

# **LG Electronics Inc.**

**Non-Consolidated Interim Financial Statements  
September 30, 2006 and 2005**

**LG Electronics Inc.**  
**Index**  
**September 30, 2006 and 2005**

---

|  | <b>Page(s)</b> |
|--|----------------|
| <b>Report of Independent Accountants .....</b>               | 1– 2           |
| <b>Non-Consolidated Interim Financial Statements</b>         |                |
| Balance Sheets .....   | 3– 4           |
| Statements of Income .....                                   | 5              |
| Statements of Cash Flows .....                               | 6– 7           |
| Notes to Non-Consolidated Interim Financial Statements ..... | 8– 28          |

## Report of Independent Accountants

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

We have reviewed the accompanying non-consolidated balance sheet of LG Electronics Inc. (the "Company") as of September 30, 2006, and the related non-consolidated statements of income and cash flows for the three-month and nine-month periods ended September 30, 2006 and 2005, expressed in Korean won. These interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim financial statements based on our reviews.

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

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

We have audited the non-consolidated balance sheet of LG Electronics Inc. as of December 31, 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated January 21, 2006. These financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2005, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2005.

# Samil PricewaterhouseCoopers

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

*Samil PricewaterhouseCoopers*

Seoul, Korea  
November 3, 2006

This report is effective as of November 3, 2006, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2006 and December 31, 2005**  
**(Unaudited)**

(in millions of Korean won)

|   | 2006         | 2005         |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Current assets  |              |              |
| Cash and cash equivalents                                 | ₩ 753,074    | ₩ 581,264    |
| Short-term financial instruments                          | 20,000       | -            |
| Trade accounts and notes receivable, net (Notes 8 and 12) | 965,075      | 1,397,815    |
| Inventories, net (Note 4)                                 | 1,351,422    | 1,408,333    |
| Other accounts receivable, net                            | 221,908      | 260,186      |
| Prepaid expenses  | 78,734       | 69,640       |
| Accrued income, net                                       | 53,079       | 51,065       |
| Advances, net   | 78,058       | 46,148       |
| Derivatives transaction debit (Note 8)                    | 4,294        | 4,748        |
| Deferred income tax assets                                | 175,537      | 161,824      |
| Other current assets, net                                 | 51,737       | 4,140        |
| Total current assets                                      | 3,752,918    | 3,985,163    |
| Property, plant and equipment, net (Note 13)              | 4,214,807    | 4,150,304    |
| Long-term financial instruments (Note 3)                  | 20,547       | 18,945       |
| Long-term investment securities                           | 40,217       | 54,363       |
| Equity method investments (Note 5)                        | 4,401,231    | 4,681,306    |
| Refundable deposits                                       | 324,381      | 390,629      |
| Long-term prepaid expenses                                | 274,069      | 232,794      |
| Long-term loans receivable, net                           | 101,440      | 98,878       |
| Intangible assets, net (Note 13)                          | 450,215      | 419,672      |
| Derivatives transaction debit (Note 8)                    | 3,069        | 4,386        |
| Total assets  | ₩ 13,582,894 | ₩ 14,036,440 |

**LG Electronics Inc.**  
**Non-Consolidated Balance Sheets**  
**September 30, 2006 and December 31, 2005**  
**(Unaudited)**

(in millions of Korean won)

|  | 2006         | 2005         |
|--|--------------|--------------|
| <b>Liabilities and Shareholders' Equity</b>  |              |              |
| Current liabilities  |              |              |
| Short-term borrowings (Note 6)   | ₩ 43,112     | ₩ 12,853     |
| Current maturities of long-term net debts (Note 6)   | 826,439      | 1,129,434    |
| Trade accounts and notes payable (Note 12)   | 2,111,871    | 1,794,114    |
| Other accounts payable   | 851,994      | 1,101,399    |
| Income taxes payable   | 55,567       | 21,971       |
| Accrued expenses   | 1,107,872    | 885,284      |
| Withholdings   | 13,193       | 7,727        |
| Unearned income  | 36,993       | 40,492       |
| Advances from customers  | 297,592      | 213,837      |
| Derivatives transaction credit (Note 8)  | 1,251        | 1,159        |
| Others   | -            | 76           |
| Total current liabilities  | 5,345,884    | 5,208,346    |
| Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 7) |              |              |
|  | 801,066      | 1,513,601    |
| Long-term debts, net of current maturities (Note 7)  | 790,978      | 642,076      |
| Accrued severance benefits, net  | 244,551      | 240,853      |
| Product warranty reserve (Note 8)  | 205,557      | 112,499      |
| Deferred income tax liabilities  | 51,835       | 102,894      |
| Derivatives transaction credit (Note 8)  | 14,228       | 2,842        |
| Other long-term liabilities  | 36           | 50,686       |
| Total liabilities  | 7,454,135    | 7,873,797    |
| Commitments and contingencies (Note 8)   |              |              |
| Shareholders' equity   |              |              |
| Capital stock (Note 9)   | 809,169      | 800,226      |
| Capital surplus (Note 9)   | 2,219,993    | 2,107,259    |
| Retained earnings  | 2,436,413    | 2,511,378    |
| Capital adjustments  | 663,184      | 743,780      |
| Total shareholders' equity   | 6,128,759    | 6,162,643    |
| Total liabilities and shareholders' equity   | ₩ 13,582,894 | ₩ 14,036,440 |

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

See Report of Independent Accountants

**LG Electronics Inc.**  
**Non-Consolidated Statements of Income**  
**Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005**  
**(Unaudited)**

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

|  | 2006  |  | 2005  |  |
|--|---|--|---|--|
|  | For the three-month period ended September 30, 2006 | For the nine-month period ended September 30, 2006 | For the three-month period ended September 30, 2005 | For the nine-month period ended September 30, 2005 |
| <b>Sales (Notes 12 and 13)</b>   | ₩ 6,054,215   | ₩ 17,650,233                                       | ₩ 6,018,331   | ₩ 17,592,057                                       |
| <b>Cost of sales</b>   | 4,593,661   | 13,414,071   | 4,410,335   | 13,092,836   |
| Gross profit   | 1,460,554   | 4,236,162  | 1,607,996   | 4,499,221  |
| <b>Selling and administrative expenses</b>                               | 1,263,373   | 3,657,894  | 1,328,117   | 3,795,635  |
| Operating income   | 197,181   | 578,268  | 279,879   | 703,586  |
| <b>Non-operating income</b>  |   |  |   |  |
| Interest income  | 10,704  | 31,244   | 17,874  | 41,385   |
| Equity in earnings of equity-method investees (Note 5)                   | -   | 115,713  | 126,385   | 257,235  |
| Foreign exchange gains   | 67,418  | 267,796  | 77,686  | 222,288  |
| Gain on valuation of derivatives (Note 8)                                | 15,529  | 6,287  | 2,245   | 1,979  |
| Gain on settlement of derivatives (Note 8)                               | 3,634   | 33,237   | 4,661   | 17,999   |
| Gain on disposal of investment securities                                | 2,405   | 6,888  | 1,764   | 22,921   |
| Reversal of allowance for doubtful accounts                              | 48  | 48   | 9,082   | 7,886  |
| Rent income  | 6,668   | 19,036   | 5,440   | 15,022   |
| Dividend income  | 2   | 675  | 22  | 893  |
| Gain on disposal of property, plant and equipment                        | 1,626   | 4,864  | 2,343   | 3,482  |
| Refund of income taxes   | 1,907   | 1,979  | -   | 38,767   |
| Others   | 3,912   | 28,217   | 12,973  | 40,328   |
|  | 113,853   | 515,984  | 260,475   | 670,185  |
| <b>Non-operating expenses</b>  |   |  |   |  |
| Interest expense   | 34,450  | 116,816  | 54,176  | 151,286  |
| Foreign exchange losses  | 36,034  | 141,962  | 103,672   | 200,272  |
| Loss from transfer of trade accounts and notes receivable                | 55,951  | 154,009  | 33,954  | 98,774   |
| Loss from disposal of property, plant and equipment                      | 1,961   | 6,713  | 12,259  | 26,536   |
| Loss from disposal of investment securities                              | 121   | 1,318  | 3,964   | 5,950  |
| Loss on impairment of investment securities                              | 832   | 837  | -   | 1,893  |
| Additional payment of income taxes                                       | -   | -  | -   | 7,995  |
| Loss on valuation of derivatives (Note 8)                                | -   | 15,947   | 11,603  | 16,678   |
| Loss on settlement of derivatives (Note 8)                               | 6,862   | 15,308   | 4,380   | 9,476  |
| Donations  | 2,703   | 8,254  | 3,084   | 7,232  |
| Other bad debt expense   | 384   | 2,447  | -   | 4  |
| Equity in losses of equity-method investees (Note 5)                     | 140,576   | 423,578  | 44,509  | 256,876  |
| Others   | 621   | 4,299  | 140,647   | 170,332  |
|  | 280,495   | 891,488  | 412,248   | 953,304  |
| Income before income taxes   | 30,539  | 202,764  | 128,106   | 420,467  |
| Income tax expense (benefits)  | 7,874   | 39,054   | (28,759)  | 29,817   |
| Net income   | ₩ 22,665  | ₩ 163,710  | ₩ 156,865   | ₩ 390,650  |
| <b>Basic earnings and ordinary income per share (in won) (Note 11)</b>   | ₩ 139   | ₩ 1,012  | ₩ 1,003   | ₩ 2,498  |
| <b>Diluted earnings and ordinary income per share (in won) (Note 11)</b> | ₩ 139   | ₩ 1,012  | ₩ 981   | ₩ 2,447  |

