

LG Electronics Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2004 and 2003

LG Electronics Inc. And Subsidiaries

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December 31, 2004 and 2003

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of LG Electronics Inc. (“LGE”) and its subsidiaries (collectively the “Company”) as of December 31, 2004 and 2003, the related consolidated statements of income, changes in shareholders’ equity and cash flows for the years ended December 31, 2004 and 2003, expressed in Korean won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries of LGE, of which financial statements reflect 27% and 30% of the company’s consolidated total assets as of December 31, 2004 and 2003, respectively, and 38% and 41% of the Company’s consolidated total sales for the years ended December 31, 2004 and 2003, respectively. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Electronics Inc. and its subsidiaries as of December 31, 2004 and 2003, and the results of their operations and the changes in their shareholders’ equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 8 to the accompanying consolidated financial statements, upon a resolution of the Board of Directors in July 2004, the Company invested ₩289,125 million (equivalent to US\$ 250 million) in LG Electronics Wales Ltd. (“LGEWA”) which, in turn, invested to its subsidiary, LG.Philips Displays Holding B.V. (“LPD”) according to an agreement with the LPD’s creditor financial institutions. The other conditions in the said agreement included the deferment of loan repayment and the reduction in the interest rate of the said loan.

As discussed in Notes 4 and 7 to the accompanying consolidated financial statements, in 2004 the Company purchased LG Card Co., Ltd. (LG Card)’s commercial papers with a face value of ₩200,000 million as part of the fulfillment of LG Card’s business normalization agreement with the creditor financial institutions. The commercial papers of ₩50,831 million were converted into equity of LG Card in January 2005 and the remaining commercial papers amounting to ₩149,169 million are scheduled to be collected within December 31, 2005. The Company recognized an impairment loss of ₩55,212 million on the said commercial papers for the year ended December 31, 2004.

As discussed in Note 29 to the accompanying consolidated financial statements, the Company and IBM Korea Inc. divided their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005 the Company merged with a portion of the PC division from the joint venture. In addition, on January 24, 2005, the Company signed a memorandum of understanding with Nortel Networks Corporation in Canada for establishment of a joint venture to engage in the field of communication equipment and networking solution.

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

Seoul, Korea
March 25, 2005

<p>This report is effective as of March 25, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	₩ 2,716,196	₩ 1,581,545
Short-term financial instruments (Note 3)	189,567	194,964
Short-term investments (Note 4)	122,337	65,752
Trade accounts and notes receivable, net (Note 5)	4,347,029	4,689,913
Inventories, net (Note 6)	5,790,607	4,738,465
Short-term loans receivable (Note 5)	21,616	86,466
Other accounts receivable, net (Note 5)	1,022,243	369,904
Prepaid expenses	97,307	90,901
Accrued income, net (Note 5)	26,233	231,220
Advance payments, net (Note 5)	93,070	114,890
Prepaid income taxes	47,275	21,017
Derivative transaction debit	175,060	14,320
Other current assets	403,578	279,050
Total current assets	<u>15,052,118</u>	<u>12,478,407</u>
Property, plant and equipment, net (Note 9)	12,317,527	8,928,888
Long-term financial instruments (Note 3)	18,547	141,002
Investment securities (Note 7)	91,793	273,708
Equity method investments (Note 8)	398,010	87,888
Refundable deposits	523,588	452,895
Long-term loans receivable, net (Note 5)	81,509	48,473
Long-term prepaid expense	198,318	129,917
Deferred income tax assets (Note 22)	471,058	513,913
Intangible assets, net (Note 10)	735,955	962,965
Other non-current assets	28,928	40,001
Total assets	<u>₩ 29,917,351</u>	<u>₩ 24,058,057</u>

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 13)	₩ 5,862,396	₩ 4,185,319
Current maturities of long-term debt, net (Note 13)	1,014,629	1,526,286
Trade accounts and notes payable	3,465,550	4,091,383
Other accounts payable	2,527,220	2,434,498
Accrued expenses	1,522,144	1,019,557
Advances from customers	276,418	340,770
Withholdings	155,915	69,745
Income taxes payable (Note 22)	124,018	117,839
Derivative transaction credit	56,881	20,705
Other current liabilities	181,928	344,516
Total current liabilities	<u>15,187,099</u>	<u>14,150,618</u>
Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 14)		
	4,400,520	3,638,935
Long-term debts, net of current maturities (Note 14)	1,035,817	579,829
Accrued severance benefits, net (Note 16)	300,821	256,138
Product warranty reserve	165,488	101,795
Deferred income tax liabilities (Note 22)	20,931	21,049
Other long-term liabilities	71,917	79,679
Total liabilities	<u>21,182,593</u>	<u>18,828,043</u>
Commitments and contingencies (Note 17)		
Shareholders' equity		
Capital stock (Note 18)	783,961	783,961
Capital surplus (Note 19)	1,993,942	1,723,058
Retained earnings (Note 20)	2,261,181	874,808
Capital adjustments (Note 21)	3,951	38,629
Minority interest in consolidated subsidiaries	3,691,723	1,809,558
Total shareholders' equity	<u>8,734,758</u>	<u>5,230,014</u>
Total liabilities and shareholders' equity	<u>₩ 29,917,351</u>	<u>₩ 24,058,057</u>

