

LG Electronics Inc.

**Non-Consolidated Interim Financial Statements
June 30, 2005 and 2004, and December 31, 2004**

LG Electronics Inc.

Index

June 30, 2005 and 2004, and December 31, 2004

	Page(s)
Report of Independent Accountants	1-2
Non-Consolidated Interim Financial Statements	
Balance Sheets	3-4
Statements of Income	5
Statements of Cash Flows	6-7
Notes to Non-consolidated Interim Financial Statements	8-55

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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 June 30, 2005, and the related non-consolidated statements of income and cash flows for the three-month and six-month periods ended June 30, 2005 and 2004, 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, 2004, 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 28, 2005. These financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2004, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2004.

As discussed in Note 25 to the accompanying non-consolidated financial statements, for the six-month period ended June 30, 2005, the Company entered into various transactions with affiliated companies, including LG Electronics U.S.A. Inc., including sales totaling to ₩7,390,319 million and purchases totaling to ₩1,477,079 million. As of June 30, 2005, related receivables and payables amount to ₩807,020 million and ₩253,436 million, respectively.

As discussed in Note 27 to the accompanying non-consolidated financial statements, on January 1, 2005, the Company absorbed a part of PC division of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. This absorption is aimed to optimize business efficiency, align operational strategies, and maximize profitability. On January 4, 2005, LG IBM PC Co., Ltd. was dissolved.

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
July 15, 2005

This report is effective as of July 15, 2005, 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
June 30, 2005 and December 31, 2004
(Unaudited)

(in millions of Korean won)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 7)	₩ 1,320,143	₩ 648,416
Short-term investments (Note 5)	89,501	89,501
Trade accounts and notes receivable, net (Notes 6, 7 and 25)	1,259,797	999,023
Inventories, net (Notes 8 and 12)	1,480,947	1,675,031
Other accounts receivable, net (Notes 6 and 7)	306,605	544,885
Prepaid expenses	72,867	40,116
Accrued income, net (Note 6)	20,549	12,751
Advances, net (Note 6)	105,511	46,650
Derivatives transaction debit (Note 17)	17,139	51,475
Deferred income tax assets (Note 23)	166,522	-
Other current assets, net (Note 6)	5,030	2,795
Total current assets	4,844,611	4,110,643
Property, plant and equipment, net (Notes 11, 12 and 26)	4,009,779	3,629,549
Long-term financial instruments (Note 4)	14,741	17,961
Long-term investment securities (Note 9)	50,197	65,234
Equity method investments (Note 10)	4,111,817	4,096,263
Refundable deposits (Note 7)	418,850	380,128
Long-term prepaid expenses	157,937	141,459
Deferred income tax assets (Note 23)	-	104,765
Long-term loans receivable, net (Notes 6 and 25)	85,808	52,305
Intangible assets, net (Notes 13 and 26)	569,766	635,532
Long-term other accounts receivable (Note 6)	20,908	-
Other non-current assets (Note 17)	14,308	402
Total assets	₩ 14,298,722	₩ 13,234,241

LG Electronics Inc.
Non-Consolidated Balance Sheets
June 30, 2005 and December 31, 2004
(Unaudited)

(in millions of Korean won)

	2005	2004
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 14)	₩ 99,437	₩ 209,890
Current maturities of long-term debts, net (Note 14)	1,288,681	646,783
Trade accounts and notes payable (Notes 7 and 25)	1,742,526	1,758,233
Other accounts payable (Note 7)	1,245,915	1,118,603
Income taxes payable (Note 23)	71,854	9,119
Accrued expenses (Note 7)	983,049	993,225
Withholdings	11,418	19,110
Unearned income	3,446	1,644
Advances from customers	248,503	200,150
Derivatives transaction credit (Note 17)	9,097	2,066
Total current liabilities	5,703,926	4,958,823
Debentures and convertible bonds, net of current maturities and discounts on debentures (Note 15)	2,374,118	2,593,616
Long-term debts, net of current maturities (Note 15)	730,384	286,655
Accrued severance benefits, net (Note 16)	278,848	233,246
Product warranty reserve	166,896	145,657
Deferred income tax liabilities (Note 23)	139,445	-
Other long-term liabilities	3,299	77
Total liabilities	9,396,916	8,218,074
Commitments and contingencies (Note 17)		
Shareholders' equity		
Capital stock (Notes 1 and 18)	784,618	783,961
Capital surplus (Note 19)	1,907,716	1,907,543
Retained earnings (Note 20)	2,065,875	2,063,631
Capital adjustments (Note 21)	143,597	261,032
Total shareholders' equity	4,901,806	5,016,167
Total liabilities and shareholders' equity	₩ 14,298,722	₩ 13,234,241

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 Periods and Six-Month Periods Ended June 30, 2005 and 2004
(Unaudited)

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

	2005		2004	
	For the three-month period ended June 30, 2005	For the six-month period ended June 30, 2005	For the three-month period ended June 30, 2004	For the six-month period ended June 30, 2004
Sales (Notes 25 and 26)	₩ 5,615,196	₩ 11,573,726	₩ 6,028,984	₩ 12,025,422
Cost of sales (Note 25)	4,219,977	8,682,501	4,521,011	9,094,786
Gross profit	1,395,219	2,891,225	1,507,973	2,930,636
Selling and administrative expenses	1,251,348	2,467,518	1,115,356	2,131,161
Operating income	143,871	423,707	392,617	799,475
Non-operating income				
Equity in earnings of equity-method investees (Note 10)	81,880	130,850	316,857	668,403
Foreign exchange gains	71,961	165,457	75,246	190,373
Interest income	11,678	23,511	32,659	43,256
Refund of income taxes	38,767	38,767	52,803	53,600
Gain on valuation of derivatives (Note 17)	-	4,214	-	20,299
Gain on disposal of investment securities	21,083	21,157	38,726	46,795
Gain on settlement of derivatives (Note 17)	12,959	18,736	5,515	8,518
Reversal of allowance for doubtful accounts	1,177	1,310	24,218	24,218
Rent income	5,348	9,582	3,607	6,632
Dividend income	267	871	20	4,893
Gain on disposal of property, plant and equipment	566	1,139	2,060	3,300
Others	11,214	27,355	9,416	49,710
	256,900	442,949	561,127	1,119,997
Non-operating expenses				
Foreign exchange losses	52,380	117,455	76,661	145,697
Interest expense	49,866	97,110	51,026	99,074
Loss from transfer of trade accounts and notes receivable	30,640	64,820	29,150	57,836
Loss from disposal of property, plant and equipment	10,093	14,277	17,141	68,888
Loss from disposal of investment securities	991	1,986	52,362	72,550
Loss on impairment of investment securities	1,210	1,903	30,000	33,218
Additional payment of income taxes	860	7,995	-	-
Loss on settlement of derivatives (Note 17)	3,591	5,096	6,904	10,192
Donations	1,840	4,148	2,547	4,515
Loss on valuation of derivatives (Note 17)	13,288	14,953	2,734	-
Other bad debt expense	-	2,510	-	321
Equity in losses of equity-method investees (Note 10)	4,522	212,367	-	-
Others	15,713	29,675	12,898	22,425
	184,994	574,295	281,423	514,716
Income before income taxes	215,777	292,361	672,321	1,404,756
Income tax expense (Note 23)	65,197	58,576	178,859	326,592
Net income	₩ 150,580	₩ 233,785	₩ 493,462	₩ 1,078,164
Basic earnings per share and				
ordinary income per share (in won) (Note 24)	₩ 963	₩ 1,495	₩ 3,154	₩ 6,888
Diluted earnings per share and				
diluted ordinary income per share (in won) (Note 24)	₩ 940	₩ 1,463	₩ 3,032	₩ 6,647

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 Six-Month Periods Ended June 30, 2005 and 2004
(Unaudited)

(in millions of Korean won)

	2005		2004	
	For the three-month period ended June 30, 2005	For the six-month period ended June 30, 2005	For the three-month period ended June 30, 2004	For the six-month period ended June 30, 2004
Cash flows from operating activities				
Net income	₩ 150,580	₩ 233,785	₩ 493,462	₩ 1,078,164
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	209,904	434,880	163,244	319,663
Amortization of discounts on debentures	9,964	19,707	8,495	13,385
Provision for severance benefits	77,751	123,088	63,975	131,442
Loss from transfer of trade accounts and notes receivable	30,640	64,820	29,150	57,836
Bad debt expense	-	2,510	-	321
Gain on foreign currency translation, net	(688)	(17,398)	(2,939)	(36,986)
Loss (gain) from disposal of investment securities, net	(20,092)	(19,171)	13,636	25,755
Loss on impairment of investment securities	1,210	1,903	30,000	33,218
Loss from disposal of property, plant and equipment, net	9,527	13,138	15,081	65,588
Equity in losses (gains) of equity-method investees, net	(77,358)	81,517	(316,857)	(668,403)
Loss (gain) on valuation of derivatives, net	13,288	10,739	2,734	(20,299)
Loss (gain) on settlement of derivatives, net	(9,368)	(13,640)	1,389	1,674
Provision for product warranty	(5,247)	21,239	(7,337)	15,072
Others	(1,383)	(1,571)	(37,247)	(27,056)
	<u>238,148</u>	<u>721,761</u>	<u>(36,676)</u>	<u>(88,790)</u>
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable	(43,169)	(289,400)	172,097	(314,755)
Decrease (increase) in other accounts receivable	34,975	215,673	(73,786)	34,475
Decrease (increase) in accrued income	(926)	(7,456)	12,975	(12,014)
Increase in advances	(53,753)	(59,298)	(6,576)	(36,073)
Decrease in other current assets	139	139	75	59
Decrease (increase) in inventories	59,862	194,090	(98,664)	(126,148)
Decrease (increase) in prepaid expenses	7,107	(32,642)	(10,125)	(41,112)
Increase in long-term prepaid expenses	(18,321)	(16,478)	(14,034)	(14,034)
Decrease (increase) in deferred income tax assets	(19,036)	(60,554)	111,391	185,387
Decrease in trade accounts and notes payable	(370,777)	(82,834)	(73,999)	(58,621)
Increase in other accounts payable	160,881	123,767	189,098	2,393
Increase (decrease) in accrued expenses	63,144	(11,538)	101,607	259,759
Increase (decrease) in withholdings	1,925	(9,419)	21,552	(9,422)
Increase in advances from customers	53,197	47,829	17,950	27,254
Increase in income taxes payable	30,384	62,544	32,439	85,593
Payment of severance benefits	(71,896)	(103,927)	(30,258)	(68,727)
Increase (decrease) in severance insurance deposits	6,478	22,381	(3,491)	9,620
Decrease in contributions to the National Pension Fund	1,186	2,039	772	1,797
Increase in deferred income tax liabilities	48,076	32,779	-	-
Others	1,715	1,208	(8,651)	(8,755)
	<u>(108,809)</u>	<u>28,903</u>	<u>340,372</u>	<u>(83,324)</u>
Net cash provided by operating activities	<u>279,919</u>	<u>984,449</u>	<u>797,158</u>	<u>906,050</u>

LG Electronics Inc.
Non-Consolidated Statements of Cash Flows
Three-Month and Six-Month Periods Ended June 30, 2005 and 2004
(Unaudited)

(in millions of Korean won)

	2005		2004	
	For the three-month period ended June 30, 2005	For the six-month period ended June 30, 2005	For the three-month period ended June 30, 2004	For the six-month period ended June 30, 2004
Cash flows from investing activities				
Disposal of short-term financial instruments	-	-	-	39,924
Increase in short-term and long-term loans, net	(14,779)	(36,264)	20,974	9,429
Disposal of long-term financial instruments	-	3,221	-	-
Acquisition of long-term financial instruments	(1,202)	-	(487)	(2,001)
Proceeds from disposal of investment securities	57,397	61,120	151,381	274,283
Acquisition of investment securities	(106,299)	(147,755)	(26,102)	(324,502)
Payment of refundable deposits, net	(25,192)	(37,031)	(9,617)	(26,392)
Proceeds from disposal of property, plant and equipment	9,173	15,001	2,578	17,628
Proceeds from disposal of derivatives	33,973	55,986	8,077	8,077
Acquisition of property, plant and equipment	(485,405)	(746,192)	(359,201)	(601,563)
Acquisition of intangible assets	(15,571)	(26,332)	(13,204)	(19,994)
Acquisition of derivatives	(22,841)	(22,841)	(9,466)	(9,751)
Others	443	412	296	(410)
Net cash used in investing activities	(570,303)	(880,675)	(234,771)	(635,272)
Cash flows from financing activities				
Proceeds from short-term borrowings	-	-	-	126,033
Payment of current maturities of long-term debts	(208,760)	(208,760)	(394,326)	(623,487)
Proceeds from issuance of debentures	602,258	602,258	593,292	758,923
Proceeds from long-term debts	387,753	482,938	269,164	269,164
Payment of short-term borrowings	(25,751)	(110,335)	(124,978)	-
Disposal (acquisition) of treasury stock	2,128	2,128	(18,666)	(34,949)
Payment of dividends	(234,851)	(234,851)	(196,634)	(196,634)
Net cash provided by financing activities	522,777	533,378	127,852	299,050
Cash inflow from merger	-	34,575	-	-
Net increase in cash and cash equivalents	232,393	671,727	690,239	569,828
Cash and cash equivalents (Note 29)				
Beginning of the period	1,087,750	648,416	416,442	536,853
End of the period	W 1,320,143	W 1,320,143	W 1,106,681	W 1,106,681

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
June 30, 2005 and 2004, and December 31, 2004
(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. 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 June 30, 2005, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of June 30, 2005, the Company has outstanding capital stock amounting to ₩784,618 million, including non-voting preferred stock. The Company's stock was relisted on the Korean Stock Exchange on April 22, 2002, and its depositary receipts ("DRs") were relisted on the London Stock Exchange in September 2002.