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

See Report of Independent Accountants

**LG Electronics Inc.**  
**Non-Consolidated Statements of Cash Flows**  
**Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005**  
**(Unaudited)**

(in millions of Korean won)

|   | 2006  |  | 2005  |  |
|---|---|--|---|--|
|   | For the three-month<br>period ended<br>September 30, 2006 | For the nine-month<br>period ended<br>September 30, 2006 | For the three-month<br>period ended<br>September 30, 2005 | For the nine-month<br>period ended<br>September 30, 2005 |
| <b>Cash flows from operating activities</b>   |   |  |   |  |
| Net income  | ₩ 22,665  | ₩ 163,710  | ₩ 156,865   | ₩ 390,650  |
| Adjustments to reconcile net income to net cash<br>provided by (used in) operating activities |   |  |   |  |
| Depreciation and amortization   | 176,312   | 526,704  | 187,622   | 622,502  |
| Amortization of discounts on debentures   | 5,417   | 18,271   | 10,077  | 29,784   |
| Provision for severance benefits  | 32,271  | 154,028  | 35,187  | 158,275  |
| Loss from transfer of trade accounts and notes receivable                                     | 55,951  | 154,009  | 33,954  | 98,774   |
| Bad debt expense  | 384   | 50,498   | -   | 4  |
| Loss (gain) on foreign currency translation, net  | (35,194)  | (74,036)   | 24,429  | (3,733)  |
| Loss (gain) from disposal of investment securities, net                                       | (2,279)   | (5,570)  | 2,200   | (16,971)   |
| Loss on impairment of investment securities   | 832   | 837  | -   | 1,893  |
| Loss from disposal of property, plant and equipment, net                                      | 335   | 1,849  | 9,916   | 23,054   |
| Equity in losses (gains) of equity-method investees, net                                      | 140,576   | 307,865  | (81,876)  | (359)  |
| Loss (gain) on valuation of derivatives, net  | (15,529)  | 9,660  | 9,358   | 14,699   |
| Loss (gain) on settlement of derivatives, net   | 3,228   | (17,929)   | (281)   | (8,523)  |
| Provision for product warranty, net   | 52,394  | 93,059   | (28,152)  | (6,913)  |
| Reversal of allowance for doubtful accounts   | (3,044)   | (48)   | (9,082)   | (7,886)  |
| Others  | (6,625)   | 28,254   | 70,916  | 70,655   |
|   | 405,029   | 1,247,451  | 264,268   | 975,255  |
| Changes in operating assets and liabilities   |   |  |   |  |
| Decrease (increase) in trade accounts and notes receivable                                    | (69,042)  | 274,454  | (475,667)   | (765,067)  |
| Decrease (increase) in other accounts receivable  | (18,099)  | (7,556)  | (25,685)  | 189,988  |
| Decrease (increase) in accrued income   | 19,001  | (2,093)  | 218   | (7,238)  |
| Decrease (increase) in advances   | 29,454  | (32,210)   | 42,250  | (17,048)   |
| Decrease in other current assets  | -   | -  | 2   | 141  |
| Decrease (increase) in inventories  | (38,375)  | 48,667   | (40,375)  | 153,715  |
| Decrease (increase) in prepaid expenses   | 13,359  | (9,094)  | 9,332   | (23,310)   |
| Increase in long-term prepaid expenses  | (21,377)  | (41,275)   | (21,349)  | (37,827)   |
| Decrease (increase) in deferred income tax assets   | 10,000  | (13,439)   | 5,177   | (55,377)   |
| Increase in trade accounts and notes payable  | 307,296   | 331,086  | 109,170   | 26,336   |
| Decrease in other accounts payable  | (29,704)  | (248,662)  | (376,670)   | (252,903)  |
| Increase in accrued expenses  | 93,348  | 225,970  | 51,674  | 40,136   |
| Increase (decrease) in withholdings   | (19,887)  | 5,466  | (6,196)   | (15,615)   |
| Increase (decrease) in advances from customers  | (3,777)   | 83,755   | (23,182)  | 24,647   |
| Increase (decrease) in income taxes payable   | 1,885   | 33,596   | (71,854)  | (9,310)  |
| Payment of severance benefits   | (38,705)  | (178,890)  | (30,884)  | (134,811)  |
| Decrease (increase) in severance insurance deposits   | (187)   | 25,117   | (20,371)  | 2,010  |
| Decrease in contributions to the National Pension Fund  | 711   | 3,443  | 647   | 2,686  |
| Increase (decrease) in deferred income tax liabilities  | (31,557)  | (48,258)   | 92,394  | 125,173  |
| Others  | 6,049   | (86,279)   | (2,943)   | 23,313   |
|   | 210,393   | 363,798  | (784,312)   | (730,361)  |
| Net cash provided by (used in) operating activities   | 638,087   | 1,774,959  | (363,179)   | 635,544  |



**LG Electronics Inc.**  
**Non-Consolidated Statements of Cash Flows**  
**Three-Month and Nine-Month Periods Ended September 30, 2006 and 2005**  
**(Unaudited)**

(in millions of Korean won)

|   | 2006                                |                                    | 2005                                |                                    |
|---|-------------------------------------|------------------------------------|-------------------------------------|------------------------------------|
|   | For the three-month<br>period ended | For the nine-month<br>period ended | For the three-month<br>period ended | For the nine-month<br>period ended |
|   | September 30, 2006                  | September 30, 2006                 | September 30, 2005                  | September 30, 2005                 |
| <b>Cash flows from investing activities</b>             |                                     |                                    |                                     |                                    |
| Increase in short-term and long-term loans              | (14,056)                            | (16,839)                           | (32,316)                            | (172,807)                          |
| Decrease in short-term and long-term loans              | 6,739                               | 12,696                             | 22,217                              | 126,444                            |
| Increase in short-term financial instruments            | (20,000)                            | (20,000)                           | -                                   | -                                  |
| Disposal of long-term financial instruments             | 4,998                               | 16,827                             | -                                   | 3,221                              |
| Acquisition of long-term financial instruments          | (6,799)                             | (18,429)                           | (687)                               | (687)                              |
| Proceeds from disposal of investment securities         | 3,354                               | 8,520                              | 427,214                             | 474,060                            |
| Acquisition of investment securities                    | (32,425)                            | (158,526)                          | (22,766)                            | (170,521)                          |
| Payment of refundable deposits, net                     | 2,232                               | 66,090                             | 33,204                              | (3,827)                            |
| Proceeds from disposal of property, plant and equipment | 6,049                               | 26,329                             | 21,875                              | 36,876                             |
| Proceeds from disposal of intangible assets             | 23,701                              | 23,764                             | 64,824                              | 64,824                             |
| Proceeds from disposal of derivatives                   | 3,634                               | 37,985                             | 1,274                               | 61,745                             |
| Acquisition of property, plant and equipment            | (209,921)                           | (548,779)                          | (239,364)                           | (985,556)                          |
| Acquisition of intangible assets                        | (45,562)                            | (115,259)                          | (92,279)                            | (118,611)                          |
| Acquisition of derivatives                              | (6,862)                             | (16,467)                           | (6,370)                             | (33,696)                           |
| Others  | -                                   | -                                  | -                                   | 34,987                             |
| Net cash provided by (used in) investing activities     | (284,918)                           | (702,088)                          | 176,826                             | (683,548)                          |
| <b>Cash flows from financing activities</b>             |                                     |                                    |                                     |                                    |
| Proceeds from short-term borrowings                     | -                                   | 40,000                             | 285,103                             | 285,103                            |
| Payment of short-term borrowings                        | (4,967)                             | (44,967)                           | (311,555)                           | (421,890)                          |
| Payment of current maturities of long-term debts        | (331,542)                           | (939,409)                          | (200,000)                           | (408,760)                          |
| Proceeds from issuance of debentures                    | -                                   | -                                  | -                                   | 602,258                            |
| Proceeds from long-term debts                           | 286,830                             | 286,830                            | -                                   | 482,938                            |
| Payment from long-term debts                            | -                                   | (43,559)                           | -                                   | -                                  |
| Payment of debentures                                   | -                                   | -                                  | (328,603)                           | (328,603)                          |
| Disposal of treasury stock                              | -                                   | -                                  | -                                   | 2,128                              |
| Payment of dividends                                    | -                                   | (199,956)                          | -                                   | (234,851)                          |
| Net cash used in financing activities                   | (49,679)                            | (901,061)                          | (555,055)                           | (21,677)                           |
| Net increase (decrease) in cash and cash equivalents    | 303,490                             | 171,810                            | (741,408)                           | (69,681)                           |
| <b>Cash and cash equivalents</b>                        |                                     |                                    |                                     |                                    |
| Beginning of the period                                 | 449,584                             | 581,264                            | 1,320,143                           | 648,416                            |
| End of the period                                       | ₩ 753,074                           | ₩ 753,074                          | ₩ 578,735                           | ₩ 578,735                          |

