
Statutory reserve		
Legal reserve ¹	₩ 111,107	₩ 82,582
Reserve for improvement of financial structure	-	32,741
Others	34,000	34,000
	<u>145,107</u>	<u>149,323</u>
Voluntary reserve		
Reserve for improvement of financial structure ²	35,465	-
Others ³	2,430,189	2,413,015
	<u>2,465,654</u>	<u>2,413,015</u>
Unappropriated retained earnings	1,144,595	16,740
Retained earnings	<u>₩3,755,356</u>	<u>₩2,579,078</u>

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- ¹ The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.
- ² In accordance with the Regulation for Securities Issuance and Disclosure, the Company had appropriated a certain portion of its retained earnings as a reserve for improvement of financial structure. By amendment of that Regulation, the Company is no longer required to maintain the reserve and there is no restriction as to its use.
- ³ The Company appropriates a certain portion of its retained earnings as a reserve for research and human resource development under the Special Tax Treatment Control Law. This reserve may be transferred to discretionary reserve and distributed as dividends.

24. Stock Options

The Company grants stock options to its executives and employees who contribute to the Company's development in accordance with the resolution of the Board of Directors or approval of the shareholders of the Company.

The Controlling Company granted stock options to its executives in accordance with the resolution of the Board of Directors on March 22, 2005. The details of the stock options are as follows:

Stock covered by the stock options:	Common stock
Grant method:	To compensate the difference between market price of the stock and exercise price of the option
Number of shares granted:	766,000 shares. However, if the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.
Exercise price:	₩71,130 per share
Exercisable period:	Within 4 years from the day after 3 years from grant date.
Exercisable condition:	For executives and employees who have worked for the Company for more than two years from grant date

As of December 31, 2007, the remaining number of options to be exercised as granted by the Controlling Company, is 722,000 as 44,000 options were canceled due to the retirement of an executive officer.

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LG.Philips LCD Co., Ltd., a subsidiary, granted stock options to its executives in accordance with the resolution of the Board of Directors on April 7, 2005. The details of the stock options are as follows:

Stock covered by the stock options:	Common stock
Grant method:	To compensate the difference between market price of the stock and exercise price of the option
Number of shares granted:	450,000 shares. However, if the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.
Exercise price:	₩44,050 per share
Exercisable period:	Within 4 years from the day after 3 years from grant date.
Exercisable condition:	For executives who have worked for the Company for more than two years from grant date

As of December 31, 2007, the remaining number of options to be exercised in LG.Philips LCD Co., Ltd., a subsidiary, is 220,000 as 230,000 options were canceled due to the retirement of an executive officer. The exercise price decreased from ₩44,260 to ₩44,050 due to the additional issuance of common stock in 2005.

The Controlling Company recognized compensation costs of ₩11,256 million for the year ended December 31, 2007 (2006: nil), and LG.Philips LCD Co., Ltd., a subsidiary, recognized compensation costs of ₩560 million (2006: nil) for the year ended December 31, 2007.

25. Sales

Sales for the years ended December 31, 2007 and 2006, consist of the following:

	2007	2006
<i>(in millions of Korean won)</i>		
Total sales	₩ 56,086,695	₩ 47,954,990
Sales deduction	(2,659,954)	(1,615,126)
Net sale	₩ 53,426,741	₩ 46,339,864

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26. Cost of sales

Cost of sales for the years ended December 31, 2007 and 2006, consists of the following:

	2007	2006
<i>(in millions of Korean won)</i>		
Beginning balance of inventories	₩ 2,854,105	₩ 2,661,838
Cost of goods manufactured or merchandise purchased ¹	41,215,161	37,876,475
Ending balance of inventories	2,717,605	2,854,105
Cost of sales	<u>₩ 41,351,661</u>	<u>₩ 37,684,208</u>

¹ Cost of goods manufactured or merchandise purchased includes loss on valuation of inventories (Note 6).

27. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2007 and 2006, consist of the following:

	2007	2006
<i>(in millions of Korean won)</i>		
Salaries	₩ 1,395,923	₩ 1,212,119
Severance benefits	103,604	97,085
Employee benefits	282,769	247,543
Freight expenses	1,565,891	1,393,937
Rental expenses	265,557	267,699
Commission expenses	1,139,640	1,141,832
Depreciation	173,061	163,035
Amortization	88,302	86,636
Taxes and dues	81,145	73,764
Advertising expenses	1,230,655	1,143,785
Promotional expenses	941,371	835,185
Research and development costs	380,899	403,064
Product warranty expenses	993,374	995,303
Others	611,456	589,584
	<u>₩ 9,253,647</u>	<u>₩ 8,650,571</u>

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28. Comprehensive income

Comprehensive income for the years ended December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>	2007	2006
Net income	₩ 2,068,698	₩ (208,514)
Other comprehensive income and expense		
Decrease from equity-method investments		
Tax effects: ₩1,207 million in 2007	(3,182)	3,154
Increase from equity-method investments		
Tax effects: ₩18,671 million in 2007	(49,224)	(4,431)
Gain on valuation of available-for-sale securities		
Tax effects: ₩(279) million in 2007	737	(8,260)
Loss on valuation of available-for-sale securities		
Tax effects: ₩179 million in 2007	(471)	1,885
Gain (Loss) valuation of derivatives, net		
Tax effects: ₩10,242 million in 2007	(27,144)	785
Others		
Tax effects: ₩(81,950) million in 2007	98,081	(23,987)
Comprehensive income	₩ 2,087,495	₩ (239,368)
Controlling interest comprehensive income	₩ 1,243,358	₩ (451,330)
Minority interest comprehensive income	844,137	211,962

29. Earnings Per Share

Basic earnings per share for the years ended December 31, 2007 and 2006, is calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Controlling interest net income attributable to common stocks ¹	₩ 1,097,062	₩ 218,279
Weighted average number of common stocks outstanding ²	143,884,662	143,884,667
Basic earnings per share	₩ 7,625	₩ 1,517

Diluted earnings per share for years ended December 31, 2007 and 2006, is calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Diluted controlling interest net income attributable to common stocks ¹	₩ 1,097,062	₩ 230,952
Weighted average number of common stocks for diluted earnings per share ²	143,884,662	146,933,888
Diluted earnings per share ³	₩ 7,625	₩ 1,572

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¹ Controlling interest net income attributable to common stocks are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Controlling interest net income	₩ 1,228,922	₩ 245,203
Preferred stock dividends	(15,464)	(13,745)
Additional income available for dividends allocated to preferred stock	(116,396)	(13,179)
Controlling interest net income attributable to common stocks	₩ 1,097,062	₩ 218,279
Interest expense of convertible bond, net of tax	-	12,673
Controlling interest net income used to determine diluted earnings per share	₩ 1,097,062	₩ 230,952

² Weighted average number of common stocks are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
January 1, 2007	₩ 144,647,814	₩ 142,859,174
Conversion of convertible bond	-	1,788,640
Treasury shares	(763,152)	(763,147)
Weighted average number of common stocks outstanding	143,884,662	143,884,667
Convertible bond	-	3,049,221
Weighted average number of common stocks for diluted earnings per share	₩ 143,884,662	₩ 146,933,888

³ There was no dilutive effect in 2006.

30. Dividends

Details of the Controlling Company's dividends declared for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007		2006	
	Dividend ratio (%)	Dividend amount	Dividend ratio (%)	Dividend amount
Common stock	17%	₩ 122,302	15%	₩ 107,914
Preferred stock	18%	15,463	16%	13,745
		₩ 137,765		₩ 121,659

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The Controlling Company's dividend payout ratio for the years ended December 31, 2007 and 2006, is computed as follows:

<i>(in millions of Korean won, except for ratios)</i>	2007	2006
Total dividends (A)	₩ 137,765	₩ 121,659
Net income of the Controlling Company (B)	1,222,395	212,718
Dividend payout ratio ((A)/(B))	11.27%	57.19%

The Controlling Company's dividend yield ratio for the years ended December 31, 2007 and 2006, is computed as follows:

	2007		2006	
<i>(in Korean won)</i>	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (A)	₩ 850	₩ 900	₩ 750	₩ 800
Market price as of balance sheet date (B)	100,000	50,000	55,000	32,400
Dividend yield ratio ((A)/(B))	0.85%	1.8%	1.36%	2.47%

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31. Related Party Transactions

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

Details of the parents and subsidiaries for the years ended December 31, 2007 and 2006, are as follows:

	2007	2006
Parent company	LG Corporation	LG Corporation
Consolidated Subsidiaries	<p>Hi Plaza Inc., Hi Business Logistics, LG Micron Ltd., LG Innotek Co., Ltd., LG Philips LCD Co., Ltd., LG Electronics Austria GmbH(LGEAG), LG Electronics Alabama, Inc.(LGEAI), LG Electronics Almaty Kazak Co.,Ltd(LGEAK), LG Electronics Australia Pty. Ltd.(LGEAP), LG Electronics Klima Sanayi ve Ticaret P.S.(LGEAT), LG Electronics Da Amazonia Ltda.(LGEAZ), LG Electronics Benelux(LGEBN), LG Electronics Colombia Ltda.(LGECL), LG Electronics Canada, Inc.(LGECL), LG Electronics Inc. Chile Limitada(LGECL), LG Electronics Deutschland GmbH(LGEDG), LG Electronics Espana S.A.(LGEES), LG Goldstar France S.A.R.L.(LGEFS), LG Electronics Gulf FZE (LGEGF), LG Electronics HK Limited(LGEHK), LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN), LG Electronics Hellas S. A. (LGEHS), LG Electronics Huizhou Inc. (LGEHZ), LG Electronics India PVT Ltd. (LGEIL), PT LG Electronics Indonesia Ltd. (LGEIN), LG Electronics Italy S.P.A. (LGEIS), LG Electronics JIT Europe B.V.(LGEJE), LG Electronics Japan Inc. (LGEJP), Kunshan LGMS Computer Co., Ltd. (LGEKS), LG Electronics European Logistics & Services B.V.(LGEELS), LG Soft India PVT.,Ltd. (LGEVL), LG Electronics Mlawa SP.Zo.O. (LGEMA), LG Electronics Morocco S.A.R.L. (LGEMC), LG Electronics (M) SDN.BHD (LGEML), LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM), LG Electronics Mobile Research U.S.A.,LLC. (LGEMR), LG Electronics Mexico S.A. DE C.V. (LGEMS), LG Electronics Mexicali S.A.D.E C.V.(LGEMX), LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP), Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND)(Formerly LGENT), LG Electronics Polska SP.Zo. O. (LGEPL), LG Electronics Peru S.A. (LGEPR), LG Electronics Panama S.A. (LGEPS), LG Electronics Portugal (LGEPT), Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD), LG Electronics RUS, LLC(LGERA), LG Electronics Russia Inc. (LGERI), LG Electronics Overseas Trading FZE(LGEOT), LG Electronics Reynosa. S.A. DEC.V. (LGEOS), LG Electronics S.A. Pty Ltd. (LGESA), Shanghai LG Electronics Co., Ltd. (LGESH), LG Electronics Singapore Pte Ltd. (LGESL), LG Electronics de Sao Paulo Ltda. (LGESP), LG Electronics Sweden AB (LGESW), LG Electronics Shenyang Inc. (LGESY), LG Electronics Tianjin Appliance Co., Ltd. (LGETA), LG Electronics Thailand Co., Ltd. (LGETH), Taizhou LG-Chunlan Home Appliances Co., Ltd.(LGETR) (formerly LGECT), LG Taistar Electronics Taiwan Co., Ltd. (LGETT), LG Electronics United Kingdom</p>	<p>Hi Plaza Inc., Hi Business Logistics, LG Micron Ltd., LG Innotek Co., Ltd., LG Philips LCD Co., Ltd., LG Electronics Alabama, Inc.(LGEAI), LG Electronics Almaty Kazak Co.,Ltd(LGEAK), LG Electronics Antwerp Logistics N.V(LGEAL), LG Electronics Australia Pty. Ltd.(LGEAP), LG Electronics Klima Sanayi ve Ticaret P.S.(LGEAT), LG Electronics Da Amazonia Ltda.(LGEAZ), LG Electronics Benelux(LGEBN), LG Electronics Colombia Ltda.(LGECL), LG Electronics Canada, Inc.(LGECL), LG Electronics Inc. Chile Limitada(LGECL), LG Electronics Deutschland GmbH(LGEDG), LG Electronics Espana S.A.(LGEES), LG Goldstar France S.A.R.L.(LGEFS), LG Electronics Gulf FZE (LGEGF), LG Electronics HK Limited(LGEHK), LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN), LG Electronics Hellas S. A. (LGEHS), LG Electronics Huizhou Inc. (LGEHZ), LG Electronics India PVT Ltd. (LGEIL), PT LG Electronics Indonesia Ltd. (LGEIN), LG Electronics Italy S.P.A. (LGEIS), LG Electronics JIT Europe B.V.(LGEJE), LG Electronics Japan Inc. (LGEJP), Kunshan LGMS Computer Co., Ltd. (LGEKS), LG Electronics European Logistics & Services B.V.(LGEELS), LG Electronics Mlawa SP.Zo.O. (LGEMA), LG Electronics Morocco S.A.R.L. (LGEMC), LG Electronics (M) SDN.BHD (LGEML), LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM), LG Electronics Mexico S.A. DE C.V. (LGEMS), LG Electronics Mexicali S.A.D.E C.V.(LGEMX), LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP), Nanjing LG-Tontru Color Display System Co., Ltd. (LGEND)(Formerly LGENT), LG Electronics Polska SP.Zo. O. (LGEPL), LG Electronics Peru S.A. (LGEPR), LG Electronics Panama S.A. (LGEPS), LG Electronics Portugal (LGEPT), Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD), LG Electronics RUS, LLC(LGERA), LG Electronics Russia Inc. (LGERI), LG Electronics Overseas Trading FZE(LGEOT), LG Electronics Reynosa. S.A. DEC.V. (LGEOS), LG Electronics S.A. Pty Ltd. (LGESA), Shanghai LG Electronics Co., Ltd. (LGESH), LG Electronics Singapore Pte Ltd. (LGESL), LG Electronics de Sao Paulo Ltda. (LGESP), LG Electronics Sweden AB (LGESW), LG Electronics Shenyang Inc. (LGESY), LG Electronics Tianjin Appliance Co., Ltd. (LGETA), LG Electronics Thailand Co., Ltd. (LGETH), Taizhou LG-Chunlan Home Appliances Co., Ltd.(LGETR) (formerly LGECT), LG Taistar Electronics Taiwan Co., Ltd. (LGETT), LG Electronics United Kingdom Ltd. (LGEUK), LG Electronics U.S.A., Inc.</p>