As of June 30, 2005, LG Corp. and its related parties own 32.1% of the Company's total stocks including common stock and preferred stock, while financial institutions, foreign investors and others own the rest of the Company's stocks.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

Basis of Financial Statement Presentation

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

Accounting Estimates

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

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(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. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning on or after this date.

And as SKFAS No. 15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these Standards in its financial statements as of and for the six-month period ended June 30, 2005.

Revenue Recognition

Revenues from finished products and merchandise are recognized when goods are delivered and most of the risks and benefits associated with the possession of goods are substantially transferred. Revenue from installation service contracts is recognized using the percentage-of-completion method.

Cash and Cash Equivalents

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated collectibility of the accounts.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method, except for inventories-in-transit which is determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Investments in Securities

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

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities whose fair value may not be determined, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by independent credit rating agencies.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are charged to capital adjustments, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities after the amortization of discounts or premiums.

Equity Method Investments

Investments in equity securities of companies, over which the Company exercises significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over five years using the straight-line method, and the amortization is charged to current operations. In addition, proportionate share in the difference between fair value of the investee's identifiable assets (liabilities) and book value is amortized according to the investee's accounting for the assets and liabilities.

Unrealized profit included in inventories and property, plant and equipment from transaction between the Company and equity method investees is calculated based on gross margin by product and eliminated considering the percentage of ownership. However, unrealized profit arising from sales by the Company to equity method investees which are its consolidated subsidiaries is eliminated fully. Unrealized profit arising from sales between equity method investees is also eliminated considering the percentage of ownership.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities, and six-month average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Property, Plant and Equipment

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

	Estimated useful life
Buildings	20 - 40 years
Structures	20 - 40 years
Machinery and equipment	5 - 10 years
Tools	2 - 5 years
Furniture, fixtures and vehicles	5 years

In 2005, the Company reduced its estimate of the useful life of moulds included in tools from five years to two years to better reflect their economic useful life. This change resulted in an increase in depreciation expense for the six-month period ended June 30, 2005, by ₩62,876 million.

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals which enhance the value of the assets over their most recently appraised value are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Intangible Assets

Intangible assets are stated at acquisition cost, net of accumulated amortization. Acquisition cost is the total of the production or purchase cost and other incidental expenses. Amortization is computed using the straight-line method over the estimated useful lives, which range from five to ten years.

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. An impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Research and Development Costs

Research costs are expensed as incurred. Development costs directly relating to a new technology or new products, for which the estimated future benefits are probable, are recognized as intangible assets. Amortization of development costs is computed using the straight-line method over five years from the commencement of the commercial production of the related products. Such costs are subject to continual analysis of recoverability. In the event that such amounts are not estimated to be recoverable, they are written down to their net realizable value.

Borrowing Costs

Interest and other financial costs incurred on borrowings used to acquire property, plant and equipment, intangible assets and investments are all charged to expense as incurred.

Discounts (Premiums) on Debentures

Discounts (premiums) on debentures are amortized using the effective interest rate method over the repayment period of the debentures. The amortized amount is included in interest expense.

Treasury Stock

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

Product Warranty

The Company provides warranties against product defects for a specified period of time after the sale. Estimated costs of product warranties are charged to current operations at the time of sale and are included in the accompanying non-consolidated balance sheets as a product warranty reserve.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum severance payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

Contributions made under the National Pension Plan and severance insurance deposits are deducted from accrued severance benefits. Contributed amounts are refunded from the National Pension Plan and the insurance companies to employees upon their retirement.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to be reversed. Deferred income tax assets are recognized to the extent that it is almost certain that such deferred income tax assets will be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities.

Tax credits for investments and development of research and manpower are accounted for using the flow-through method, whereby income taxes are reduced in the period the assets that gave rise to such credits are placed in service. To the extent such credits are not currently utilized, deferred income tax assets, subject to realizability as stated above, are recognized for the carryforward amount.

According to SKFAS No. 16, *Deferred Income Taxes*, which became effective on January 1, 2005, the Company classified deferred income tax assets and liabilities into current portion and non-current portion based on net amount. Deferred income tax is recognized on unrealized gains or losses resulting from valuation of investment securities. However, previous financial statements presented for comparative purpose are not restated according to addendum of SKFAS No. 16.

Sale of Accounts and Notes Receivable

The Company sells certain accounts or notes receivable to financial institutions at a discount, and accounts for the transactions as a sale of the receivables, if the rights and obligations relating to the receivables are substantially transferred to the buyers. The losses from the sale of the receivables are charged to current operations as incurred.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rate in effect at the balance sheet date (₩1,024.4: US\$1 as of June 30, 2005, ₩1,043.8: US\$1 as of December 31, 2004), and resulting translation gains or losses are recognized in current operations. However, convertible bonds in foreign currency are translated into Korean won at the agreed rate of exchange, considering the exercise of conversion rights by the creditors.

Derivative Financial Instruments

The Company utilizes several derivative financial instruments ("derivatives") such as forward exchanges, swaps and option contracts to reduce its exposure resulting from fluctuations in foreign currency and interest rates. The derivatives are carried at fair market value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustments account and recorded in current operations in the period when the underlying transactions have an effect on operations.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Convertible Bonds

The Company records a premium for conversion rights as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. The Company offsets conversion rights adjustment by the face value of convertible bonds and adds a call premium to the face value of convertible bonds.

Present Value Discount

The difference between the nominal value and present value of the long-term receivables and payables is amortized using the effective interest rate method with interest income or expense adjusted accordingly.

Government grants

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

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

Stock Appreciations plan

Compensation costs for stock options granted to employees and executives are recognized on the basis of intrinsic value. Under the intrinsic value basis method, compensation costs for stock option plans are determined by calculating the difference between the exercise price and the market price of the underlying stock. Stock-based compensation cost is remeasured at each reporting date, based on the intrinsic value of the award, and is recognized as expense over the agreed minimum service period.

Duty Refunds

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

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

3. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%)		
	at June 30, 2005	2005	2004
Cash on hand	-	₩ 22	₩ 27
Checking accounts	-	2,829	3,569
Foreign currency checking accounts	-	44,326	26,921
Demand deposits	0.10 - 0.30	4,092	11,863
Foreign currency time deposits	0.02 - 2.37	174,874	74,036
Money market funds	2.95 - 3.25	1,039,000	502,000
Beneficiary certificates	3.20 - 3.41	55,000	30,000
		<u>₩ 1,320,143</u>	<u>₩ 648,416</u>

4. Financial Instruments

Long-term financial instruments as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%)		
	at June 30, 2005	2005	2004
Long-term financial instruments			
Other deposits	0.20 - 4.50	<u>₩14,741</u>	<u>₩ 17,961</u>

As of June 30, 2005, long-term financial instruments of ₩14,741 million (2004 : ₩17,961 million) are deposited in connection with maintaining checking accounts or research and development projects funded by the government. The withdrawal of these financial instruments is restricted.

5. Short-term investments

Short-term investments as of June 30, 2005 and December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	2005			2004
	Acquisition cost	Market value	Carrying value	Carrying value
Commercial papers issued by LG Card Co., Ltd.	<u>₩ 111,876</u>	<u>₩ 89,501</u>	<u>₩ 89,501</u>	<u>₩ 89,501</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

As approved by the Board of Directors on February 6, 2004, the Company purchased LG card Co., Ltd. (LG Card)'s commercial papers with a face value of ₩150,000 million as part of the fulfillment of LG Card's business normalization agreement with the creditor financial institutions. The commercial papers amounting to ₩111,876 million classified as short-term investments are scheduled to mature before December 31, 2005.

6. Receivables

Receivables, including trade accounts and notes receivable, as of June 30, 2005 and December 31, 2004, consist of the following:

	2005			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
<i>(in millions of Korean won)</i>				
Trade accounts and notes receivable	₩1,331,970	₩ (72,173)	₩ -	₩1,259,797
Other accounts receivable ¹	339,836	(11,410)	(913)	327,513
Accrued income	20,756	(207)	-	20,549
Advances	110,163	(4,652)	-	105,511
Other current assets	5,070	(40)	-	5,030
Long-term loans receivable	86,675	(867)	-	85,808
	₩1,894,470	₩ (89,349)	₩ (913)	₩1,804,208
2004				
	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
<i>(in millions of Korean won)</i>				
Trade accounts and notes receivable	₩ 1,072,150	₩ (73,127)	₩ -	₩ 999,023
Other accounts receivable	554,436	(8,377)	(1,174)	544,885
Accrued income	12,970	(219)	-	12,751
Advances	50,650	(4,000)	-	46,650
Other current assets	2,810	(15)	-	2,795
Long-term loans receivable	52,810	(505)	-	52,305
	₩ 1,745,826	₩ (86,243)	₩ (1,174)	₩ 1,658,409

¹ Includes the long-term other accounts receivable.

As of June 30, 2005, trade bills negotiated through banks that have not yet matured amount to approximately ₩3,418,617 million, which includes US\$3,275 million (Note 17).