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

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

**1. The Company**

LG Electronics Inc. (the “Company”) was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002, to engage in the manufacture and sale of electronic, and information and communication products. The former LG Electronics Inc. was incorporated in February 1959 under the Commercial Code of the Republic of Korea to manufacture and sell electronics, and information and communication products, and had its shares listed on the Korea Stock Exchange in April 1970.

As of September 30, 2006, the Company operates manufacturing facilities mainly in Guro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of September 30, 2006, 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.

**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its interim non-consolidated financial statements for the three-month and nine-month periods ended September 30, 2006, are summarized below:

**Basis of Financial Statement Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company’s financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

**Accounting Estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

**Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (“SKFAS”), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 18 through 20 became effective for the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

In 2006, the Company changed its method of accounting for determining the cost of inventories from the annual-based weighted-average method to the monthly-based weighted-averaged method. This change is not applied retrospectively because the amount of resulting adjustment that relates to prior periods is not reasonably determinable. The comparative financial statements, as of December 31, 2005, and for the three-month and nine-month periods ended September 30, 2005, have not been restated to reflect this change.

**3. Long-term Financial Instruments**

As of September 30, 2006 and December 31, 2005, long-term financial instruments are deposited in connection with maintaining checking accounts or research and development projects funded by the government. The withdrawal of these financial instruments is restricted.

**4. Inventories**

Inventories as of September 30, 2006 and December 31, 2005, consist of the following:

|                                    |   | <b>2006</b>             |                                      |                       |
|------------------------------------|---|-------------------------|--------------------------------------|-----------------------|
| <i>(in millions of Korean won)</i> |   | <b>Acquisition cost</b> | <b>Inventory valuation allowance</b> | <b>Carrying value</b> |
| Merchandise                        | ₩ | 34,198                  | ₩ (1,724)                            | ₩ 32,474              |
| Finished products                  |   | 517,590                 | (33,900)                             | 483,690               |
| Work-in-process                    |   | 361,345                 | (11,876)                             | 349,469               |
| Raw materials                      |   | 387,922                 | (41,618)                             | 346,304               |
| Parts and supplies                 |   | 143,841                 | (4,356)                              | 139,485               |
|                                    | ₩ | <u>1,444,896</u>        | <u>₩ (93,474)</u>                    | <u>₩ 1,351,422</u>    |
|                                    |   | <b>2005</b>             |                                      |                       |
| <i>(in millions of Korean won)</i> |   | <b>Acquisition cost</b> | <b>Inventory valuation allowance</b> | <b>Carrying value</b> |
| Merchandise                        | ₩ | 34,041                  | ₩ (1,825)                            | ₩ 32,216              |
| Finished products                  |   | 516,507                 | (29,640)                             | 486,867               |
| Work-in-process                    |   | 350,312                 | (497)                                | 349,815               |
| Raw materials                      |   | 438,022                 | (23,544)                             | 414,478               |
| Parts and supplies                 |   | 129,304                 | (4,347)                              | 124,957               |
|                                    | ₩ | <u>1,468,186</u>        | <u>₩ (59,853)</u>                    | <u>₩ 1,408,333</u>    |

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

**5. Equity-Method Investments**

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

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

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

<sup>2</sup> This subsidiary was merged with PT LG Electronics Indonesia (LGEIN) on January 1, 2006.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

- <sup>3</sup> For the nine-month period ended September 30, 2006, the Company purchased additional shares of these subsidiaries.
- <sup>4</sup> LG Electronics Service Europe Netherlands B.V. (LGESE) was spun off into four companies on January 1, 2006, namely: LG Electronics European Holdings B.V. (LGEEH), LG Electronics Benelux Sales B.V. (LGEBN), LG Electronics European Logistics & Services B.V. (LGELS), and LG Electronics European Shared Service Center B.V. (LGESC). The existing LG Electronics Service Europe Netherlands B.V. (LGESE) subsequently changed its name to LG Electronics European Holdings B.V. (LGEEH).

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

Changes in equity-method investments for the nine-month period ended September 30, 2005, were as follows:

| <i>(in millions of Korean won)</i>  | Acquisition cost   | January 1, 2005    | Equity in earnings (losses)<br>of affiliates, net <sup>1</sup> | Others           | September 30, 2005 |
|---|--------------------|--------------------|--|------------------|--------------------|
| <b>Domestic companies</b>   |                    |                    |  |                  |                    |
| LG Micron Ltd.  | ₩ 68,100           | ₩ 111,651          | ₩ 5,468  | ₩ (2,659)        | ₩ 114,460          |
| LG Innotek Co., Ltd.  | 59,494             | 154,651            | 9,363  | (3,176)          | 160,838            |
| LG.Philips LCD Co., Ltd.  | 679,218            | 2,399,076          | 65,621   | 143,168          | 2,607,865          |
| Hankuk Electric Glass Co., Ltd.   | 119,282            | 125,082            | (535)  | (4,053)          | 120,494            |
| Hi Plaza Inc.   | 100,511            | 99,275             | 9,286  | -                | 108,561            |
| Hi Business Logistics   | 8,000              | 6,114              | 2,251  | 3,587            | 11,952             |
| Others  | 10,000             | 44,786             | (6,873)  | (37,913)         | -                  |
|   | <u>1,044,605</u>   | <u>2,940,635</u>   | <u>84,581</u>  | <u>98,954</u>    | <u>3,124,170</u>   |
| <b>Overseas companies</b>   |                    |                    |  |                  |                    |
| PT LG Electronics Display<br>Devices Indonesia (LGEDI)                    | 32,085             | 48,348             | 4,622  | (898)            | 52,072             |
| PT LG Electronics Indonesia. (LGEIN)                                      | 29,431             | 18,052             | (3,708)  | (1,762)          | 12,582             |
| LG Electronics Huizhou Inc. (LGEHZ)                                       | 1,277              | 22,038             | (10,081)   | (1,045)          | 10,912             |
| LG Electronics India Pvt. Ltd. (LGEIL)                                    | 38,476             | 121,544            | 24,502   | (1,163)          | 144,883            |
| LG Electronics Mlawa SP.Zo.O.<br>(LGEMA)                                  | 92,401             | 45,869             | (15,203)   | 49,057           | 79,723             |
| LG Electronics Mexico S.A. de C.V.<br>(LGEMS)                             | 13,575             | 21,169             | 4,897  | 1,010            | 27,076             |
| Nanjing LG-Tontru Color Display<br>System Co., Ltd. (LGENT)               | 9,367              | 16,518             | (5,063)  | 34               | 11,489             |
| LG Electronics de Sao Paulo Ltda.<br>(LGESP)                              | 79,106             | 68,234             | 41,895   | 86,500           | 196,629            |
| LG Electronics Shenyang Inc.<br>(LGESY)                                   | 11,267             | 13,474             | 1,159  | (274)            | 14,359             |
| LG Electronics Tianjin Appliance Co.,<br>Ltd. (LGETA)                     | 42,948             | 100,047            | 8,111  | 1,096            | 109,254            |
| Taizhou LG Electronics Refrigeration<br>Co.,Ltd. (LGETR) (formerly LGECT) | 59,205             | 27,001             | (14,402)   | (28)             | 12,571             |
| LG Electronics U.S.A., Inc. (LGEUS)                                       | 148,109            | 108,996            | (46,784)   | 16,198           | 78,410             |
| SLD Telecom Pte. Ltd.   | 68,487             | 52,279             | (2,671)  | (356)            | 49,252             |
| LG Holdings (HK) Ltd.   | 53,378             | 42,906             | (9,662)  | 1,130            | 34,374             |
| Others  | 503,601            | 449,153            | (61,834)   | (18,493)         | 368,826            |
|   | <u>1,182,713</u>   | <u>1,155,628</u>   | <u>(84,222)</u>  | <u>131,006</u>   | <u>1,202,412</u>   |
|   | <u>₩ 2,227,318</u> | <u>₩ 4,096,263</u> | <u>₩ 359</u>   | <u>₩ 229,960</u> | <u>₩ 4,326,582</u> |