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Consolidated Subsidiaries

Ltd. (LGEUK), LG Electronics U.S.A., Inc. (LGEUS), LG Electronics Vietnam Co., Ltd. (LGEVN), Lanchao LG Digital Mobile Communication Co., Ltd. (LGEYT), LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS), LG Electronics China Co., Ltd. (LGECH), LG Electronics Czech S.R.O. (LGECH), LG Electronics Egypt S.A.E. (LGEEG), LG Electronics Service Europe Netherlands B.V. (LGEENH)(Formerly LGESE), GoldStar Mobile Comm. France S.A.S.U (LGEMF), LG Electronics Magyar Kft (LGEMK), LG Electronics Philippines, Inc.(LGEPH) (formerly LGECH), LG Electronics Qinhuangdao Co., Ltd., (LGEQH), LG Electronics (China) R&D Center(LGERD), LG Electronics European Shared Service Center B.V. (LGESC), LG Software PVT, Ltd. (LGS), LG Electronics Wrocław Sp. Zo.o. (LGEWR), LG Innotek IN (LGITIN), LG Innotek US(LGITUS), LG Innotek HZ (LGITHZ), LG Innotek Yantai co., LTD(LGITYT), LG Innotek Poland., Ltd (LGITPL), Zenith Electronics Corporation (ZENITH), LG Holding (HK) Ltd., NanJing LG Panda Appliances Co., Ltd.(LGEPN), LG Electronics Romania S.R.L (LGERO), LG Philips LCD America, Inc., LG Philips LCD Japan Co., Ltd., LG Philips LCD Germany GmbH, LG Philips LCD Taiwan Co., Ltd., LG Philips LCD Nanjing Co., Ltd., LG Philips LCD Hong-Kong Co., Ltd., LG Philips LCD Shanghai Co., Ltd., LG Philips LCD Poland Sp. zo.o., LG Philips LCD Guang Zhou Co., Ltd, LG Micron(Fujian) Electronics Co., Ltd., EIC PROPERTIES PTE, LTD., Beijing LG Building Development Company, LG large & medium & small enterprises cooperation fund, Innovation Investment Fund(Formerly Blue ocean Investment Association).