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

7. Assets and Liabilities Denominated in Foreign Currencies

As of June 30, 2005 and December 31, 2004, monetary assets and liabilities denominated in foreign currencies, other than those disclosed in Notes 14 and 15, are as follows:

<i>(in millions)</i>	2005				2004			
	Foreign currency		Korean won Equivalent		Foreign Currency		Korean won equivalent	
Cash and cash equivalents	US\$	163	₩	167,438	US\$	65	₩	67,779
	JP ¥	251		2,325	JP ¥	185		1,877
	EUR	20		25,148	EUR	11		16,072
	Others	-		24,296	Others	-		15,229
			₩	219,207			₩	100,957
Trade accounts receivable	US\$	334	₩	341,906	US\$	275	₩	287,355
	JP ¥	101		936	JP ¥	96		973
	EUR	41		50,871	EUR	16		23,126
	GBP	14		26,567	GBP	-		844
	AUD	179		140,117	AUD	-		84
	Others	-		2,713	Others	-		1,143
				₩	563,110			₩
Other accounts receivable	US\$	96	₩	109,512	US\$	128		133,168
	EUR	8		9,926	EUR	12		17,685
	Others	-		11,915	Others	-		13,993
				₩	131,353			₩
Refundable deposits	JP ¥	58	₩	540	JP ¥	58	₩	587
	US\$	2		2,228	US\$	2		1,913
	Others	-		255	Others	-		371
				₩	3,023			₩
Trade accounts payable	US\$	868		889,261	US\$	609	₩	635,306
	JP ¥	4,449		41,256	JP ¥	12,036		121,816
	EUR	15		18,417	EUR	13		17,916
	Others	-		1,400	Others	-		279
				₩	950,334			₩
Other accounts payable	AUD	7	₩	5,774	AUD	4	₩	2,946
	CAD	1		997	CAD	1		1,114
	EUR	33		41,021	EUR	22		30,704
	JP ¥	2,823		26,181	JP ¥	441		4,467
	US\$	119		122,267	US\$	127		132,399
	Others	-		5,040	Others	-		11,715
				₩	201,280			₩
Accrued expenses	US\$	168	₩	172,023	US\$	36	₩	37,593
	Others	-		144	Others	-		640
				₩	172,167			₩

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

8. Inventories

Inventories as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	2005			2004
	Acquisition cost	Inventory valuation allowance	Carrying value	Carrying value
Merchandise	₩ 27,835	₩ (2,144)	₩ 25,691	₩ 28,213
Finished products	467,104	(31,211)	435,893	608,420
Work-in-process	430,279	-	430,279	313,023
Raw materials	521,240	(14,941)	506,299	589,463
Parts and supplies	87,489	(4,704)	82,785	135,912
	<u>₩1,533,947</u>	<u>₩ (53,000)</u>	<u>₩ 1,480,947</u>	<u>₩ 1,675,031</u>

See Note 12 for inventory insurance.

9. Long-Term Investment Securities

Long-term investment securities as of June 30, 2005 and December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Available-for-sale securities	₩ 49,346	₩ 64,383
Held-to-maturity securities	851	851
	<u>₩ 50,197</u>	<u>₩ 65,234</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Available-for-sale securities as of June 30, 2005 and December 31, 2004, are as follows:

(in millions of Korean won)	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value/Market value	Carrying value	Acquisition cost	Net asset value/Market value	Carrying value
Marketable equity securities							
Nara Mold & Die Co., Ltd.	12.34	₩ 812	₩ 3,936	₩ 3,936	₩ 812	₩ 2,918	₩ 2,918
Tube Media Co., Ltd.	3.02	142	935	935	142	604	604
Odicorp Co., Ltd.	8.83	318	1,340	1,340	318	1,568	1,568
Vodavi Technology Inc. ³	-	-	-	-	2,928	6,761	6,761
Hutchison Telephone Company Limited ⁴	-	-	-	-	3,462	3,622	3,622
ADP Engineering Co., Ltd. ⁵	7.03	75	15,456	15,456	-	-	-
		<u>1,347</u>	<u>21,667</u>	<u>21,667</u>	<u>7,662</u>	<u>15,473</u>	<u>15,473</u>
Non-marketable equity securities							
Domestic companies							
Innopla Co., Ltd.	19.90	245	853	245	245	854	245
Castec Korea Co., Ltd.	5.00	182	766	182	182	859	182
Msoltech ¹	10.00	635	-	-	635	-	-
AL Tech Inc.	8.53	589	247	589	589	272	589
Korea Information Certificate Authority Inc.	9.35	1,852	1,230	1,852	1,852	1,230	1,852
Association of Electronics Environment	36.04	4,698	5,127	4,698	4,698	4,309	4,698
Temco, Inc. ¹	13.04	1,200	-	-	1,200	1,200	1,200
Netgenetech. Co., Ltd.	7.50	176	215	176	176	35	176
Manager Society, Inc.	3.70	200	5	200	200	14	200
Silicon Works	12.00	501	824	501	501	504	501
LG fund for small and medium Enterprises ³	-	-	-	-	2,500	2,435	2,500
TU Media Corp.	4.74	6,500	5,762	6,500	6,500	5,765	6,500
Eonex Technologies, Inc. ⁶	2.14	2,080	2,080	2,080	600	600	600
ADS Technologies Co., Ltd. ⁶	15.00	150	150	150	-	-	-
Others	-	3,579	1,545	1,545	3,654	1,620	1,620
		<u>49,067</u>	<u>24,470</u>	<u>25,472</u>	<u>50,012</u>	<u>25,425</u>	<u>27,617</u>
Overseas companies							
Erlang Technology Inc. ¹	6.90	1,129	-	-	1,129	-	-
Neopoint Inc. ¹	16.62	1,604	-	-	1,604	-	-
E2OPEN.COM ¹	3.64	15,694	-	-	15,694	-	-
COMMIT Incorporated	13.47	4,990	4,990	4,990	4,990	4,990	4,990
Monet Mobile Networks ¹	1.90	1,299	-	-	1,299	-	-
SUNPOWER.INC	10.35	1,257	169	1,257	1,257	231	1,257
Others	-	507	507	507	507	507	507
		<u>49,067</u>	<u>24,470</u>	<u>25,472</u>	<u>50,012</u>	<u>25,425</u>	<u>27,617</u>
Debt securities							
Bonds issued by the government		3	3	3	27	27	27
Convertible bonds issued by NeoDis Co., Ltd.		2,204	2,204	2,204	2,204	2,204	2,204
Commercial papers issued by LG Card Co., Ltd. ²		-	-	-	38,124	19,062	19,062
		<u>2,207</u>	<u>2,207</u>	<u>2,207</u>	<u>40,355</u>	<u>21,293</u>	<u>21,293</u>
		<u>₩ 52,621</u>	<u>₩ 48,344</u>	<u>₩ 49,346</u>	<u>₩ 98,029</u>	<u>₩ 62,191</u>	<u>₩ 64,383</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

- ¹ Carrying value was fully written down due to the negative net book value or bankruptcy of the investee company as of June 30, 2005.
- ² In January 2005, the commercial papers of LG Card Co., Ltd. as of December 31, 2004, were converted into equity securities of LG Card. In May 2005, the Company sold these investment securities and recorded a gain on disposal of investment securities of ₩17,116 million.
- ³ For the six-month period ended June 30, 2005, the investments were reclassified as equity-method investment securities.
- ⁴ For the six-month period ended June 30, 2005, the Company disposed of the investment in Hutchison Telephone Company Limited, resulting in loss from disposal of investment securities of ₩45 million.
- ⁵ For the six-month period ended June 30, 2005, ADP Engineering Co., Ltd. listed its common stock on the KOSDAQ market.
- ⁶ New or additional investments made during the six-month period ended June 30, 2005.

The annual maturities of debt securities classified as available-for-sale securities and held-to-maturity securities as of June 30, 2005 and December 31, 2004, are as follows:

(in millions of Korean won)

Due in	2005		2004	
	Available-for-sale securities	Held-to-maturity securities	Available-for-sale securities	Held-to-maturity securities
Less than one year and one year ¹	₩ 89,501	₩ -	₩ 89,501	₩ -
Over one year through five years	2,207	807	21,293	807
Over five years through ten years	-	44	-	44
	<u>₩ 91,708</u>	<u>₩ 851</u>	<u>₩ 110,794</u>	<u>₩ 851</u>

¹These are classified as short-term investments (Note 5).

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

The details of changes in accumulated gains (losses) on valuation of available-for-sale securities as recorded in capital adjustments for six-month periods ended June 30, 2005 and 2004, are as follows (Note 21):

<i>(in millions of Korean won)</i>	January 1, 2005	Gain (loss)	Disposal	June 30, 2005
Nara Mold & Die Co., Ltd.	₩ 2,107	₩ 1,017	₩ (859)	₩ 2,265
Tube Media Co., Ltd.	462	331	(218)	575
Odicorp Co., Ltd.	1,250	(227)	(281)	742
Vodavi Technology Inc.	3,833	-	(3,833)	-
Hutchison Telephone Co., Ltd	160	-	(160)	-
ADP Engineering Co., Ltd.	-	15,382	(4,230)	11,152
LG Card Co., Ltd.	-	13,804	(13,804)	-
	<u>₩ 7,812</u>	<u>₩ 30,307</u>	<u>₩ (23,385)</u>	<u>₩ 14,734</u>

<i>(in millions of Korean won)</i>	January 1, 2004	Gain (loss)	Disposal	June 30, 2004
KT Corp.	₩ (22,184)	₩ -	₩ (22,184)	₩ -
NARA MOLD & DIE Co., Ltd.	2,187	(295)	-	1,892
Voiceware Co., Ltd.	1,157	(445)	-	712
LG Investment & Securities Co., Ltd.	(75,994)	23,534	(52,460)	-
Vodavi Technology Inc.	3,063	(1,389)	-	1,674
E2OPEN.COM	-	(13,795)	-	(13,795)
Bonds issued by the government	(241)	-	(241)	-
	<u>₩ (92,012)</u>	<u>₩ 7,610</u>	<u>₩ (74,885)</u>	<u>₩ (9,517)</u>

Interest income from investment in securities amounts to ₩2,925 million for the six-month period ended June 30, 2005.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

10. Equity-Method Investments

Equity-method investments as of June 30, 2005 and December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
Domestic companies							
LG Micron Ltd.	36.00	₩68,100	₩124,646	₩109,397	₩68,100	₩120,716	₩111,651
LG Innotek Co., Ltd.	69.80	59,308	150,448	154,468	59,308	148,963	154,651
Hankuk Electric Glass Co., Ltd.	20.00	119,282	135,358	121,948	119,282	140,549	125,082
LG.Philips LCD Co., Ltd.	44.57	726,169	2,546,152	2,368,617	726,169	2,572,987	2,399,076
LG IBM PC Co., Ltd. ⁷	-	-	-	-	11,907	16,689	16,522
Hi Plaza Inc.	100.00	100,511	117,842	107,990	100,511	108,965	99,275
STIC Ventures Co., Ltd.	94.00	28,200	25,675	25,675	28,200	28,264	28,264
Hi Business Logistics ⁴	100.00	8,000	11,646	11,796	4,500	6,115	6,114
LG fund for small and medium Enterprises ^{2,6}	50.00	2,500	2,414	2,500	-	-	-
Overseas companies							
Goldstar Electronics Thailand Co., Ltd. (G.S.T.) ²	49.00	36	36	36	36	36	36
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	19,214	27,692	7,684	22,350	30,823
LG Electronics Austria GmbH (LGEAG) ²	100.00	116	-	116	116	116	116
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)	100.00	3,746	13,950	11,434	3,746	15,508	11,438
LG Electronics Antwerp Logistics N.V. (LGEAL) ^{1,8}	100.00	967	(113)	-	967	1,637	356
LG Electronics Australia Pty, Ltd. (LGEAP) ¹	100.00	1,558	4,384	-	1,558	7,305	-
LG Electronics Argentina S.A. (LGEAR) ³	100.00	7,410	-	-	7,410	-	-
Arcelik-LG Klima Sanayi ve Ticaret A.S. (LGEAT)	50.00	14,718	24,926	21,123	14,718	21,869	20,621
LG Electronics Colombia, Ltda. (LGECEB)	100.00	3,330	11,448	5,942	3,330	5,038	3,786
LG Electronics China Co., Ltd. (LGECH) ¹	100.00	56,154	14,688	-	56,154	22,484	-