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

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

As of September 30, 2006 and December 31, 2005, the respective accumulated losses of equity method investees from which the application of the equity method of accounting has been suspended due to their accumulated losses are as follows:

| <i>(in millions of Korean won)</i>                        | <u>December 31, 2005</u>  |                            | <u>September 30, 2006</u> |   |  |
|---|---------------------------|----------------------------|---------------------------|---|--|
|   | <b>Accumulated losses</b> | <b>Increase (Decrease)</b> | <b>Accumulated losses</b> | <b>Accumulated retained earnings <sup>1</sup></b> | <b>Accumulated capital adjustment <sup>2</sup></b> |
| LG Electronics Australia PTY., Ltd. (LGEAP)               | ₩ 4,443                   | ₩ (4,443)                  | ₩ -                       | ₩ -   | ₩ -  |
| LG Electronics China Co., Ltd. (LGECH)                    | 50,295                    | (901)                      | 49,394                    | -   | (4,017)  |
| Langcho LG Digital Mobile Communication Co., Ltd. (LGEYT) | 198                       | 12,574                     | 12,772                    | -   | (1,726)  |
| LG MITR Electronics Co., Ltd. (LGMT)                      | -                         | -                          | -                         | -   | (7,406)  |
| LG Electronics Overseas Trading FZE (Dubai)               | -                         | 29,693                     | 29,693                    | -   | -  |
| LG Electronics European Holdings B.V. (LGEEH)             | -                         | -                          | -                         | (55,115)  | (9,287)  |
|   | <u>₩ 54,936</u>           | <u>₩ 36,923</u>            | <u>₩ 91,859</u>           | <u>₩ (55,115)</u>                                 | <u>₩ (22,436)</u>                                  |

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

<sup>2</sup> Negative numbers represent negative capital adjustment from the application of the equity method of accounting.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

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

Short-term borrowings as of September 30, 2006 and December 31, 2005, consist of the following:

| <i>(in millions of Korean won)</i> | <b>Annual interest rate (%) at</b> |                           |                          |
|------------------------------------|------------------------------------|---------------------------|--------------------------|
|                                    | <b>September 30, 2006</b>          | <b>September 30, 2006</b> | <b>December 31, 2005</b> |
| Foreign currency loans             | 3M Libor + 70bp                    | <u>₩ 43,112</u>           | <u>₩ 12,853</u>          |

Current maturities of long-term debts and debentures as of September 30, 2006 and December 31, 2005, consist of the following:

| <i>(in millions of Korean won)</i> | <b>September 30, 2006</b> |                | <b>December 31, 2005</b> |                  |
|------------------------------------|---------------------------|----------------|--------------------------|------------------|
| Debentures                         | ₩                         | 709,235        | ₩                        | 1,055,691        |
| Less : Discount on debentures      |                           | (1,118)        |                          | (5,603)          |
| Conversion rights adjustment       |                           | (11,309)       |                          | -                |
| Premium on conversion rights       |                           | 37,092         |                          | -                |
|                                    |                           | <u>733,900</u> |                          | <u>1,050,088</u> |
| Long-term debts                    |                           | <u>92,539</u>  |                          | <u>79,346</u>    |
|                                    | ₩                         | <u>826,439</u> | ₩                        | <u>1,129,434</u> |



**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

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

Debentures and convertible bonds as of September 30, 2006 and December 31, 2005, consist of the following:

| <i>(in millions of Korean won)</i>   | <b>Annual interest<br/>rate (%) at<br/>September 30, 2006</b> | <b>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|---|-------------------------------|------------------------------|
| <b>Debentures</b>  |   |                               |                              |
| Public, non-guaranteed payable through 2009  | 4.0~5.0   | ₩ 605,000                     | ₩ 1,455,000                  |
| Floating rate notes of US \$ 650 million (2005:US \$681 million) , payable through 2010                            | 3M LIBOR+1.9,<br>5.0%   | 614,380                       | 689,853                      |
|  |   | <u>1,219,380</u>              | <u>2,144,853</u>             |
| <b>Convertible Bonds</b>   |   |                               |                              |
| Zero coupon rate convertible bonds of US\$ 105 million, payable in 2006 <sup>1</sup>                               | -   | -                             | 123,639                      |
| Zero coupon rate convertible bonds of US\$ 250 million (2005: US\$ 250 million), payable through 2007 <sup>2</sup> | -   | 296,975                       | 296,975                      |
|  |   | <u>296,975</u>                | <u>420,614</u>               |
|  |   | 1,516,355                     | 2,565,467                    |
| Less: Current maturities   |   | (709,235)                     | (1,055,691)                  |
| Discount on debentures   |   | (6,054)                       | (7,735)                      |
| Conversion rights adjustment   |   | -                             | (25,532)                     |
| Add : Premium on conversion rights   |   | -                             | 37,092                       |
|  |   | <u>₩ 801,066</u>              | <u>₩ 1,513,601</u>           |

<sup>1</sup> During the nine-month period ended September 30, 2006, the foreign currency convertible bonds amounting to ₩123,520 million were converted into 1,788,640 shares of common stock. The remaining convertible bonds amounting to ₩118 million were redeemed before maturity and gains on early redemption amounting to ₩20 million were recognized.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

<sup>2</sup> The Company issued foreign currency convertible bonds to Lehman Brothers Commercial Corporation on May 17, 2004. The details of the convertible bonds are as follows:

Type of bonds: Private convertible bonds

Total face value of bonds: US\$250 million (fixed exchange rate of ₩1,181.5 : US\$1)

Date of issuance: May 17, 2004

Terms and conditions for issuance of bonds

- Coupon rate: 0% , Effective interest rate to maturity: 3.96%
- Maturity: May 17, 2007
- The Company will redeem the bonds at 112.49% of the face value in a lump sum on the date of maturity.
- Call option: The Company holds the right to redeem the bonds at 106.06% of face value any time between May 18, 2006 and 60 days before maturity, provided that the market value per share of common stock remains at least 115% of the conversion price for at least 20 consecutive trading days, ending on the date on which redemption notice is given.
- Put option: The bondholder holds the right to exercise a put option, in which the bondholder may require the Company to redeem the bonds at 106.06% of face value on the day after 18 months from the date of issuance.

Terms and conditions for conversion

- Type of stock to be issued: registered common stock
- Number of shares convertible: 3,049,221 shares
- Conversion price: ₩96,869 per share. The conversion price was adjusted upwards from ₩91,840 to ₩96,869, because the average closing price of the common shares of the Company during the 20 consecutive Korea Exchange business days preceding and including the second Korea Exchange business day prior to the day falling six months after the issue date is above ₩ 65,600.
- Conversion period: May 18, 2005 through May 7, 2007

Long-term debts as of September 30, 2006 and December 31, 2005, consist of the following:

| <i>(in millions of Korean won)</i>          | <b>Annual interest rate (%)<br/>at September 30, 2006</b> | <b>September 30, 2006</b> | <b>December 31, 2005</b> |
|---|---|---------------------------|--------------------------|
| <b>Foreign currency loans <sup>1</sup></b>  |   |                           |                          |
| Kookmin Bank                                | 1M Libor + 0.41   | ₩ 283,560                 | ₩ 323,148                |
| The Korea Development Bank                  | 3M Eulibor + (1.02 ~1.75)                                 | 316,397                   | 337,494                  |
| Shinhan Bank                                | 3M Libor + 0.30   | 94,520                    | -                        |
| Mizuho Seoul                                | 6M Libor + 0.35   | 189,040                   | -                        |
| Hong Kong and Shanghai Banking Corp. (HSBC) | -   | -                         | 30,390                   |
| The Export-Import Bank of Korea             | -   | -                         | 30,390                   |
|   |   | <u>883,517</u>            | <u>721,422</u>           |
| Less: Current maturities                    |   | <u>(92,539)</u>           | <u>(79,346)</u>          |
|   |   | <u>₩ 790,978</u>          | <u>₩ 642,076</u>         |

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

<sup>1</sup> Representing US \$ 600 million and EUR 264 million (2005: US \$ 379 million and EUR 281 million).