(LGEUS), LG Electronics Vietnam Co., Ltd. (LGEVN), Lanchao LG Digital Mobile Communication Co., Ltd. (LGEYT), LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS), LG Electronics China Co., Ltd. (LGECH), LG Electronics Czech S.R.O. (LGECH), LG Electronics Egypt S.A.E. (LGEEG), LG Electronics Service Europe Netherlands B.V. (LGEENH)(Formerly LGESE), GoldStar Mobile Comm. France S.A.S.U (LGEMF), LG Electronics Magyar Kft (LGEMK), LG MITR Electronics Co., Ltd. (LGEMT), LG Electronics Philippines, Inc. (LGEPH) (formerly LGECH), LG Electronics Qinhuangdao Co., Ltd., (LGEQH), LG Electronics (China) R&D Center(LGERD), LG Electronics European Shared Service Center B.V. (LGESC), LG Soft India PVT., Ltd. (LGS), LG Electronics Wales Ltd. (LGEWA), LG Innotek IN(LGITIN), LG Innotek US(LGITUS), LG Innotek HZ(LGITHZ), LG Innotek Yantai co., LTD(LGITYT), LG Innotek Poland., Ltd(LGITPL), Zenith Electronics Corporation(ZENITH), LG Holding (HK) Ltd., NanJing LG Panda Appliances Co., Ltd.(LGEPN), LG Electronics Romania S.R.L(LGERO), LG Philips LCD America, Inc., LG Philips LCD Japan Co., Ltd., LG Philips LCD Germany GmbH, LG Philips LCD Taiwan Co., Ltd., LG Philips LCD Nanjing Co., Ltd., LG Philips LCD Hong-Kong Co., Ltd., LG Philips LCD Shanghai Co., Ltd., LG Philips LCD Poland Sp. zo.o., LG Philips LCD Guang Zhou Co., Ltd, LG Micron(Fujian) Electronics Co., Ltd., EIC PROPERTIES PTE, LTD., Beijing LG Building Development Company, LG large & medium & small enterprises cooperation fund.

Other subsidiaries

LG Philips Display, Hi Logistics China Company Limited, Hi Logistics Europe B.V., LG Electronics Egypt Cairo S.A.E. (LGEEC), LG Electronics Argentina S.A. (LGEAR), LG Electronics Ukraine Co., Ltd. (LGEUR), LG Electronics Middle East Co., Ltd. (LGEME), LG Electronics RUS-Marketing, LLC(LGERM), LG Electronics Africa Logistics FZE (LGEAF), LG Micron(Taiwan) Ltd, LGEMT, LG Pasig, ElectroMagnetica Goldstar S.R.L, Triveni, System Air-con Engineering Ltd,

LG Philips Display, Hi Logistics China Company Limited, Hi Logistics Europe B.V., LG Electronics Egypt Cairo S.A.E. (LGEEC), LG Electronics Austria GmbH(LGEAG), LG Electronics Argentina S.A. (LGEAR), LG Electronics Ukraine Co., Ltd. (LGEUR), LGELV, LG Electronics Middle East Co., Ltd. (LGEME), LG Electronics Mobile Research U.S.A., LLC(LGEMR), LG Electronics Wrocław Sp. Zo.o. (LGEWR), LG Electronics RUS-Marketing, LLC(LGERM), LG Electronics Africa Logistics F.Z.E (LGEAF), LG Micron(Taiwan) Ltd, LG Pasig, ElectroMagnetica Goldstar S.R.L, Triveni , Innovation Investment Fund(Formerly Blue ocean Investment Association).