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
LG Electronics Canada, Inc. (LGECL)	100.00	13,779	14,705	9,314	13,779	16,562	9,888
LG Electronics Inc. Chile Limitada (LGECL)	100.00	5,856	9,024	7,254	5,856	7,659	6,960
LG Electronics Czech S.R.O. (LGE CZ) ⁸	100.00	6,534	5,333	4,056	6,534	6,993	6,106
LG Electronics Deutschland GmbH (LGEDG) ⁸	100.00	26,938	18,920	7,523	26,938	24,465	9,370
PT LG Electronics Display Devices Indonesia (LGEDI)	100.00	32,085	66,272	50,640	32,085	66,687	48,348
LG Electronics Design Tech, Ltd. (LGEDT) ^{2,3}	100.00	1,002	-	-	1,002	1,002	1,002
LG Electronics Egypt Cairo S.A.E. (LGE EC)	100.00	4,382	1,905	3,188	4,382	1,467	3,032
LG Electronics Egypt S.A.E. (LGE EG)	83.97	2,860	2,190	1,904	2,860	1,603	1,085
LG Electronics Espana S.A. (LGE ES) ^{1,8}	100.00	17,408	271	-	17,408	13,368	-
LG Goldstar France S.A.R.L. (LGE FS) ^{1,8}	100.00	7,139	4,343	-	7,139	952	-
LG Electronics Gulf FZE (LGE GF)	100.00	8,312	6,749	2,893	8,312	7,918	4,522
LG Electronics HK Limited (LGE HK) ⁴	100.00	9,398	10,374	10,301	4,316	4,445	4,445
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGE HN) ⁴	70.00	7,608	6,252	6,175	4,031	3,087	3,037
LG Electronics Hellas S.A. (LGE HS) ⁸	100.00	6,063	6,067	2,081	6,063	6,820	5,402
LG Electronics Huizhou Inc. (LGE HZ)	80.00	1,277	16,166	17,203	1,277	28,405	22,038
LG Electronics India Pvt. Ltd. (LGE IL)	100.00	38,476	142,549	139,437	38,476	120,896	121,544
PT LG Electronics Indonesia (LGE IN)	100.00	29,431	25,755	14,515	29,431	18,560	18,052
LG Electronics Italy S.P.A. (LGE IS) ⁸	100.00	28,170	18,268	5,302	28,170	21,075	8,047
LG Electronics Japan Inc. (LGE JP) ¹	100.00	12,978	(1,000)	-	12,978	1,954	583
Kunshan LGMS Computer Co., Ltd. (LGE KS)	100.00	2,649	1,933	2,093	2,649	3,027	2,649
LG Electronics Mlawa SP.Zo.O. (LGE MA) ⁴	100.00	92,401	92,548	88,595	36,024	48,791	45,869

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
LG Electronics Morocco S.A.R.L. (LGEMC)	100.00	3,352	2,828	1,340	3,352	3,806	1,171
LG Electronics Middle East Co., Ltd. (LGEME) ²	100.00	462	462	462	462	462	462
Goldstar Mobilecomm France SASU (LGEMF) ²	100.00	5,621	5,621	5,621	5,621	5,621	5,621
LG-MECA Electronics Haiphong, Inc. (LGEMH)	70.00	1,690	2,393	1,948	1,690	3,007	2,782
LG Electronics Magyar Kft. (LGEMK) ⁸	100.00	5,575	5,029	2,579	5,575	9,170	3,991
LG Electronics (M) SDN.BHD (LGEML)	100.00	7,869	6,721	6,422	7,869	7,869	7,869
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM) ¹	100.00	31,439	(1,308)	-	31,439	4,928	1,066
LG Electronics Mexico S.A. de C.V. (LGEMS)	100.00	13,575	33,243	30,011	13,575	23,076	21,169
LG MITR Electronics Co., Ltd. (LGEMT) ⁴	100.00	22,838	9,589	3,792	15,925	10,447	6,098
LG Electronics North of England Ltd. (LGENE) ³	100.00	11,229	901	705	11,229	9,981	10,052
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP)	100.00	13,241	10,995	3,882	13,241	(1,822)	5,057
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	70.00	9,367	18,777	12,760	9,367	20,516	16,518
LG Electronics Philippines, Inc. (LGEPH) (formerly LGECM)	100.00	23,524	407	2,296	23,524	1,713	3,000
LG Electronics Polska SP.Zo.O. (LGEPL) ⁸	100.00	9,189	11,630	9,526	4,117	11,217	9,000
Nanjing LG Panda Appliance Co., Ltd. (LGEPN)	70.00	7,596	13,765	10,852	7,596	12,672	11,843
LG Electronics Peru S.A. (LGEPR)	100.00	7,699	5,897	5,047	7,699	3,744	2,784
LG Electronics Panama S.A. (LGEPS)	100.00	2,333	11,417	11,071	2,333	6,144	3,755
LG Electronics Portugal (LGEPT) ⁸	100.00	20,927	12,935	9,683	20,927	20,338	17,528
LG Electronics Qinhuangdao Co., Ltd. (LGEQH)	100.00	3,284	8,524	6,982	3,284	7,160	6,587
LG Electronics RUS, LLC (LGERA) ^{2,4}	100.00	10,621	10,621	10,621	5,411	5,411	5,411
LG Electronics Russia Inc. (LGERI)	95.00	391	11,823	11,823	391	9,785	9,785
LG Electronics Romania S.R.L. (LGERO) ⁸	100.00	7,350	6,559	6,225	7,350	8,427	8,256
LG Electronics S.A. Pty Ltd. (LGESA) ⁴	100.00	13,525	31,622	27,815	3,382	33,045	29,028

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
LG Electronics Service Europe Netherlands B.V. (LGESE) ¹	100.00	10,470	11,907	-	10,470	14,372	-
Shanghai LG Electronics Co., Ltd. (LGESH)	70.00	4,899	10,966	6,151	4,899	9,170	7,704
LG Electronics de Sao Paulo Ltda. (LGESP) ⁴	100.00	79,106	184,414	204,231	28,481	78,801	68,234
LG Electronics Sweden AB (LGESW) ^{1A}	100.00	5,668	2,908	-	5,668	5,780	2,581
LG Electronics Shenyang Inc. (LGESY)	78.87	11,267	23,074	12,300	11,267	16,765	13,474
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	80.00	42,948	132,043	107,839	42,948	109,743	100,046
LG Electronics Thailand Co., Ltd. (LGETH)	100.00	3,407	26,458	27,594	3,407	21,650	21,708
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	100.00	59,205	9,040	10,522	59,205	16,369	27,001
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	100.00	19,846	13,538	12,936	19,846	12,174	10,935
LG Electronics United Kingdom Ltd. (LGEUK) ^{1B}	100.00	34,723	1,343	-	34,723	7,501	-
LG Electronics Ukraine Co., Ltd. (LGEUR) ²	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics U.S.A., Inc. (LGEUS)	100.00	148,109	126,017	63,203	148,109	134,835	108,995
LG Electronics Vietnam Co., Ltd. (LGEVN)	100.00	6,035	8,841	8,014	6,035	9,846	8,546
LG Electronics Wales Ltd. (LGEWA) ^{1B}	100.00	963,757	1,166	-	963,757	149,207	69,650
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	51.00	10,188	11,376	784	10,188	11,067	6,821
Kunshan LGMS Computer Co., Ltd. (LGMSK)	100.00	1,690	1,690	1,690	1,690	1,690	1,690
LG Soft India PVT, Ltd. (LGSI)	100.00	5,084	9,815	11,357	5,084	7,543	9,338
EIC Properties PTE, Ltd.	38.20	9,636	2,093	2,093	9,636	2,198	2,198
LG Infocomm Thailand, Inc. (LGICTH)	60.00	3,246	5,346	3,787	3,246	5,651	4,094
Vietnam Korea Exchange, Ltd. (V.K.X.)	40.00	1,736	1,654	1,647	1,736	2,040	2,064

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

(in millions of Korean won)	Percentage of ownership (%) at June 30, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
LG TOPS ¹	40.00	2,699	930	930	2,699	902	930
Langchao LG (Yantai) Digital Mobile Technology Research & Development Co., Ltd. ²	49.00	824	824	824	824	824	824
LGE (China) R&D Center	100.00	8,201	6,683	6,683	8,201	6,544	6,544
Electromagnetica Goldstar S.R.L. ²	50.00	508	508	508	508	508	508
SLD Telecom Pte. Ltd.	42.74	68,487	48,669	49,139	68,487	51,711	52,279
Triveni Digital Inc. ²	100.00	899	899	899	899	899	899
LG (Yantai) Information & Communication Technology Co., Ltd. ²	100.00	2,720	2,720	2,720	2,720	2,720	2,720
LG Holdings (HK) Ltd.	31.82	53,378	36,439	35,024	53,378	46,437	42,906
Qingdao LG Langchao Digital Communication Co., Ltd.	60.00	8,749	11,376	4,863	8,749	8,215	3,910
LG Electronics RUS-Marketing, LLC (LGERM) ^{2,5}	100.00	204	204	204	-	-	-
Hi Logistics China Company Limited ⁵	100.00	1,294	1,259	1,285	-	-	-
LG Electronics Singapore Pte Ltd (LGESE) ⁵	100.00	7,027	5,446	4,416	-	-	-
Vodavi Technology Inc. ⁶	23.22	6,761	3,064	6,462	-	-	-
		<u>₩3,379,044</u>	<u>₩4,575,540</u>	<u>₩4,111,817</u>	<u>₩3,226,666</u>	<u>₩4,598,247</u>	<u>₩4,096,263</u>

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

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

³ The operations of this subsidiary were suspended as of June 30, 2005.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

- ⁴ For the six month period ended June 30, 2005, the Company purchased additional shares of these subsidiaries.
- ⁵ This subsidiary has just been established during the six month period ended June 30, 2005.
- ⁶ During for the six month period ended June 30, 2005, the investments were reclassified to equity method investment securities.
- ⁷ The Company and IBM Korea Inc. dissolved their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005, the Company absorbed with a portion of the PC division from dissolved joint venture.
- ⁸ The Company will contribute these investment securities as investment in kind to Europe holding company in the 2nd half of 2005.

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

For the six-month period ended June 30, 2005, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005	Addition	Amortization	June 30, 2005
Domestic companies				
LG Micron Ltd.	₩ 2,064	₩ -	₩ (295)	₩ 1,769
LG Innotek Co., Ltd.	378	-	(75)	303
Hi Plaza Inc.	(1,587)	-	344	(1,243)
Hankuk Electric Glass Co., Ltd.	(13,608)	-	1,701	(11,907)
Hi Business Logistics	-	(2,070)	173	(1,897)
	<u>(12,753)</u>	<u>(2,070)</u>	<u>1,848</u>	<u>(12,975)</u>
Overseas companies				
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	8,037	-	(1,340)	6,697
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	2,161	-	(370)	1,791
LG Electronics Wales Ltd. (LGEWA)	(70,377)	-	23,459	(46,918)
Others	16,409	-	(3,475)	12,934
	<u>(43,770)</u>	<u>-</u>	<u>18,274</u>	<u>(25,496)</u>
	<u>₩ (56,523)</u>	<u>₩ (2,070)</u>	<u>₩ 20,122</u>	<u>₩ (38,471)</u>

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

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

For the six-month period ended June 30, 2004, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee were as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Addition	Amortization	June 30, 2004
Domestic companies				
LG Micron Ltd.	₩ 2,653	₩ -	₩ (295)	₩ 2,358
LG Innotek Co., Ltd.	528	-	(75)	453
Hi Plaza Inc.	(2,275)	-	344	(1,931)
Hankuk Electric Glass Co., Ltd.	-	(17,010)	1,701	(15,309)
	<u>906</u>	<u>(17,010)</u>	<u>1,675</u>	<u>(14,429)</u>
Overseas companies				
LG Electronics Mlawa SP. Zo. O. (LGEMA)	(775)	-	388	(387)
LG Electronics Service Europe Netherlands B.V. (LGESE)	(53)	-	26	(27)
LG Electronics Shenyang Inc. (LGESY)	228	-	(76)	152
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECT)	10,716	-	(1,340)	9,376
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	2,901	-	(370)	2,531
LG Electronics Wales Ltd. (LGEWA)	(125,599)	-	25,120	(100,479)
Others	18,169	1,353	(2,736)	16,786
	<u>(94,413)</u>	<u>1,353</u>	<u>21,012</u>	<u>(72,048)</u>
	<u>₩ (93,507)</u>	<u>₩ (15,657)</u>	<u>₩ 22,687</u>	<u>₩(86,477)</u>