The Company's property, plant and equipment as of September 30, 2006, are pledged as collaterals for above long-term debts.

**8. Commitments and Contingencies**

As of September 30, 2006, the Company provided two notes to financial institutions as collaterals in relation to guarantees of indebtedness.

As of September 30, 2006, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of September 30, 2006, the Company has bank overdraft facility agreements with various banks amounting to ₩335,000 million.

As of September 30, 2006, the trade bills negotiated through banks that have not yet matured amount to approximately ₩3,777,640 million.

As of September 30, 2006, the Company has sales agreements for export trade accounts receivable with various banks amounting to ₩5,552,775 million. The Company has corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank and another institution amounting to ₩200,000 million.

As of September 30, 2006, the Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩1,000,000 million.

In accordance with the Asset Securitization Law, the Company entered into a sales contract with LG Electronics 2nd Securitization Specialty L.L.C to transfer its trade receivables amounting to ₩190,000 million. Through the asset-backed securitization of trade receivables, the Company acquired the 2nd-class beneficiary certificate of ₩39,941 million, included under the trade accounts receivable, to guarantee the above transfer.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

As of September 30, 2006, the Company is contingently liable for guarantees approximating ₩2,922,164 million, including US\$2,059 million, on the indebtedness of its subsidiaries and affiliates, as follows:

*(in millions of Korean won)*

|  |   |                  |
|--|---|------------------|
| LG Electronics Mlawa SP.Zo.O. (LGEMA)                      | ₩ | 224,670          |
| PT LG Electronics Indonesia. (LGEIN)                       |   | 218,828          |
| LG Electronics Italy S.P.A. (LGEIS)                        |   | 198,492          |
| LG Electronics European Shared Service Center B.V. (LGESC) |   | 186,037          |
| LG Electronics U.S.A., Inc. (LGEUS)                        |   | 181,478          |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA)         |   | 170,292          |
| LG Electronics Thailand Co., Ltd. (LGETH)                  |   | 168,246          |
| LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)       |   | 152,777          |
| LG Electronics European Holdings B.V. (LGEEH)              |   | 132,070          |
| Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)   |   | 108,255          |
| LG Electronics Mexico S.A. de C.V. (LGEMS)                 |   | 94,824           |
| LG Electronics United Kingdom Ltd. (LGEUK)                 |   | 85,068           |
| LG Electronics China Co., Ltd. (LGECH)                     |   | 77,623           |
| Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)      |   | 77,411           |
| LG Electronics RUS, LLC (LGERA)                            |   | 64,274           |
| Others   |   | 781,819          |
|  | ₩ | <u>2,922,164</u> |

In order to reduce the impact of fluctuations in exchange rates on future cash flows, the Company has entered into foreign currency forward contracts. As of September 30, 2006, the Company has outstanding forward contracts with ABN-AMRO and others for selling US dollars amounting to US\$402 million at contract exchange rates of ₩937.00 : US\$1 ~ ₩962.95 : US\$1, with contract due dates of October 2006 to March 2007.

As of September 30, 2006, the Company has outstanding forward contracts with HSBC and others for selling Euro and buying US dollars amounting to €29 million at contract exchange rates of US\$1.2682 : €1 ~ US\$1.2936 : €1, with contract due dates of October to December 2006.

As of September 30, 2006, the Company has outstanding forward contracts with the Bank of Tokyo Mitsubishi and others to sell US dollars and buy Japanese yen amounting to US\$18 million at contract exchange rates of ¥111.33 : US\$1 ~ ¥116.11 : US\$1, with contract due dates of October to December 2006.

As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩3,388 million and ₩691 million, respectively, were recorded for the nine-month period ended September 30, 2006.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

In order to reduce the impact of fluctuations in exchange rates, the Company has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩906 million and ₩560 million, respectively, were recorded for the nine-month period ended September 30, 2006.

A summary of the terms of outstanding currency option contracts as of September 30, 2006, follows:

| <b>Option type</b> | <b>Amount (in millions)</b> | <b>Exercise price</b>             | <b>Contract due date</b>                |
|--------------------|-----------------------------|-----------------------------------|---|
| Put                | US\$220                     | ₩900.00/US\$1.0~ ₩ 940.00/US\$1.0 | October 16, 2006 through March 26, 2007 |
| Call               | US\$220                     | ₩952.00/US\$1.0~ ₩991.80/US\$1.0  | October 16, 2006 through March 26, 2007 |

In order to reduce the impact of changes in interest rates and exchange rates, the Company has also entered into cross currency swap contracts. An unrealized valuation gain and loss amounting to ₩1,933 million and ₩14,696 million, respectively, were recorded for the nine-month period ended September 30, 2006.

A summary of the terms of the outstanding cross currency swap contracts as of September 30, 2006, follows:

|                            | <b>Transaction amount (in millions)</b> |                 | <b>Annual interest rate (%)</b> |                     | <b>Maturity</b> |
|----------------------------|---|-----------------|---------------------------------|---------------------|-----------------|
|                            | <b>Disbursement</b>                     | <b>Receipts</b> | <b>Receipts</b>                 | <b>Disbursement</b> |                 |
| JP Morgan Chase and others | US\$300                                 | €247            | 5.00%                           | 3.70%               | June 17, 2010   |
| The Korea Development Bank | US\$100                                 | € 83            | 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   |

A summary of the terms of the outstanding cross interest rates swap contracts as of September 30, 2006, follows:

|                            | <b>Transaction amount</b> | <b>Annual interest rate (%)</b> |                     | <b>Maturity</b> |
|----------------------------|---------------------------|---------------------------------|---------------------|-----------------|
|                            |                           | <b>Receipts</b>                 | <b>Disbursement</b> |                 |
| Credit Suisse First Boston | US\$100 million           | 5.00%-Contingent Spread         | 4.04%               | June 17, 2010   |

As a result of the above derivative contracts, a realized gain of ₩33,237 million and a realized loss of ₩15,308 million were recorded as a non-operating income and expense, respectively, for the nine-month period ended September 30, 2006.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

As of September 30, 2006, the Company is named as a defendant in various legal actions including the brought against the Company by Mahmood Saleh Abbar Co. in Saudi Arabia. In addition, the Company is named as the defendant in various foreign and domestic legal actions arising in the normal course of business. The aggregate amounts of foreign and domestic claims as the defendant amounted to approximately US\$165 million and EUR10,500 thousand, and ₩7,066 million, respectively, as of September 30, 2006. The Company believes that although the outcome of these legal actions is uncertain, they would not result in a material ultimate loss for the Company.

As of September 30, 2006, the Company is provided with a repayment guarantee of ₩77,694 million from the Seoul Guarantee Insurance Company relating to the completion of sales.

The Company leases equipment such as computers under operating leases expiring in various years through 2009.

| <i>(in millions of Korean won)</i> | <b>Amount</b> |               |
|------------------------------------|---------------|---------------|
| <b>Period</b>                      |               |               |
| 2006.10.01 ~ 2007.09.30            | ₩             | 18,750        |
| 2007.10.01 ~ 2008.09.30            |               | 9,397         |
| 2008.10.01 ~ 2009.09.30            |               | <u>3,694</u>  |
| Total lease payments               | ₩             | <u>31,841</u> |

Changes in the product warranty reserve during the nine-month period ended September 30, 2006, are as follows:

| <i>(in millions of Korean won)</i> | <b>2006</b> |                  |
|------------------------------------|-------------|------------------|
| Balance, January 1, 2006           | ₩           | 112,499          |
| Provisions                         |             | 546,859          |
| Actual payment                     |             | <u>(453,801)</u> |
| Balance, September 30, 2006        | ₩           | <u>205,557</u>   |

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

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

**9. Capital Stock**

Capital stock as of September 30, 2006 and December 31, 2005, consists of:

|                           | Par value<br>per share | September 30, 2006         |                           | December 31, 2005          |                           |
|---------------------------|------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
|                           |                        | Number of<br>shares issued | Millions of<br>Korean won | Number of<br>shares issued | Millions of<br>Korean won |
| Common stock <sup>1</sup> | ₩ 5,000                | 144,647,814                | ₩ 723,239                 | 142,859,174                | ₩ 714,296                 |
| Preferred stock           | 5,000                  | 17,185,992                 | 85,930                    | 17,185,992                 | 85,930                    |
|                           |                        | <u>161,833,806</u>         | <u>₩ 809,169</u>          | <u>160,045,166</u>         | <u>₩ 800,226</u>          |

<sup>1</sup> The foreign currency convertible bonds were converted into 1,788,640 shares of common stock during the nine-month period ended September 30, 2006.