Significant transactions, which occurred in the normal course of business with related companies, and their related balances are as follows:

Transactions between the Controlling Company and its consolidated subsidiaries

(in millions of Korean won)

	2007	2006
Receivables	₩ 2,546,585	₩ 2,963,096
Payables	555,070	402,394
Sales and other income ¹	15,586,686	15,254,789
Purchases and other expenses	2,804,091	2,423,976

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¹ The sales amount above includes sale of certain property, plant and equipment to a subsidiary totaling W109,212 million

Transactions between consolidated subsidiaries

<i>(in millions of Korean won)</i>	2007	2006
Receivables and payables	W 2,809,262	W 2,578,888
Sales, purchases and others	16,175,490	13,637,038

Transactions between the Company and equity-method investees

<i>(in millions of Korean won)</i>	2007	2006
Receivables	W 385,232	W 566,725
Payables	629,853	893,205
Sales and other income ¹	2,759,020	2,698,412
Purchases and other expenses ¹	3,731,614	4,410,151

¹ The sales amount above includes sale of certain property, plant and equipment to a subsidiary totaling W50,537 million, while the purchases amount includes the purchase of property, plant and equipment from a subsidiary totaling W119,795 million.

Significant management compensation costs of Controlling Company and its domestic major subsidiaries for the years ended December 31, 2007 and 2006, are as follows:

	Controlling Company	LG.Philips LCD Co., Ltd	LG Innotek Co., Ltd.	LG Micron Ltd.	Total
<i>(in millions of Korean won)</i>					
Short-term salaries	W 8,071	W 1,732	W 2,873	W 662	W 13,338
Provision for severance benefits	4,393	688	-	657	5,738
Share-based compensation	5,036	560	-	-	5,596
2007	W 17,500	W 2,980	W 2,873	W 1,319	W 24,672
2006	W 10,187	W 1,880	W 2,811	W 1,058	W 15,936

Key management refers to the directors who have significant control and responsibilities on the Company's operations and business.

32. Segment Information

The Company has organized reportable business divisions consisting of the Digital Display division, Media division, Digital Appliance division, Mobile Communications division and LCD division of the subsidiary, LG.Philips LCD Co., Ltd. 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.

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

Digital Display division:	TV, PDP, Monitor and others
Digital Media division:	Audio, VCR, CD-ROM, PC and others
Digital Appliance division:	Refrigerators, washing machines, air conditioners, microwave ovens, vacuum cleaners and others
Mobile Communications division:	CDMA handsets, UMTS handsets, wireless telephones, WLL handsets, mobile telecommunications, transmitters, switchboards, keyphone systems and others
LCD division:	TFT-LCD and others
Other affiliates:	LG Innotek Co., Ltd., LG Micron Ltd., Hi Plaza Inc. and others

Financial data by business division for the years ended December 31, 2007 and 2006, are as follows:

	2007		2006	
	External sales	Operating Income (loss)	External sales	Operating Income (loss)
<i>(in millions of Korean won)</i>				
Business Division				
Digital Display	₩ 12,618,717	₩ (439,966)	₩ 11,368,030	₩ 69,743
Digital Media	5,394,030	62,379	5,400,668	71,771
Digital Appliance	11,803,070	717,059	10,376,095	594,398
Mobile Communications	11,058,709	932,523	9,786,249	152,515
LCD	14,351,966	1,504,007	10,624,200	(878,105)
Other businesses and supporting division	3,963,546	46,993	3,512,193	796
Elimination of internal transactions	(5,763,297)	(1,562)	(4,727,571)	(6,033)
	<u>₩ 53,426,741</u>	<u>₩ 2,821,433</u>	<u>₩ 46,339,864</u>	<u>₩ 5,085</u>

Financial data by geographic area for the years ended December 31, 2007 and 2006, are as follows:

	2007		2006	
	External sales	Ratio	External sales	Ratio
<i>(in millions of Korean won)</i>				
Domestic	₩ 10,388,504	19%	₩ 8,027,335	17%
North America	11,640,015	22%	9,517,952	21%
Europe	11,737,312	22%	10,032,871	22%
Central & South America	3,527,620	7%	2,995,755	6%
Asia	6,179,142	11%	6,401,364	14%
China	9,907,159	19%	8,867,470	19%
Others	46,989	-	497,117	1%
	<u>₩ 53,426,741</u>	<u>100%</u>	<u>₩ 46,339,864</u>	<u>100%</u>

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33. Assets and Liabilities Denominated in Foreign Currencies

As of December 31, 2007 and 2006, monetary assets and liabilities denominated in foreign currencies are as follows:

(in millions)	2007				2006			
	Foreign currency		Korean won equivalent		Foreign currency		Korean won equivalent	
Cash and cash equivalents	EUR	135	₩	186,836	EUR	252	₩	307,642
	CNY	1,543		198,252	CNY	1,043		124,090
	US\$	67		63,236	US\$	36		33,687
	GBP	17		31,648	GBP	10		17,604
	Others	-		280,798	Others	-		168,470
			₩	760,770			₩	651,493
Trade accounts receivable	US\$	750	₩	704,039	US\$	752	₩	698,829
	CNY	3,952		506,894	CNY	3,596		427,786
	BRL	754		400,081	BRL	502		218,167
	EUR	79		109,447	EUR	201		245,494
	MXN	2,856		245,724	MXN	2,934		251,336
	Others	-		924,670	Others	-		893,237
			₩	2,890,855			₩	2,734,849
Other accounts receivable	EUR	285	₩	394,134	EUR	261	₩	318,566
	INR	1,331		31,761	INR	1,128		23,753
	PLZ	427		163,653	PLZ	227		72,292
	Others	-		288,678	Others	-		183,261
			₩	878,226			₩	597,872
Short-term loans receivable	US\$	5	₩	4,443	US\$	12	₩	11,353
	EUR	1		869	EUR	1		1,268
	Others	-		2,417	Others	-		3,876
			₩	7,729			₩	16,497
Long-term financial instruments	EUR	1	₩	1,045	EUR	1	₩	830
	US\$	13		12,271	US\$	-		254
	Others	-		70,563	Others	-		95,089
			₩	83,879			₩	96,173
Trade accounts payable	CNY	7,952	₩	1,021,472	CNY	7,787	₩	926,469
	US\$	301		282,611	US\$	228		211,565
	EUR	17		24,020	EUR	70		85,063
	Others	-		435,041	Others	-		443,802
			₩	1,763,144			₩	1,666,899
Other accounts payable	EUR	50	₩	69,221	EUR	49	₩	59,982
	CNY	1,878		241,255	CNY	1,484		176,540
	US\$	50		47,326	US\$	47		43,696
	Others	-		222,625	Others	-		129,635
			₩	580,427			₩	409,853
Withholdings	MXN	388	₩	33,363	MXN	371	₩	31,784
	US\$	35		32,727	US\$	41		37,927
	EUR	148		204,753	EUR	115		139,975
	GBP	19		34,903	GBP	22		39,362

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(in millions)	2007		2006	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Short-term borrowings	Others	- 68,380	Others	- 51,827
		₩ 374,126		₩ 300,875
	CNY	5,864	CNY	5,940
	US\$	287	US\$	107
	GBP	-	GBP	15
	EUR	33	EUR	125
Other current liabilities	Others	- 739,877	Others	- 526,644
		₩ 1,807,798		₩ 1,513,759
	INR	2002	INR	1,984
	US\$	177	US\$	161
	CNY	1,301	CNY	1,088
	Others	-	Others	-
Long-term debts		₩ 802,549		₩ 611,516
	CNY	1,346	CNY	88
	US\$	84	US\$	80
	Others	-	Others	-
		₩ 544,715		₩ 97,529

34. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	2007	2006
Reclassification of current maturities of debentures	₩ 427,389	₩ 1,217,895
Reclassification of current maturities of long-term debts	447,315	225,602
Conversion of foreign convertible bonds into common stocks	-	123,520
Increase in assets due to changes in the consolidated entities	-	2,612
Decrease in assets due to changes in the consolidated entities	358,655	-
Decrease in liabilities due to changes in the consolidated entities	372,361	9,968

35. Events Subsequent to Balance Sheet Date

On January 1, 2008, the Controlling Company entered into a contract to sell the Active Matrix-Organic Light Emitting Diodes ("AM OLED") business to LG.Philips LCD Co., Ltd., one of its subsidiaries, by handing over the AM OLED business related inventories, intellectual property rights and employees.

On February 21, 2008, the Controlling Company entered into a contract with LG Micron Ltd. to acquire LG Micron Ltd's PDP Rear Plate division ("PRP") and for LG Micron Ltd. to acquire the Controlling Company's Printed Circuit Board division ("PCB").

On February 4, 2008, LG Philips LCD changed its name to LG Display Co. Ltd. as approved by its Board of Directors. This was ratified by its shareholders on February 29, 2008.