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

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

For the six-month period ended June 30, 2005, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Intangible assets	Total
Domestic companies				
LG Micron Ltd.	₩ 65	₩ (5,956)	₩ -	₩ (5,891)
LG Innotek Co., Ltd.	(1,516)	(77)	-	(1,593)
LG.Philips LCD Co., Ltd.	582	(8,052)	19,249	11,779
LG IBM PC Co., Ltd.	124	3	-	127
Hankuk Electric Glass Co., Ltd.	1,734	-	-	1,734
Hi Plaza Inc.	(495)	(10)	-	(505)
Hi Business Logistics	1	-	-	1
	<u>495</u>	<u>(14,092)</u>	<u>19,249</u>	<u>5,652</u>
Overseas companies				
LG Electronics China Co., Ltd. (LGECH)	(217)	(169)	-	(386)
LG Electronics Espana S.A. (LGEES)	810	-	-	810
LG Electronics Huizhou Inc. (LGEHZ)	2,891	(19)	-	2,872
LG Electronics India Pvt. Ltd. (LGEIL)	(1,961)	76	-	(1,885)
PT LG Electronics Indonesia (LGEIN)	169	196	-	365
LG Electronics Italy S.P.A. (LGEIS)	62	-	-	62
LG Electronics Mlawa SP. Zo. O. (LGEMA)	(1,122)	93	-	(1,029)
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	(621)	(314)	-	(935)
LG Electronics Service Europe Netherlands B.V. (LGESE)	6,574	-	-	6,574
LG Electronics Shenyang Inc. (LGESEY)	(1,584)	60	-	(1,524)
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	(6,172)	376	-	(5,796)
LG Electronics U.S.A., Inc. (LGEUS)	(22,633)	302	-	(22,331)
LG Electronics Wales Ltd. (LGEWA)	5,691	(76)	-	5,615
Others	(1,307)	(100)	-	(1,407)
	<u>(19,420)</u>	<u>425</u>	<u>-</u>	<u>(18,995)</u>
	<u>₩ (18,925)</u>	<u>₩ (13,667)</u>	<u>₩ 19,249</u>	<u>₩ (13,343)</u>

On the above table, positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

For the six-month period ended June 30, 2004, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting were as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Intangible assets	Equity securities	Total
Domestic companies					
LG Micron Ltd.	₩ (13,855)	₩ (4,707)	₩ -	₩ -	₩ (18,562)
LG Innotek Co., Ltd.	3,432	(88)	-	-	3,344
LG.Philips LCD Co., Ltd.	(5,319)	(12,344)	19,249	-	1,586
LG IBM PC Co., Ltd.	(277)	(25)	-	-	(302)
Hankuk Electric Glass Co., Ltd.	(2,640)	-	-	-	(2,640)
Hi Plaza Inc.	(243)	(2)	-	-	(245)
Hi Business Logistics	(19)	-	-	-	(19)
	<u>(18,921)</u>	<u>(17,166)</u>	<u>19,249</u>	<u>-</u>	<u>(16,838)</u>
Overseas companies					
LG Electronics China Co., Ltd. (LGECH)	(8,949)	(718)	-	-	(9,667)
LG Electronics Espana S.A. (LGEES)	(11,157)	-	-	-	(11,157)
LG Electronics Huizhou Inc. (LGEHZ)	(5,341)	-	-	-	(5,341)
LG Electronics India Pvt. Ltd. (LGEIL)	8	(205)	-	-	(197)
PT LG Electronics Indonesia (LGEIN)	315	(300)	-	-	15
LG Electronics Italy S.P.A. (LGEIS)	(15,059)	-	-	-	(15,059)
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	(747)	(41)	-	-	(788)
LG Electronics Service Europe Netherlands B.V. (LGESE)	5,809	-	-	-	5,809
LG Electronics Shenyang Inc. (LGESY)	2,451	(314)	-	-	2,137
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	1,539	33	-	-	1,572
LG Electronics U.S.A., Inc. (LGEUS)	(9,087)	(1,082)	-	(38,336)	(48,505)
LG Electronics Wales Ltd. (LGEWA)	1,043	(196)	-	-	847
Others	(57,012)	(1,525)	-	-	(58,537)
	<u>(96,187)</u>	<u>(4,348)</u>	<u>-</u>	<u>(38,336)</u>	<u>(138,871)</u>
	<u>₩(115,108)</u>	<u>₩(21,514)</u>	<u>₩19,249</u>	<u>₩ (38,336)</u>	<u>₩ (155,709)</u>

On the above table, positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Changes in investments in subsidiaries and affiliates accounted for using the equity method for the six-month period ended June 30, 2005, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005	Equity in earnings (losses) of affiliates, net	Others	June 30, 2005
Domestic companies				
LG Micron Ltd.	₩ 111,651	₩ 563	₩ (2,817)	₩ 109,397
LG Innotek Co., Ltd.	154,651	4,288	(4,471)	154,468
Hankuk Electric Glass Co., Ltd.	125,082	1,335	(4,469)	121,948
LG.Philips LCD Co., Ltd.	2,399,076	(20,457)	(10,002)	2,368,617
LG IBM PC Co., Ltd.	16,522	(2,489)	(14,033)	-
Hi Plaza Inc.	99,275	8,715	-	107,990
STIC Ventures Co., Ltd.	28,264	(3,223)	634	25,675
Hi Business Logistics	6,114	2,217	3,465	11,796
	<u>2,940,635</u>	<u>(9,051)</u>	<u>(31,693)</u>	<u>2,899,891</u>
Overseas companies				
LG Electronics Huizhou Inc. (LGEHZ)	22,038	(3,439)	(1,396)	17,203
LG Electronics India Pvt. Ltd. (LGEIL)	121,544	19,546	(1,653)	139,437
PT LG Electronics Display Device Indonesia (LGEDI)	48,348	3,953	(1,661)	50,640
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	16,518	(3,386)	(372)	12,760
LG Electronics Shenyang Inc. (LGESY)	13,474	(274)	(900)	12,300
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	100,047	9,586	(1,794)	107,839
LG Electronics U.S.A., Inc. (LGEUS)	108,996	(43,133)	(2,661)	63,202
Taizhou LG-Chunlan Home Appliances Co., Ltd. (LGETR)	27,001	(15,895)	(584)	10,522
LG Electronics Wales Ltd. (LGEWA)	69,650	(57,551)	(12,099)	-
LG Electronics Mlawa SP.Zo.O. (LGEMA)	45,869	(2,456)	45,182	88,595
LG Electronics de Sao Paulo Ltda. (LGESP)	68,234	34,809	101,188	204,231
SLD Telecom Pte. Ltd.	52,279	(2,136)	(1,004)	49,139
LG Holdings (HK) Ltd.	42,906	(6,309)	(1,573)	35,024
LG Electronics Mexico S.A. de C.V. (LGEMS)	21,169	8,067	775	30,011
Others	397,555	(13,848)	7,316	391,023
	<u>1,155,628</u>	<u>(72,466)</u>	<u>128,764</u>	<u>1,211,926</u>
	<u>₩4,096,263</u>	<u>₩ (81,517)</u>	<u>₩ 97,071</u>	<u>₩4,111,817</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Changes in investments in subsidiaries and affiliates accounted for using the equity method for the six-month period ended June 30, 2004, were as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Equity in earnings (losses) of affiliates, net	Others	June 30, 2004
Domestic companies				
LG Micron Ltd.	₩ 86,070	₩ (6,692)	₩ (2,453)	₩ 76,925
LG Sports Ltd.	1,204	34	(1,238)	-
LG Innotek Co., Ltd.	137,039	7,785	(386)	144,438
Hankuk Electric Glass Co., Ltd.	-	4,497	118,817	123,314
LG.Philips LCD Co., Ltd.	1,259,904	666,164	6,744	1,932,812
LG IBM PC Co., Ltd.	14,548	2,582	(4,402)	12,728
Hi Plaza Inc.	60,806	(3,735)	-	57,071
STIC Ventures Co., Ltd.	28,200	19,882	(19,353)	28,729
Hi Logistics System (HLS)	4,500	918	-	5,418
	<u>1,592,271</u>	<u>691,435</u>	<u>97,729</u>	<u>2,381,435</u>
Overseas companies				
LG Electronics Alabama, Inc. (LGEAI)	53,116	11,005	(64,121)	-
LG Electronics Huizhou Inc. (LGEHZ)	19,943	(5,229)	(2,123)	12,591
LG Electronics India Pvt. Ltd. (LGEIL)	113,063	15,438	(9,011)	119,490
PT LG Electronics Indonesia (LGEIN)	23,867	(334)	(4,472)	19,061
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	15,860	364	(539)	15,685
LG Electronics Service Europe Netherlands B.V. (LGESE)	20,203	25,702	(2,700)	43,205
LG Electronics Shenyang Inc. (LGESY)	11,831	3,746	(1,498)	14,079
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	106,851	7,114	(4,356)	109,609
LG Electronics U.S.A., Inc. (LGEUS)	42,594	(54,908)	135,843	123,529
Others	622,280	(25,930)	(3,254)	593,096
	<u>1,029,608</u>	<u>(23,032)</u>	<u>43,769</u>	<u>1,050,345</u>
	<u>₩2,621,879</u>	<u>₩ 668,403</u>	<u>₩ 141,498</u>	<u>₩ 3,431,780</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

A summary of financial information of major equity-method investees as of June 30, 2005 and for the six-month period ended June 30, 2005, is as follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Net assets	Sales	Net income(loss)
LG.Philips LCD Co., Ltd.	₩11,096,274	₩5,383,837	₩5,712,437	₩3,798,846	₩ (37,764)
LG Innotek Co., Ltd.	406,624	191,085	215,539	441,526	9,492
Hi Plaza Inc.	247,381	129,539	117,842	300,187	8,948
LG Micron Ltd.	773,948	427,670	346,278	351,976	18,747
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	670,762	521,038	149,724	789,615	21,975
LG Electronics India Pvt. Ltd. (LGEIL)	453,315	310,766	142,549	730,258	22,272

As of June 30, 2005, the market values of marketable equity-method investments are as follows:

	Number of shares owned	Market price per share (in won)	Market value (in millions)
Hankuk Electric Glass Co., Ltd.	1,614,675	₩ 44,800	₩ 72,337
LG.Philips LCD Co., Ltd.	145,000,000	48,100	6,974,500
LG Micron Ltd.	2,699,702	49,100	132,555
Vodabi Technology Inc.	862,500	5,839	5,036

The changes in the respective accumulated losses of equity method investees from which the application of the equity method of accounting has been suspended due to their accumulated losses for the six-month period ended June 30, 2005 are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005		June 30, 2005	
	Accumulated losses	Increase (Decrease)	Accumulated losses	Accumulated capital adjustment
LG Electronics Australia PTY., Ltd. (LGEAP)	₩ 4,141	₩ 1,121	₩ 5,262	₩ (349)
LG Electronics China Co., Ltd. (LGECH)	18,397	14,251	32,648	(3,979)
LG Goldstar France S.A.R.L (LGEFS)	1,040	67	1,107	(383)
LE Electronics Espana S.A. (LGEES)	4,138	(2,907)	1,231	(1,371)
LG Electronics Monterrey Mexico S.A de C.V. (LGEMM)	-	5,097	5,097	(52)
LG Electronics Service Europe Netherland B.A (LGESE)	22,565	(16,968)	5,597	(2,127)
LG Electronics U.K. Ltd. (LGEUK)	3,990	27	4,017	(395)
LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS)	9,874	(9,874)	-	-
Others	-	2,324	2,324	(50,201)
	<u>₩ 64,145</u>	<u>₩ (6,862)</u>	<u>₩ 57,283</u>	<u>₩ (58,857)</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

For the six-month period ended June 30, 2005, the following adjustments are made on the equity-method investees which reconcile the differences in accounting policies between the Company and equity-method investees:

<i>(in millions of Korean won)</i>	Adjustment	Amount
LG.Philips LCD Co., Ltd.	Adjustment capitalized interest expense to expense as incurred	₩ 12,921
LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred	999
Subsidiary of LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred	960

11. Property, Plant and Equipment

Changes in property, plant and equipment for the six-month period ended June 30, 2005, are as follows:

<i>(in millions of Korean won)</i>	Balance at January 1, 2005	Acquisitions and capital expenditure	Transfer-in (out) ¹	Disposals	Depreciation	Balance at June 30, 2005	Accumulated depreciation at June 30, 2005
Land	₩ 700,652	₩ 21,144	₩ 76,844	₩ (420)	₩ -	₩ 798,220	₩ -
Buildings	1,115,424	52,234	15,863	(5,492)	(16,683)	1,161,346	198,477
Structures	73,512	16,267	2,135	(326)	(2,924)	88,664	39,708
Machinery and equipment	754,610	38,654	56,874	(11,908)	(114,931)	723,299	814,448
Tools	425,290	57,297	3,893	(5,987)	(157,808)	322,685	442,818
Furniture and fixtures	230,695	51,282	2,117	(3,817)	(46,488)	233,789	362,262
Vehicles	7,413	1,481	-	(83)	(1,353)	7,458	10,679
Standing timber	4,482	-	-	(107)	-	4,375	-
Construction-in-progress	309,303	389,458	(94,299)	-	-	604,462	-
Machinery-in-transit	8,168	118,375	(61,062)	-	-	65,481	-
Total	₩ 3,629,549	₩ 746,192	₩ 2,365	₩ (28,140)	₩ (340,187)	₩ 4,009,779	₩ 1,868,392

¹ Includes the amounts resulting from the absorption of a portion of the PC division of LG IBM PC Co., Ltd. and the amounts related to the accrued severance benefits of personnel involved in construction.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Changes in property, plant and equipment for the six-month period ended June 30, 2004, were as follows:

<i>(in millions of Korean won)</i>	Balance at January 1, 2004	Acquisitions and capital expenditure	Transfer-in (out)	Disposals	Depreciation	Balance at June 30, 2004	Accumulated depreciation at June 30, 2004
Land	₩ 703,327	₩ 3	₩ -	₩ (186)	₩ -	₩ 703,144	₩ -
Buildings	905,935	1,820	124,229	(2,392)	(13,854)	1,015,738	170,992
Structures	65,577	7,839	798	(518)	(2,393)	71,303	34,482
Machinery and equipment	634,708	16,699	246,738	(10,103)	(97,573)	790,469	653,484
Tools	399,837	88,765	24,600	(63,944)	(60,513)	388,745	273,724
Furniture and fixtures	207,633	43,741	1,531	(3,471)	(40,300)	209,134	328,410
Vehicles	8,088	2,851	929	(2,593)	(1,380)	7,895	11,177
Standing timber	4,356	4	-	(8)	-	4,352	-
Construction-in-progress	184,926	369,916	(331,829)	-	-	223,013	-
Machinery-in-transit	8,333	69,925	(66,996)	-	-	11,262	-
Total	₩3,122,720	₩ 601,563	₩ -	₩ (83,215)	₩(216,013)	₩3,425,055	₩1,472,269

As of June 30, 2005, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩847,203 million (December 31, 2004: ₩770,545 million).

A substantial portion of property, plant and equipment as of June 30, 2005, is pledged as collateral for long-term debts up to a maximum of approximately ₩814,716 million. The said amount includes the equivalent of US\$99 million, JP ¥ 150 million and EUR360 million (Note 15).

12. Insured Assets

As of June 30, 2005, inventories, and property, plant and equipment, excluding land and certain construction-in-progress, are insured against fire and other casualty losses up to approximately ₩6,433,857 million. In addition, the Company is insured against business interruption losses as well as losses arising from the transportation of goods up to approximately ₩5,214,172 million and ₩279,365 million, respectively.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

13. Intangible Assets

Changes in intangible assets for the six-month period ended June 30, 2005, are as follows:

<i>(in millions of Korean won)</i>	Goodwill¹	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2005	₩ 215,974	₩ 278,825	₩ 61,804	₩ 78,929	₩ 635,532
Additions	3,410	10,406	5,254	9,858	28,928
Disposals	-	-	-	(1)	(1)
Amortization	(20,101)	(39,388)	(19,610)	(15,594)	(94,693)
Balance as of June 30, 2005	<u>₩ 199,283</u>	<u>₩ 249,843</u>	<u>₩ 47,448</u>	<u>₩ 73,192</u>	<u>₩ 569,766</u>
Accumulated amortization as of June 30, 2005	<u>₩ 202,430</u>	<u>₩ 411,391</u>	<u>₩ 226,625</u>	<u>₩ 107,131</u>	<u>₩ 947,577</u>

¹ Includes goodwill of ₩2,995 million arising from the absorption of a portion of PC division of LG IBM PC Co., Ltd.

Changes in intangible assets for the six-month period ended June 30, 2004, were as follows:

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2004	₩256,102	₩381,139	₩115,571	₩83,488	₩836,300
Additions	3,666	5,955	-	10,373	19,994
Disposals	(48)	(230)	(2)	(52)	(332)
Amortization	(20,100)	(42,749)	(26,853)	(13,948)	(103,650)
Balance as of June 30, 2004	<u>₩239,620</u>	<u>₩344,115</u>	<u>₩88,716</u>	<u>₩79,861</u>	<u>₩752,312</u>
Accumulated amortization as of June 30, 2004	<u>₩171,634</u>	<u>₩348,992</u>	<u>₩266,319</u>	<u>₩82,778</u>	<u>₩869,723</u>

Amortization of intangible assets presented under manufacturing costs, and selling and administrative expenses for the six-month periods ended June 30, 2005 and 2004, consists of the following:

<i>(in millions of Korean won)</i>	2005	2004
Manufacturing costs	₩ 10,002	₩ 17,446
Selling and administrative expenses	84,691	86,204
	<u>₩ 94,693</u>	<u>₩ 103,650</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

The carrying value of significant intangible assets as of June 30, 2005 and December 31, 2004, consists of the following:

<i>(in millions of Korean won)</i>	2005	2004	Remaining years for amortization
Goodwill	₩ 195,326	₩ 215,017	Six years
Industrial property rights	167,053	197,067	One through six years

As a result of LG Electronics Investment Ltd. (formerly LG Electronics Inc., now merged into LG Corp.)'s merger with LG Information & Communications, Ltd. in September 2000, former LG Electronics Inc. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to the Company. Related amortization expenses of goodwill and industrial property rights approximate ₩19,691 million and ₩30,014 million, respectively, for the six-month period ended June 30, 2005.

Research and development costs incurred for the six-month period ended June 30, 2005, amounted to ₩633,361 million (2004: ₩606,286 million) all of which were charged to current operations as ordinary development costs and research costs.

14. Short-Term Borrowings and Current Maturities of Long-Term Debts

Short-term borrowings as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at June 30, 2005	2005	2004
General term loans	-	₩ -	₩ 12,000
Commercial papers	-	-	114,500
Foreign currency loans	0.35 ~ 4.64	99,437	83,390
		<u>₩ 99,437</u>	<u>₩ 209,890</u>

Current maturities of long-term debts as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	2005	2004
Debentures	₩ 1,288,440	₩ 649,140
Less : Discount on debentures	(5,905)	(2,357)
	<u>1,282,535</u>	<u>646,783</u>
Add : Current maturities of long-term debts	6,146	-
	<u>₩ 1,288,681</u>	<u>₩ 646,783</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

15. Debentures, Convertible Bonds and Long-Term Debts

Debentures and convertible bonds as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions)</i>	Annual interest rate (%) at June 30, 2005	2005	2004
Debentures			
Private, non-guaranteed payable through 2006	5.70 ~ 7.65	₩ 126,000	₩ 126,000
Public, non-guaranteed payable through 2009	4.25 ~ 7.97	2,070,000	2,070,000
Floating rate notes of US \$ 831 million (2004:US \$431 million) , payable through 2006	6M LIBOR+0.5 ~ 1.25, 3M LIBOR+1.9, 5.0	851,276	449,878
		<u>3,047,276</u>	<u>2,645,878</u>
Convertible Bonds			
Zero coupon rate convertible bonds of US\$ 287 million (2004 : US\$ 287.5 million), payable through 2006	-	339,205	339,796
Zero coupon rate convertible bonds of US\$ 250 million (2004: US\$ 250 million), payable through 2007	-	296,975	296,975
		<u>636,180</u>	<u>636,771</u>
		3,683,456	3,282,649
Less: Current maturities		(1,288,440)	(649,140)
Discount on debentures		(19,311)	(27,477)
Conversion rights adjustment		(38,679)	(49,508)
Add : Premium on conversion rights		37,092	37,092
		<u>₩ 2,374,118</u>	<u>₩ 2,593,616</u>

The Company issued foreign currency convertible bonds in the Luxembourg Stock Exchange on August 11, 2003. The terms and conditions of the issuance are as follows:

- Type of bonds: Public convertible bond
- Total face value of bonds: US\$287.5 million (fixed exchange rate of ₩1,179.2 : US\$1)
- Date of issuance: August 11, 2003
- Terms and conditions for issuance of bonds
 - Coupon rate: 0%
 - Maturity: August 11, 2006
 - Call option: The Company holds the right to redeem the bonds at face value on or at any time after August 12, 2005, provided that the market value per share of common stock remains at least 115% of the conversion price for at least 20 consecutive trading days during the 30-day trading period ending on the redemption date.
 - Put option: The bondholder holds the right to exercise a put option, in which the bondholder may require the Company to redeem the bonds at face value on the day after 18 months from the date of issuance.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

- Terms and conditions for conversion
 - Type of stock to be issued: registered common stock
 - Number of shares convertible: 4,920,464 shares
 - Conversion price: ₩68,900 per share
 - Conversion period: September 12, 2003 through July 28, 2006

During the six-month period ended June 30, 2005, the foreign currency convertible bonds amounting to ₩591 million were converted to 8,557 shares of common stock. the 4,911,907 shares of common stock remain unconverted at June 30, 2005 (Note 18).

The Company issued foreign currency convertible bonds to Lehman Brothers Commercial Corporation on May 17, 2004. The terms and conditions of issuance are as follows:

- Type of bonds: Private convertible bond
- Total face value of bonds: US\$250 million (fixed exchange rate of ₩1,181.5 : US\$1)
- Date of issuance: May 17, 2004
- Terms and conditions for issuance of bonds
 - Coupon rate: 0% , Effective interest rate to maturity: 3.96%
 - Maturity: May 17, 2007
 - The Company redeems the bonds at 112.49% of face value in a lump sum on the date of maturity.
 - Call option: The Company holds the right to redeem the bonds at 106.06% of face value any time between May 18, 2006 and 60 days before maturity, provided that the market value per share of common stock remains at least 115% of the conversion price for at least 20 consecutive trading days, ending on the date on which redemption notice is given.
 - Put option: The bondholder holds the right to exercise a put option, in which the bondholder may require the Company to redeem the bonds at 106.06% of face value on the day after 18 months from the date of issuance.
- Terms and conditions for conversion
 - Type of stock to be issued: registered common stock
 - Number of shares convertible: 3,049,221 shares
 - Conversion price: ₩96,869 per share. The conversion price was adjusted upwards from ₩91,840 to ₩96,869, because the average closing price of the common shares of the Company during the 20 consecutive Korea Exchange business days preceding and including the second Korea Exchange business day prior to the day falling six months after the issue date is above ₩ 65,600 per share.
 - Conversion period: May 18, 2005 through May 7, 2007

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Long-term debts as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions)</i>	Annual interest rate (%) at June 30, 2005	2005	2004
Foreign currency loans¹			
Kookmin Bank	6M LIBOR + 1.25	₩ 326,783	19,832
Hong Kong and Shanghai Banking Corp.	3M LIBOR + 1.45	30,732	31,314
The Korea Development Bank	3M EULIBOR + 1.75, 3M LIBOR + 1.56	348,283	204,195
The Export-Import Bank of Korea	6M LIBOR + 1.54	30,732	31,314
		<u>736,530</u>	<u>286,655</u>
Less: Current maturities		<u>(6,146)</u>	<u>-</u>
		<u>₩ 730,384</u>	<u>₩ 286,655</u>

¹Representing US \$ 379 million and EUR 281 million (2004: US \$ 79 million and EUR 144 million).