The Company has retained treasury stocks consisting of 763,146 shares of common stock and 4,681 shares of preferred stock as of September 30, 2006. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell them in the future.

For the nine-month period ended September 30, 2006, changes in capital stock and capital surplus are as follows:

| 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             |
| September 30, 2006 |                                 | <u>₩ 723,239</u> | <u>₩ 85,930</u> | <u>₩ 2,207,919</u> |

**10. Stock Appreciation Plan**

On April 7, 2005, the Company granted 766,000 shares of stock appreciations rights (“SARs”) to certain executives. Under the terms of this plan, executives, upon exercising their SARs, are entitled to receive cash equal to the excess of the market price of the Company’s common stock over the exercise price of ₩71,130 per share. These SARs are exercisable on or after April 8, 2008, through April 7, 2012. Additionally, when the increase rate of the Company’s share price is the same or less than the increase rate of the Korea Composite Stock Price Index (“KOSPI”) over the three-year period following the grant date, only 50% of the initially granted shares can be exercised.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

The options activity under the SARs since April 7, 2005, follows:

|                                     | <b>Number of shares under<br/>SARs</b> |
|-------------------------------------|--|
| Option granted as of April, 7, 2005 | 766,000                                |
| Options canceled <sup>1</sup>       | (40,000)                               |
| Balance, September 30, 2006         | <u>726,000</u>                         |
| Exercise price per share            | <u>₩ 71,130</u>                        |

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

**11. Earnings Per Share**

Earnings (loss) per share for the nine-month periods ended September 30, 2006 and 2005, is calculated as follows:

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

|   | <u>2006</u>  |   | <u>2005</u>  |   |
|---|--|---|--|---|
|   | <u>Three-month<br/>period ended<br/>September 30,<br/>2006</u> | <u>Nine-month<br/>period ended<br/>September 30,<br/>2006</u> | <u>Three-month<br/>period ended<br/>September 30,<br/>2005</u> | <u>Nine-month<br/>period ended<br/>September 30,<br/>2005</u> |
| Net income (loss) as reported on<br>the statement of income               | ₩ 22,665   | ₩ 163,710   | ₩ 156,865  | ₩ 390,650   |
| Less: Preferred stock dividends   | (5,584)  | (16,752)  | (6,712)  | (19,919)  |
| Additional income available for<br>dividends allocated to preferred stock | <u>2,974</u>   | <u>(1,287)</u>  | <u>(10,740)</u>  | <u>(23,635)</u>   |
| Net income allocated to common stock                                      | 20,055   | 145,671   | 139,413  | 347,096   |
| Weighted-average number<br>of common shares outstanding                   | 143,884,668  | 143,884,668   | 138,974,509  | 138,962,147   |
| Earnings per share <sup>1</sup>   | ₩ 139  | ₩ 1,012   | ₩ 1,003  | ₩ 2,498   |
| Diluted earnings per share <sup>2</sup>                                   | 139  | 1,012   | 981  | 2,447   |

<sup>1</sup> Ordinary income per share is identical to the basic earnings per share since there was no extraordinary gain.

<sup>2</sup> There was no dilutive effect as of September 30, 2006.

Earnings per share and diluted earnings per share for the year ended December 31, 2005, were ₩4,407 and ₩4,357, respectively.

See Report of Independent Accountants



**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

**12. Related Party Transactions**

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

Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2006 and 2005, and the related account balances outstanding as of September 30, 2006 and December 31, 2005, are summarized as follows:

| <i>(in millions of Korean won)</i>                                 | <b>Sales</b> |         | <b>Purchases</b> |         | <b>Receivables</b> |        | <b>Payables</b> |         |
|--|--------------|---------|------------------|---------|--------------------|--------|-----------------|---------|
| <b>Parent company</b>  |              |         |                  |         |                    |        |                 |         |
| LG Corporation   | ₩            | 1       | ₩                | 62,251  | ₩                  | 13,788 | ₩               | 351     |
| <b>Subsidiaries</b>  |              |         |                  |         |                    |        |                 |         |
| Hi Plaza Inc.  |              | 403,464 |                  | 10,579  |                    | 10,424 |                 | 2,724   |
| Hi Business Logistics  |              | 188     |                  | 141,863 |                    | 12     |                 | 30,950  |
| LG Micron Ltd  |              | 101,310 |                  | 257,295 |                    | 38,955 |                 | 64,448  |
| LG Innotek Co., Ltd.   |              | 47,707  |                  | 421,065 |                    | 20,073 |                 | 75,927  |
| LG.Philips LCD Co., Ltd.   |              | 121,228 |                  | 353,227 |                    | 21,958 |                 | 128,230 |
| LG Electronics Austria GmbH (LGEAG)                                |              | 25,570  |                  | 1,949   |                    | 1,541  |                 | 844     |
| LG Electronics Alabama, Inc. (LGEAL)                               |              | 80,025  |                  | 84,826  |                    | 15,758 |                 | 9,155   |
| LG Electronics Almaty Kazak Co., Ltd. (LGEAK)                      |              | 44,721  |                  | 1,608   |                    | 9,861  |                 | 226     |
| LG Electronics Antwerp Logistics N.V. (LGEAL)                      |              | 32,165  |                  | 866     |                    | 1,124  |                 | 96      |
| LG Electronics Australia PTY, Ltd. (LGEAP)                         |              | 385,690 |                  | 20,023  |                    | 21,008 |                 | 2,366   |
| Arcelic-LG Klima Sanayi ve Tigaret A.S. (LGEAT)                    |              | 21,060  |                  | -       |                    | 7,574  |                 | -       |
| LG Electronics Da Amazonia Ltda. (LGEAZ)                           |              | 147,111 |                  | 603     |                    | 10,855 |                 | 23      |
| LG Electronics Benelux Sales B.V. (LGEBN)                          |              | 46,370  |                  | 2,849   |                    | 1,399  |                 | 483     |
| LG Electronics Columbia Ltda. (LGECL)                              |              | 51,919  |                  | 644     |                    | 895    |                 | 69      |
| LG Electronics Canada Inc. (LGECL)                                 |              | 171,014 |                  | 8,694   |                    | 11,529 |                 | 1,002   |
| LG Electronics Inc. Chile Limitada (LGECL)                         |              | 39,683  |                  | 487     |                    | 3,912  |                 | 448     |
| LG Electronics Deutschland GmbH (LGEDG)                            |              | 119,014 |                  | 9,681   |                    | 3,442  |                 | 3,217   |
| LG Electronics Espana S.A. (LGEES)                                 |              | 161,607 |                  | 8,341   |                    | 4,644  |                 | 977     |
| LG Electronics France S.A.R.L. (LGEFS)                             |              | 201,980 |                  | 14,592  |                    | 4,018  |                 | 3,772   |
| LG Electronics Gulf FZE (LGEFG)                                    |              | 147,814 |                  | 1,239   |                    | 2,329  |                 | 170     |
| LG Electronics HK Limited (LGEHK)                                  |              | 63,042  |                  | 6,902   |                    | 1,255  |                 | 544     |
| LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGEHN) |              | 13,198  |                  | 50      |                    | 72     |                 | 6,610   |
| LG Electronics Hellas S.A. (LGEHS)                                 |              | 36,479  |                  | 2,261   |                    | 569    |                 | 750     |
| LG Electronics Huizhou Inc. (LGEHZ)                                |              | 541,783 |                  | 19,130  |                    | 4,727  |                 | 44,058  |
| LG Electronics India PVT Ltd. (LGEIL)                              |              | 133,458 |                  | 18,420  |                    | 21,094 |                 | 3,283   |
| PT LG Electronics Indonesia Ltd. (LGEIN)                           |              | 210,868 |                  | 21,118  |                    | 18,286 |                 | 8,690   |

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

|   |           |          |         |         |
|---|-----------|----------|---------|---------|
| LG Electronics Italy S.P.A. (LGEIS)                         | ₩ 390,790 | ₩ 23,974 | ₩ 4,265 | ₩ 2,883 |
| LG Electronics JIT Europe Netherlands B.V. (LGEJE)          | 50,365    | 8,836    | -       | 3,137   |
| LG Electronics Japan Inc. (LGEJP)                           | 66,778    | 6,188    | 1,118   | 1,513   |
| Kunshan LGMS Computer Co., Ltd. (LGEKS)                     | 84,040    | 11,602   | 1,913   | 8,849   |
| LG Electronics European Logistics & Services B.V. (LGELS)   | 68,229    | 12,886   | 14,036  | 1,375   |
| LG Electronics Overseas Trading FZE(Dubai) (LGEOT)          | 11,362    | 321      | 180     | 63      |
| LG Electronics Mlawa SP. Zo. O. (LGEMA)                     | 659,936   | 19,970   | 12,428  | 11,926  |
| LG Electronics Morocco S.A.R.L. (LGEMC)                     | 38,988    | 360      | 475     | 37      |
| LG Electronics Magyar Kft (LGEMK)                           | 25,860    | 1,805    | 273     | 246     |
| LG Electronics (M) SDN.BHD (LGEML)                          | 24,869    | 112      | 949     | 526     |
| LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)        | 27,288    | -        | 830     | -       |
| LG Electronics Mexico S.A DE C.V. (LGEMS)                   | 102,721   | 2,718    | 6,695   | 687     |
| LG Electronics Mexicali. S.A. PEC. V. (LGEMX)               | 370,632   | 2,906    | 9,880   | -       |
| LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP)           | 322,318   | 4,473    | 4,794   | 1,044   |
| Nanjing LG- Tontru Color Display System Co., Ltd. (LGENT)   | 83,753    | 18,751   | 2,968   | 5,452   |
| LG Electronics Polska SP. Zo. O. (LGEPL)                    | 19,764    | 3,444    | 205     | 979     |
| Nanjing LG Panda Appliances Co., Ltd. (LGEPN)               | 17,336    | 116      | 8,329   | 40      |
| LG Electronics Peru S.A. (LGEPR)                            | 17,328    | 327      | 2,536   | 161     |
| LG Electronics Panama S.A. (LGEPS)                          | 142,566   | 1,542    | 4,188   | 755     |
| LG Electronics Portugal (LGEPT)                             | 33,322    | -        | 1,074   | 120     |
| Qingdao LG Langchao Digital Communication Co., ltd. (LGEQD) | 214,609   | 2,038    | 456     | 625     |
| LG Electronics RUS, LLC(LGERA)                              | 46,640    | -        | 3,367   | -       |
| LG Electronics Russia Inc. (LGERI)                          | 4,651     | 15,723   | 2,795   | 2,073   |
| LG Electronics Reynosa. S.A. DEC.V. (LGERs)                 | 457,826   | 3,432    | 16,305  | 2,436   |
| LG Electronics Overseas Trading FZE (LGERU)                 | 287,726   | 5,631    | 33,507  | 2,645   |
| LG Electronics S.A. Pty Ltd. (LGESA)                        | 126,806   | 4,350    | 5,978   | 1,588   |
| Shanghai LG Electronics Co., Ltd. (LGESH)                   | 105,932   | 1,353    | 876     | 62,905  |
| LG Electronics Singapore PTE Ltd.(LGESL)                    | 27,692    | 842      | 5,906   | 390     |
| LG Electronics de Sao Paulo Ltda. (LGESP)                   | 466,000   | 4,256    | 23,183  | 1,907   |
| LG Electronics Sweden AB (LGESW)                            | 80,253    | 11,840   | 10,509  | 2,470   |
| LG Electronics Shenyang Inc. (LGESY)                        | 109,509   | 852      | 11,857  | 8,292   |
| LG Electronics Tianjin Appliance Co., Ltd. (LGETA)          | 77,863    | 9,713    | 13,173  | 29,261  |
| LG Electronics Thailand Co., Ltd. (LGETH)                   | 53,812    | 398      | 9,965   | 824     |

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

|  |                    |                   |                    |                  |
|--|--------------------|-------------------|--------------------|------------------|
| Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) (formerly LGECT) | ₩ 44,410           | ₩ 2,925           | ₩ 24,479           | ₩ 1,343          |
| LG Electronics Taistar Taiwan Co. Ltd. (LGETT)                         | 77,336             | 2,121             | 2,967              | 513              |
| LG Electronics United Kingdom Ltd. (LGEUK)                             | 258,922            | 12,473            | 6,971              | 1,606            |
| LG Electronics U.S.A Inc. (LGEUS)                                      | 809,933            | 54,092            | 16,495             | 7,882            |
| LG Electronics Vietnam Co., Ltd. (LGEVN)                               | 6,939              | 99                | 418                | 23               |
| LG Electronics Wales Ltd. (LGEWA)                                      | 24,208             | 9,605             | 346                | 3,905            |
| Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)             | 573,861            | 5,074             | 6,432              | 832              |
| LG Electronics Mobilecomm U.S.A. Inc. (LGEMU) (formerly LGICUS)        | 1,630,953          | 4,714             | 9,981              | 2,151            |
| Others <sup>1</sup>  | 38,184             | 64,911            | 9,767              | 15,477           |
| <b>Equity-method investees</b>   |                    |                   |                    |                  |
| LG-Nortel Co., Ltd.  | 10,128             | 16,239            | 56,296             | 5,760            |
| Hitachi-LG Data Storage Inc. (HLDS)                                    | 169,872            | 28,861            | 8,260              | 4,416            |
| Others <sup>2</sup>  | 9,380              | 52,335            | 429                | 98               |
| <b>Other related parties</b>   |                    |                   |                    |                  |
| Dacom Co., Ltd.  | -                  | 1,898             | -                  | 14               |
| Serveone   | 2,045              | 278,019           | 31,067             | 53,491           |
| LG Management Development Institute Co., Ltd.                          | 56                 | 11,032            | 11,716             | 1,530            |
| LG Sports Ltd.   | 11                 | 3,700             | -                  | -                |
| LG N Sys Co., Ltd.   | 818                | 262               | 187                | 3                |
| Lusem Co., Ltd.  | 5,244              | 39,766            | 2,011              | 10,403           |
| LG International   | 18,870             | 4,692             | 1,618              | 785              |
| LG CNS Co., Ltd.   | 8,463              | 196,542           | 2,208              | 32,406           |
| LG Telecom Ltd.  | 324,336            | 563               | 141,243            | -                |
| LG Chemical Ltd.   | 4,300              | 214,013           | 1,688              | 51,913           |
| Others <sup>3</sup>  | 564                | 1,223             | 21                 | 452              |
| 2006   | <u>₩11,984,896</u> | <u>₩2,656,481</u> | <u>₩ 800,715</u>   | <u>₩ 739,625</u> |
| 2005   | <u>₩12,203,527</u> | <u>₩2,174,665</u> | <u>₩ 1,273,763</u> | <u>₩ 311,385</u> |

<sup>1</sup> Others represent subsidiaries that have no significant related party transactions such as LG Electronics Argentina S.A.(LGEAR), LG Electronics China Co., Ltd.(LGECH), LG ELECTRONICS CZECH S.R.O. (LGE CZ), LG Electronics Egypt Cairo S.A.E.(LGE EC), LG Electronics Egypt S.A.E.(LGE EG), LG Electronics European Holdings B.V.(LGE EH), LG Electronics Middle East Co., Ltd.(LGE ME), Goldstar Mobilecomm France SASU (LGE MF), LG Electronics Mobile Research U.S.A. L.L.C.(LGE MR), LG Mitr Electronics Co., Ltd.(LGE MT), LG Electronics Latvia, LLC(LGE LV), LG ELECTRONICS Spain Portugal Branch (LGE PB), LG Electronics Philippines, Inc.(LGE PH), LG Electronics Qinhua ngdao Inc.(LGE QH), LG Electronics(China) Research and Development Center Co. Ltd.( LGE RD), LG Electronics European Shared Service Center B.V.(LGE SC), LG Electronics Ukraine Inc.(LGE UR), LG Soft India PVT, Ltd.(LGE SI), LG Electronics RUS-Marketing, LLC(LGE RM), LG Electronics Wroclaw Sp.Zo.o.(LGE WR), Zenith Electronics Co.(ZENITH), LG Holding (HK) Ltd., EIC Properties PTE, Ltd., Beijing LG Building Development Company, LG fund for small and medium Enterprises.

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

- <sup>2</sup> Others include the equity-method investees such as Hankuk Electric Glass Co., Ltd., Korea Information Certificate Authority Inc., Blue Ocean Investment Fund, Triveni Digital Inc., SLD Telecom Pte. Ltd., Goldstar Electronics Thailand Co., Ltd.(G.S.T.), Electromagnetica Goldstar S.R.L.(EMGS), Hi Logistics Europe B.V., Hi Logistics China Company Limited, LG pasig, Paju Electric Glass Co., Ltd, LG Micron(Taiwan) Ltd., LG Innotek Poland Co.Ltd.,(LGITPL).
- <sup>3</sup> Others include related parties such as LG Powercom Corporation, Siltron Incorporated, LG Life Sciences Ltd., LG Hitachi Ltd., LG Household & Health Care Ltd., LG Petrochemical Co., Ltd., LG MMA Corporation.