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

The maturities of long-term debts outstanding as of June 30, 2005, are as follows:

(in millions of Korean won)

For the twelve-month period ending June 30,	Debentures and Convertible bonds	Long-term debts	Total
2007	₩ 1,540,376	₩ 130,495	₩ 1,670,871
2008	-	445,951	445,951
2009	90,000	126,338	216,338
2010	764,640	27,600	792,240
	<u>₩ 2,395,016</u>	<u>₩ 730,384</u>	<u>₩ 3,125,400</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

16. Accrued Severance Benefits

Changes in accrued severance benefits for the six-month periods ended June 30, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Beginning balance	₩ 619,827	₩ 555,362
Severance payments	(104,749)	(68,810)
Transferred from affiliated companies, net	822	83
Transferred from construction-in-progress ¹	2,039	-
Provisions	123,088	131,442
	<u>641,027</u>	<u>618,077</u>
Severance insurance deposit	(347,877)	(333,597)
Contributions to the National Pension Fund	(14,302)	(17,609)
	<u>₩ 278,848</u>	<u>₩ 266,871</u>

¹ Includes the amount from the absorption of a portion of the PC division of LG IBM PC Co., Ltd.

The severance benefits are funded at approximately 54% (2004: 53%) as of June 30, 2005 through employee severance insurance plans with Kyobo Life Insurance Co., Ltd. and other life insurance companies. The severance insurance deposits, which are amounts funded under employee severance insurance plans, are presented as a deduction from accrued severance benefits.

17. Commitments and Contingencies

As of June 30, 2005, the Company provided several notes to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of June 30, 2005, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of June 30, 2005, the Company has bank overdraft facility agreements with various banks amounting to ₩560,500 million.

As of June 30, 2005, the Company has sales agreements for export trade accounts receivable with various banks amounting to ₩5,592,200 million. The Company has corporate electronic settlement services contracts with Hana Bank for the collection of its accounts receivable amounting to ₩150,000 million (Note 6).

As of June 30, 2005, the Company has corporate electronic settlement services contracts with various banks for payment of its trade accounts payable amounting to ₩1,140,000 million.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

As of June 30, 2005, the Company has sales contracts with several companies, the undelivered portions of which amounted to approximately ₩8,780 million for LG TeleCom, Ltd. and ₩88,166 million for Public Telecommunication Corporation in Yemen and others.

The Company is contingently liable for guarantees approximating ₩1,832,944 million, including US\$1,187 million, on the indebtedness of its subsidiaries and affiliates as follows:

(in millions of Korean won)

LG Electronics Wales Ltd. (LGEWA)	₩	118,869
PT LG Electronics Display Devices Indonesia (LGEDI)		203,856
LG Electronics da Amazonia Ltda. (LGEAZ)		71,708
LG Electronics Gulf FZE (LGEGF)		33,805
PT LG Electronics Indonesia (LGEIN)		53,781
LG Electronics Japan Inc. (LGEJP)		53,753
LG Electronics Mexico S.A. de C.V. (LGEMS)		114,312
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)		58,731
LG Electronics Service Europe Netherlands B.A. (LGESE)		145,541
LG Electronics de Sao Paulo Ltda. (LGESP)		20,488
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)		113,324
LG Electronics U.S.A., Inc. (LGEUS)		67,610
LG.Philips Displays Holding B.V.		51,220
LG Electronics Thailand Co., Ltd. (LGETH)		85,256
LG Electronics Mlawa SP.Zo.O. (LGEMA)		83,079
Others		557,611
	₩	<u>1,832,944</u>

In order to reduce the impact of changes in exchange rates on future cash flows, the Company has entered into foreign currency forward contracts. As of June 30, 2005, the Company has outstanding forward contracts with ABN-AMRO and others to sell US dollars amounting to US\$238 million at contract exchange rates of ₩1,000.83 : US\$1 ~ ₩1,016.40 : US\$1 from July to October 2005.

As of June 30, 2005, the Company has outstanding forward contracts with Societe General Bank and others for selling euro and buying US dollars amounting to €60 million at contract exchange rates of €1.2036 : US\$1 ~ €1.3051 : US\$1, with contract due dates of July through September 2005.

As of June 30, 2005, the Company has outstanding forward contracts with UFJ Bank and others to sell US dollars and buy Japanese yen amounting to US\$65 million at contract exchange rates of ¥104.13 : US\$1 ~ ¥108.51 : US\$1 from July to October 2005.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩3,357 million and ₩9,100 million, respectively, were charged to current operations for the six-month period ended June 30, 2005.

In order to reduce the impact of changes in exchange rates, the Company has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩349 million and ₩1,299 million, respectively, were recorded to current operations for the six-month period ended June 30, 2005.

A summary of the terms of outstanding currency option contracts as of June 30, 2005, is as follows:

Option type	Amount (in millions)	Exercise price	Contract due date
Put	US\$270	₩970.0/US\$1.00 ~ ₩1,042.0/US\$1.00	July 7, 2005 through December 28, 2005
Call	US\$390	₩1,013.0/US\$1.00 ~ ₩1,052.2/US\$1.00	July 7, 2005 through December 28, 2005

In order to reduce the impact of changes in interest rates and exchange rates, the Company has also entered into a cross currency swap contract. An unrealized valuation gain and loss amounting to ₩508 million and ₩4,554 million, respectively, were recorded to current operations for the six-month period ended June 30, 2005.

A summary of the terms of the outstanding cross currency swap contracts as of June 30, 2005, is as follows:

(in millions)	Transaction amount		Annual interest rate (%)		Maturity
	Disbursement	Receipts	Receipts	Disbursement	
Standard Chartered Bank	₩110,000	US\$93	4.50%	3M LIBOR + 0.79%	November 7, 2005
Barclays Bank	117,150	100	5.00%	3M LIBOR + 1.17%	February 26, 2007
JP Morgan Chase and others	US\$300	€300	5.00%	3.70%	June 17, 2010

A summary of the terms of the outstanding cross interest rates swap contracts as of June 30, 2005, is as follows:

(in millions)	Transaction amount	Annual interest rate (%)		Maturity
		Receipts	Disbursement	
CSFB	US\$100	5.00%-Contingent Spread	4.00%	June 17, 2010

As a result of the above derivatives contracts, a realized gain of ₩18,736 million and a realized loss of ₩5,096 million were recorded as a non-operating income and expense, respectively, for the six-month period ended June 30, 2005.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

As of June 30, 2005, the Company is named as a defendant in legal actions which were brought against the Company by Mahmood Saleh Abbar Co. in Saudi Arabia and AVS Corporation in Canada. In addition, the Company is named as either the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The aggregate amounts of domestic claims as the defendant and plaintiff amounted to approximately ₩5,321 million as of June 30, 2005. 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.

18. Capital Stock

Capital stock as of June 30, 2005 and December 31, 2004, are as follows:

	Par value per share	2005		2004	
		Number of shares issued	Millions of Korean won	Number of shares issued	Millions of Korean won
Common stock	₩ 5,000	139,737,654	₩ 698,688	139,606,263	₩ 698,031
Preferred stock ¹	5,000	17,185,992	85,930	17,185,992	85,930
		<u>156,923,646</u>	<u>₩ 784,618</u>	<u>156,792,255</u>	<u>₩ 783,961</u>

As of June 30, 2005, the number of shares authorized is 600 million shares.

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

For the six-month period ended June 30, 2005, changes in capital stock and capital surplus are as follows:

Date	Description	Common stock	Preferred stock	Capital Surplus
Balance, January 1, 2005		₩ 698,031	₩ 85,930	₩1,876,153
January 4, 2005	Issuance of stock	614	-	7,272
March 23, 2005	Conversion of convertible bonds	43	-	555
Balance, June 30, 2005		<u>₩ 698,688</u>	<u>₩ 85,930</u>	<u>₩1,883,980</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

19. Capital Surplus

As a result of the spin-off on April 1, 2002, ₩1,876,153 million was recorded as capital surplus representing the difference between net assets transferred from LG Electronics Investment Ltd. of ₩2,815,707 million, net of capital stock of ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. of ₩155,593 million. In addition, for the six-month period ended June 30, 2005, ₩7,827 million was recorded as a capital surplus due to issuance of stock and conversion of convertible bonds.

As a result of the issuance of foreign currency convertible bonds in August 2003 and May 2004, a premium for conversion rights of ₩21,553 million, net of tax was recorded as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. In addition, as a result of disposal of treasury stock, gains on disposal of treasury stock of ₩2,183 million were recorded as a capital surplus.

20. Retained Earnings

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

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

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

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

21. Capital Adjustments

Capital adjustments as of June 30, 2005 and December 31, 2004, consist of the following:

<i>(in millions of Korean won)</i>	2005	2004
Treasury stock	₩ (44,893)	₩ (46,657)
Increase resulting from equity-method investments	315,289	299,877
Decrease resulting from equity method investments	(95,376)	-
Gain on valuation of available-for-sale securities	14,734	7,812
Others	(46,157)	-
	<u>₩ 143,597</u>	<u>₩ 261,032</u>

The Company has retained treasury stocks consisting of 763,145 shares (2004 : 793,208 shares) of common stock and 4,680 shares (2004 : 4,680 shares) of preferred stock as of June 30, 2005. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell them in the future.

22. Stock Options

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

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

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

Compensation expense related to stock options was not recorded for the six-month period ended June 30, 2005, because the market price of the Company's stock is lower than the exercise price of the options as of June 30, 2005.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

23. Income Taxes

Income tax expense for the six-month periods ended June 30, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Current income taxes	₩ 87,654	₩ 141,206
Deferred income taxes from temporary differences	89,150	186,137
Deferred income taxes from tax credit	(11,462)	-
Deferred income taxes added to shareholders' equity	(106,766)	(751)
Income tax expense (benefit)	<u>₩ 58,576</u>	<u>₩ 326,592</u>

The deferred income tax liabilities added to shareholders' equity as of June 30, 2005 and 2004, are as follows :

<i>(in millions of Korean won)</i>	2005	2004
Deferred income tax effect in shareholders' equity		
Gain on valuation of available-for-sale securities and others	₩ (55,928)	₩ -
Others	(50,738)	-
	<u>(106,666)</u>	<u>-</u>
Current income tax effect in shareholders' equity		
Gain on disposal of treasury stock	(100)	(751)
Income tax benefit	<u>₩ (106,766)</u>	<u>₩ (751)</u>

The reconciliations between income before income taxes and taxable income for the six-month periods ended June 30, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Income before income taxes	₩ 292,361	₩ 1,404,756
Add (deduct) :		
Temporary differences	224,416	(715,273)
Permanent differences	(13,157)	(30,693)
Taxable income	<u>₩ 503,620</u>	<u>₩ 658,790</u>

There is a difference between current income tax amount calculated based on above taxable income and actual current income tax amount due to tax adjustments such as tax credit for temporary investments.

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

The income tax effects of temporary differences comprising the deferred income tax assets (liabilities) as of June 30, 2005 and December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Depreciation	₩ (53,030)	₩ (42,943)
Allowance for doubtful accounts	21,131	21,658
Product warranty	45,264	40,056
Amortization of intangible assets	(6,865)	(10,104)
Equity-method investment securities	(142,312)	(156,360)
Accrued expenses	130,260	108,978
Others	39,934	55,581
	<u>34,382</u>	<u>16,866</u>
Deferred income tax liabilities added to shareholders' equity	<u>(106,666)</u>	<u>-</u>
Tax credit carried forward	<u>99,361</u>	<u>87,899</u>
Deferred income tax assets, net	<u>₩ 27,077</u>	<u>₩ 104,765</u>

As of June 30, 2004, deferred income tax assets were computed by applying the tax rate of 27.5% for the temporary differences expected to be realized in fiscal years beginning January 1, 2005 and thereafter, except for 29.7% for certain temporary differences expected to be filed as revision of the prior years' tax return in 2005.

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to realize such assets, the assets are reduced to its estimated net realizable value. As of June 30, 2005, deferred income tax assets resulting from equity-method investment securities are not recorded because the Company's ability to realize those deferred income tax assets is uncertain.

As of June 30, 2005, current portion of deferred income tax assets and liabilities amount to ₩166,522 million and ₩333,044 million, respectively, and non-current portion of deferred income tax assets and liabilities amount to ₩132,140 million and ₩271,584 million, respectively.

As a result of tax adjustments, effective tax rate of the Company for the six-month period ended June 30, 2005, is approximately 20% (2004: 23%).

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

24. Earnings Per Share

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

Basic earnings per share for the three-month and six-month periods ended June 30, 2005 and 2004, are calculated as follows:

	2005		2004	
	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2004	Six-month period ended June 30, 2004
<i>(in millions of Korean won, except per share amounts)</i>				
Net income as reported on the statement of income	₩ 150,580	₩ 233,785	₩ 493,461	₩ 1,078,164
Less: Preferred stock dividends	(6,640)	(13,206)	(5,553)	(11,107)
Additional income available for dividends allocated to preferred stock	(10,119)	(12,896)	(48,987)	(108,023)
Net income allocated to common stock	133,821	207,683	438,921	959,034
Weighted-average number of common shares outstanding	138,971,205	138,955,864	139,165,243	139,222,663
Basic earnings per share (in won)	₩ 963	₩ 1,495	₩ 3,154	₩ 6,888

Basic earnings per share for the year ended December 31, 2004, was ₩9,890.

Basic ordinary income per share for the six-month periods ended June 30, 2005 and 2004, is identical to the basic earnings per share for the six-month periods ended June 30, 2005 and 2004, since there was no extraordinary gain or loss.

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

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Diluted earnings per share for the three-month and six-month periods ended June 30, 2005 and 2004, are calculated as follows:

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

	2005		2004	
	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2004	Six-month period ended June 30, 2004
Net income allocated to common stock	₩ 133,821	₩ 207,683	₩ 438,921	₩ 959,034
Add: Interest expense on convertible bonds, net of tax ¹	1,465	2,862	2,698	4,144
	135,286	210,545	441,619	963,178
Weighted-average number of common shares and diluted securities outstanding	143,883,112	143,867,771	145,643,167	144,905,375
Diluted earnings per share and diluted ordinary income per share (in won)	₩ 940	₩ 1,463	₩ 3,032	₩ 6,647

¹ This is computed based on the effective tax rate of 20.0% (2004: 23.0%) for the six-month period ended June 30, 2005 (Note 23).

Diluted earnings per share for the year ended December 31, 2004, was ₩9,517.

Diluted ordinary income per share for the six-month periods ended June 30, 2005 and 2004, is identical to the diluted earnings per share for the six-month periods ended June 30, 2005 and 2004, since there were no extraordinary gains or loss.

The diluted securities outstanding as of June 30, 2005, are as follows:

(in millions, except conversion price)

Diluted security	Face value (won equivalent)	Conversion period	Number of shares of common stock to be issued	Conversion price
Foreign currency denominated convertible bonds of US\$287 million, issued in 2003	₩339,205	September 12, 2003 through July 28, 2006	4,911,907 shares	₩68,900 per share
Foreign currency denominated convertible bonds of US\$250 million, issued in 2005	₩296,975	May 18, 2005 through May 7, 2007	3,049,221 shares	₩96,869 per share

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

25. Transactions with Related Parties

Significant transactions entered into in the ordinary course of business with related parties for the six-month periods ended June 30, 2005 and 2004, and the related account balances outstanding as of June 30, 2005 and December 31, 2004, are summarized as follows:

<i>(in millions of Korean won)</i>	Sales		Purchases		Receivables		Payables	
LG Telecom, Ltd.	₩	205,855	₩	624	₩	120,051	₩	49
LG Chem, Ltd.		2,085		153,474		1,520		28,924
Hi Plaza Inc.		224,646		47,330		-		-
LG Electronics Mlawa SP.Zo.O. (LGEMA)		218,088		4,281		8,299		132
Hitachi-LG Data Storage Inc. (HLDS)		316,736		19,140		26,486		5,358
LG Electronics Wales Ltd. (LGEWA)		64,548		372		1,821		-
PT LG Electronics Display Devices Indonesia (LGEDI)		133,068		753		17,150		218
LG Electronics Huizhou Inc. (LGEHZ)		369,405		423		1,218		-
LG Electronics Italy S.P.A. (LGEIS)		618,837		33,418		6,070		11,803
LG Electronics Service Europe Netherlands B.V. (LGESE)		351,743		7,751		34,609		1,605
LG Electronics U.S.A. Inc. (LGEUS)		521,758		1,205		42,486		-
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)		282,480		740		386		-
LG Electronics MobileComm U.S.A. Inc.(LGEMU) (formerly LGICUS)		1,156,870		1,477		3,453		-
LG.Philips Displays Holding B.V. ¹		10,301		216,759		4,240		11,223
LG.Philips LCD Co., Ltd.		73,354		187,681		55,081		26,726
LG Electronics Australia PTY, Ltd. (LGEAP)		229,705		1,980		142,450		-
LG Electronics United Kingdom Ltd. (LGEUK)		80,970		24,192		30,263		12,837
Others		2,529,870		775,479		311,437		154,561
2005	₩	<u>7,390,319</u>	₩	<u>1,477,079</u>	₩	<u>807,020</u>	₩	<u>253,436</u>
2004	₩	<u>7,962,501</u>	₩	<u>1,929,065</u>	₩	<u>632,716</u>	₩	<u>566,379</u>

¹ For the six month period ended June 30, 2005, purchases of ₩216,759 million include the purchase of LG.Philips Displays Holding B.V.'s trade accounts receivable from the Company's subsidiaries amounting to ₩117,050 million.

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

26. Segment Information

The Company has organized four reportable 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.

On January 1, 2005, the Company splitted the former Digital Display & Media division into Digital Display division and Digital Media division.

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

Digital Display division:	TV, PDP, Monitor and others
Digital Media division:	Audio, VCR, CD-ROM, PC and others
Digital Appliance division:	Refrigerator, washing machine, air conditioner, microwave oven and vacuum cleaner
Mobile Communications Division:	CDMA handset, UMTS handset, wireless telephone, WLL handset, mobile telecommunication, transmitter, switchboard and keyphone system

Financial data by business division as of and for the six-month period ended June 30, 2005, are as follows:

<i>(in millions of Korean won)</i>	Business Division					
	Total	Digital Display	Digital Media	Digital Appliance	Mobile Communications	Supporting Division
Sales						
External sales	₩11,573,726	₩2,408,234	₩1,578,589	₩3,289,786	₩4,235,718	₩ 61,399
Inter-division sales	167,816	45,984	1,154	7,860	21,247	91,571
	<u>₩11,741,542</u>	<u>₩2,454,218</u>	<u>₩1,579,743</u>	<u>₩3,297,646</u>	<u>₩4,256,965</u>	<u>₩ 152,970</u>
Operating income (loss)	<u>423,707</u>	<u>(5,332)</u>	<u>49,972</u>	<u>331,743</u>	<u>110,148</u>	<u>(62,824)</u>
Property, plant and equipment	₩ 4,009,779	₩1,466,262	₩ 248,006	₩ 768,644	₩ 707,647	₩ 819,220
Intangible assets	569,766	22,637	6,744	15,058	208,667	316,660
	<u>₩ 4,579,545</u>	<u>₩1,488,899</u>	<u>₩ 254,750</u>	<u>₩ 783,702</u>	<u>₩ 916,314</u>	<u>₩1,135,880</u>
Depreciation and amortization	₩ 434,880	₩ 115,635	₩ 31,358	₩ 106,669	₩ 100,148	₩ 81,070

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

Financial data by business division as of and for the six-month period ended June 30, 2004, are as follows:

<i>(in millions of Korean won)</i>	Total	Business Division			
		Digital Display & Media	Digital Appliance	Telecommunication Equipment & Handset ¹	Supporting Division
Sales					
External sales	W 12,025,422	W 4,535,339	W 3,488,547	W 3,918,967	W 82,569
Inter-division sales	224,481	71,350	5,904	12,444	134,783
	<u>W 12,249,903</u>	<u>W 4,606,689</u>	<u>W 3,494,451</u>	<u>W 3,931,411</u>	<u>W 217,352</u>
Operating income (loss)	<u>799,475</u>	<u>246,114</u>	<u>381,632</u>	<u>193,859</u>	<u>(22,130)</u>
Fixed assets					
Property, plant and equipment	W 3,425,055	W 1,376,495	W 850,501	W 456,234	W 741,825
Intangible assets	752,312	50,700	16,020	322,319	363,273
	<u>W 4,177,367</u>	<u>W 1,427,195</u>	<u>W 866,521</u>	<u>W 778,553</u>	<u>W 1,105,098</u>
Depreciation and amortization	W 319,663	W 106,066	W 54,469	W 84,882	W 74,246

¹ As of January 1, 2004, the Company reorganized its business structure and transferred the PC business division from the Telecommunication Equipment & Handset division to the Digital Display & Media division.

Financial data by geographic area for the six-month period ended June 30, 2005, are as follows:

<i>(in millions of Korean won)</i>	Total	Domestic	Geographic Area						
			North America	Europe	Central & South America	Central Asia & Africa	Asia	Oceania	CIS
Sales									
External sales	W11,573,726	W 2,767,600	W2,619,476	W1,950,661	W373,433	W502,980	W2,566,820	W254,492	W538,264
Ratio (%)	100%	24%	23%	17%	3%	4%	22%	2%	5%
Inter-division sales	167,816	167,816	-	-	-	-	-	-	-
	<u>W11,741,542</u>	<u>W 2,935,416</u>	<u>W2,619,476</u>	<u>W1,950,661</u>	<u>W373,433</u>	<u>W502,980</u>	<u>W2,566,820</u>	<u>W254,492</u>	<u>W538,264</u>

Financial data by geographic area for the six-month period ended June 30, 2004, were as follows:

<i>(in millions of Korean won)</i>	Total	Domestic	Geographic Area						
			North America	Europe	Central & South America	Central Asia	Asia	Oceania	Others
Sales									
External sales	W12,025,422	W2,657,549	W2,936,610	W1,671,427	W337,079	W609,501	W2,838,458	W287,281	W687,517
Ratio (%)	100%	22%	24%	14%	3%	5%	24%	2%	6%
Inter-division sales	224,481	224,481	-	-	-	-	-	-	-
	<u>W12,249,903</u>	<u>W2,882,030</u>	<u>W2,936,610</u>	<u>W1,671,427</u>	<u>W337,079</u>	<u>W609,501</u>	<u>W2,838,458</u>	<u>W287,281</u>	<u>W687,517</u>

See Report of Independent Accountants

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

27. Dissolution of LG IBM PC Co., Ltd.

The Board of Directors approved the dissolution of LG IBM PC Co., Ltd. ("LG IBM PC"), a joint venture between the Company and IBM Korea, Inc. on November 17, 2004. On January 1, 2005 the Company absorbed a portion of the PC division of LG IBM PC and issued 122,834 shares to IBM Korea Inc. In turn, IBM Korea Inc. absorbed remaining division of LG IBM PC and issued 48,600 shares to the Company. Thereafter, all the LG IBM PC stocks owned by the Company and IBM Korea Inc. were retired. LG IBM PC was dissolved on January 4, 2005.

Assets and liabilities from the transaction were evaluated at their fair values in accordance with the Accounting Standards for Mergers and Acquisition.

The ₩2,995 million difference between the fair value of net assets amounting to ₩9,645 million for the PC division of LG IBM PC and its merger cost of ₩12,640 million is recorded as goodwill.

Summary of financial information of LG IBM PC as of and for the year ended December 31, 2004, is as follows:

<i>(in millions of Korean won)</i>	Amount
Total assets	₩118,415
Total liabilities	89,436
Net assets	28,979
Sales	479,880
Net income	1,483

28. Environmental Investments

For the six-month period ended June 30, 2005, the Company's environmental investments, pursuant to environmental laws and the Company's environmental policies, amounted to ₩28,612 million (2004: ₩10,185 million).

LG Electronics Inc.
Notes to Non-Consolidated Financial Statements
June 30, 2005 and 2004, and December 31, 2004
(Unaudited)

29. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the six-month periods ended June 30, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Reclassification of construction-in-progress to buildings, machinery and others from	₩ 68,653	₩ 331,829
Reclassification of machinery-in-transit machinery and equipment from	11,683	66,996
Reclassification of current maturities of debentures	844,829	238,740
Reclassification of current maturities of long-term debt	6,146	-
Changes in capital adjustments arising from the equity method of accounting for investments	17,114	35,922
Changes in retained earnings arising from the equity method of accounting for investments	102,084	-