Significant management compensation costs for the nine-month period ended September 30, 2006, are as follows:

|                                  |   |              |
|----------------------------------|---|--------------|
| Short-term salaries              | ₩ | 6,545        |
| Provision for severance benefits |   | <u>3,046</u> |
|                                  | ₩ | <u>9,591</u> |

Management refers to the directors who have significant duties and responsibilities over planning, operations and control of the Company's business. Accrued severance benefits for said management for the nine-month period ended September 30, 2006, were ₩16,717 million.

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

---

**13. Segment Information**

The Company has four business divisions: Digital Display division, Digital Media division, Digital Appliance division and Mobile communications division. In addition, the Company has a centralized supporting division to provide general and administrative, marketing and sales and research and development services to each business division.

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

| <i>(in millions of<br/>Korean won)</i> | <b>Business Division</b> |                        |                      |                          |                              |                            |
|--|--------------------------|------------------------|----------------------|--------------------------|------------------------------|----------------------------|
|  | <b>Total</b>             | <b>Digital Display</b> | <b>Digital Media</b> | <b>Digital Appliance</b> | <b>Mobile Communications</b> | <b>Supporting Division</b> |
| Sales                                  |                          |                        |                      |                          |                              |                            |
| External sales                         | ₩ 17,650,233             | ₩ 4,551,138            | ₩ 2,064,358          | ₩ 4,519,648              | ₩ 6,523,519                  | ₩ (8,430)                  |
| Inter-division sales                   | 267,578                  | 83,676                 | 13,058               | 8,710                    | 28,531                       | 133,603                    |
|  | <u>₩ 17,917,811</u>      | <u>₩ 4,634,814</u>     | <u>₩ 2,077,416</u>   | <u>₩ 4,528,358</u>       | <u>₩ 6,552,050</u>           | <u>₩ 125,173</u>           |
| Operating income(loss)                 | ₩ 578,268                | ₩ 92,839               | ₩ 42,694             | ₩ 367,437                | ₩ 110,231                    | ₩ (34,933)                 |
| Property, plant and equipment          | ₩ 4,214,807              | ₩ 1,708,414            | ₩ 229,108            | ₩ 687,056                | ₩ 601,251                    | ₩ 988,978                  |
| Intangible assets                      | 450,215                  | 26,181                 | 7,364                | 27,497                   | 54,590                       | 334,583                    |
|  | <u>₩ 4,665,022</u>       | <u>₩ 1,734,595</u>     | <u>₩ 236,472</u>     | <u>₩ 714,553</u>         | <u>₩ 655,841</u>             | <u>₩ 1,323,561</u>         |
| Depreciation and amortization          | ₩ 526,704                | ₩ 197,816              | ₩ 35,987             | ₩ 95,429                 | ₩ 98,104                     | ₩ 99,368                   |

See Report of Independent Accountants

**LG Electronics Inc.**  
**Notes to Non-Consolidated Financial Statements**  
**September 30, 2006 and 2005, and December 31, 2005**  
**(Unaudited)**

Financial data by business division as of and for the nine-month period ended September 30, 2005, were as follows:

| <i>(in millions of<br/>Korean won)</i> | <b>Business Division</b> |                        |                      |                          |                              |                            |
|--|--------------------------|------------------------|----------------------|--------------------------|------------------------------|----------------------------|
|  | <b>Total</b>             | <b>Digital Display</b> | <b>Digital Media</b> | <b>Digital Appliance</b> | <b>Mobile Communications</b> | <b>Supporting Division</b> |
| Sales                                  |                          |                        |                      |                          |                              |                            |
| External sales                         | ₩ 17,592,057             | ₩ 3,727,629            | ₩ 2,358,692          | ₩ 4,613,980              | ₩ 6,780,437                  | ₩ 111,319                  |
| Inter-division sales                   | 309,003                  | 66,013                 | 2,079                | 13,667                   | 33,113                       | 194,131                    |
|  | <u>₩ 17,901,060</u>      | <u>₩ 3,793,642</u>     | <u>₩ 2,360,771</u>   | <u>₩ 4,627,647</u>       | <u>₩ 6,813,550</u>           | <u>₩ 305,450</u>           |
| Operating income(loss)                 | ₩ 703,586                | ₩ 22,267               | ₩ 102,129            | ₩ 422,148                | ₩ 237,810                    | ₩ (80,768)                 |
| Property, plant and equipment          | ₩ 4,069,095              | ₩ 1,504,361            | ₩ 235,337            | ₩ 743,704                | ₩ 710,640                    | ₩ 875,053                  |
| Intangible assets                      | 447,302                  | 22,709                 | 6,433                | 15,562                   | 178,766                      | 223,832                    |
|  | <u>₩ 4,516,397</u>       | <u>₩ 1,527,070</u>     | <u>₩ 241,770</u>     | <u>₩ 759,266</u>         | <u>₩ 889,406</u>             | <u>₩ 1,098,885</u>         |
| Depreciation and amortization          | ₩ 622,502                | ₩ 169,990              | ₩ 44,891             | ₩ 146,363                | ₩ 137,423                    | ₩ 123,835                  |

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

| <i>(in millions of Korean won)</i> | <b>Total</b>       | <b>Domestic</b>    | <b>Central &amp; South America</b> |                   |                      |                                  |                   |                 | <b>CIS</b>       |
|------------------------------------|--------------------|--------------------|------------------------------------|-------------------|----------------------|----------------------------------|-------------------|-----------------|------------------|
|                                    |                    |                    | <b>North America</b>               | <b>Europe</b>     | <b>South America</b> | <b>Central Asia &amp; Africa</b> | <b>Asia</b>       | <b>Oceania</b>  |                  |
| Sales                              |                    |                    |                                    |                   |                      |                                  |                   |                 |                  |
| External sales                     | ₩17,650,232        | ₩ 4,568,801        | ₩3,950,899                         | ₩2,387,359        | ₩917,081             | ₩847,551                         | ₩4,138,378        | ₩404,705        | ₩ 435,458        |
| Inter-division sales               | 267,578            | 267,578            | -                                  | -                 | -                    | -                                | -                 | -               | -                |
|                                    | <u>₩17,917,810</u> | <u>₩ 4,836,379</u> | <u>₩3,950,899</u>                  | <u>₩2,387,359</u> | <u>₩917,081</u>      | <u>₩847,551</u>                  | <u>₩4,138,378</u> | <u>₩404,705</u> | <u>₩ 435,458</u> |
| Ratio (%)                          | 100%               | 26%                | 22%                                | 14%               | 5%                   | 5%                               | 23%               | 2%              | 3%               |

Financial data by geographic area for the nine-month period ended September 30, 2005, were as follows:

| <i>(in millions of Korean won)</i> | <b>Total</b>       | <b>Domestic</b>    | <b>Central &amp; South America</b> |                   |                      |                                  |                   |                 | <b>CIS</b>       |
|------------------------------------|--------------------|--------------------|------------------------------------|-------------------|----------------------|----------------------------------|-------------------|-----------------|------------------|
|                                    |                    |                    | <b>North America</b>               | <b>Europe</b>     | <b>South America</b> | <b>Central Asia &amp; Africa</b> | <b>Asia</b>       | <b>Oceania</b>  |                  |
| Sales                              |                    |                    |                                    |                   |                      |                                  |                   |                 |                  |
| External sales                     | ₩17,592,057        | ₩ 4,221,222        | ₩4,121,857                         | ₩2,739,029        | ₩606,726             | ₩645,247                         | ₩4,016,249        | ₩435,714        | ₩ 806,013        |
| Inter-division sales               | 309,003            | 309,003            | -                                  | -                 | -                    | -                                | -                 | -               | -                |
|                                    | <u>₩17,901,060</u> | <u>₩ 4,530,025</u> | <u>₩4,121,857</u>                  | <u>₩2,739,029</u> | <u>₩606,726</u>      | <u>₩645,247</u>                  | <u>₩4,016,249</u> | <u>₩435,714</u> | <u>₩ 806,013</u> |
| Ratio (%)                          | 100%               | 24%                | 23%                                | 16%               | 3%                   | 4%                               | 23%               | 2%              | 5%               |

See Report of Independent Accountants