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

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2004 and 2003

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

	2004	2003
Sales (Notes 25 and 26)	₩ 43,249,446	₩ 35,594,534
Cost of sales (Note 25)	<u>32,415,961</u>	<u>26,720,216</u>
Gross profit	10,833,485	8,874,318
Selling and administrative expenses	<u>7,542,263</u>	<u>6,447,217</u>
Operating income	<u>3,291,222</u>	<u>2,427,101</u>
Non-operating income		
Interest income	155,937	103,463
Gain on valuation of securities	243	47,823
Gain from disposal of securities	2,556	9,339
Rental income	23,202	56,635
Foreign exchange gains	1,080,640	701,927
Gain from disposal of investments	29,894	2,827
Gain on disposal of property, plant and equipment	12,305	9,063
Gain on derivatives transactions	119,654	7,206
Gain on valuation of derivatives	123,047	40,979
Refund of income taxes	65,170	3,170
Reversal of allowance for doubtful accounts	35,998	11,158
Others	220,409	199,704
	<u>1,869,055</u>	<u>1,193,294</u>
Non-operating expenses		
Interest expense	424,140	436,392
Foreign exchange losses	918,599	673,981
Loss on valuation of inventories	-	53,125
Loss from transfer of trade accounts and notes receivable	138,673	96,871
Loss from disposal of property, plant and equipment	126,233	79,236
Loss from disposal of investments	72,846	12,263
Equity in losses of affiliates, net (Note 8)	106,297	576,311
Other bad debt expense	10,113	4,231
Donations	23,236	10,027
Loss on derivatives transactions	66,426	24,860
Loss on valuation of derivatives	60,141	10,793
Additional payment of income taxes	25,562	202
Loss from impairment of investment assets	82,393	29,477
Loss from impairment of intangible assets	38,105	-
Others	145,309	151,009
	<u>2,238,073</u>	<u>2,158,778</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2004 and 2003

<i>(in millions of Korean won, except per share amounts)</i>	2004	2003
Income before income taxes	2,922,204	1,461,617
Income tax expense (Note 22)	<u>401,994</u>	<u>222,895</u>
Income before minority interest	2,520,210	1,238,722
Minority interest in income of consolidated subsidiaries, net	<u>(911,684)</u>	<u>(533,746)</u>
Net income	<u>₩ 1,608,526</u>	<u>₩ 704,976</u>
Earnings per share and ordinary income per share (in won) (Note 23)	₩ 10,291	₩ 4,498
Diluted earnings per share and diluted ordinary income per share (in won) (Note 23)	9,898	4,452

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

LG Electronics Inc. and Subsidiaries
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2004 and 2003

(in millions of Korean won)

	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interests	Total
Balance at						
January 1, 2003	₩ 783,961	₩ 1,697,161	₩ 344,072	₩ 12,135	₩ 1,106,001	₩ 3,943,330
Net income	-	-	704,976	-	-	704,976
Disposal of treasury stock	-	-	-	2,873	-	2,873
Conversion rights	-	15,833	-	-	-	15,833
Payment of dividends	-	-	(157,431)	-	-	(157,431)
Effect of change in accounting principle	-	-	(3,271)	-	-	(3,271)
Equity in losses of affiliates	-	-	(13,576)	-	-	(13,576)
Loss on valuation of investments, net	-	-	-	(80,581)	-	(80,581)
Overseas operations translation adjustments	-	-	-	104,202	-	104,202
Changes in minority interest	-	-	-	-	703,557	703,557
Adjustment for changes in ownership, net	-	10,064	-	-	-	10,064
Others	-	-	38	-	-	38
Balance at December 31, 2003	<u>₩ 783,961</u>	<u>₩ 1,723,058</u>	<u>₩ 874,808</u>	<u>₩ 38,629</u>	<u>₩ 1,809,558</u>	<u>₩ 5,230,014</u>
Balance at						
January 1, 2004	₩ 783,961	₩ 1,723,058	₩ 874,808	₩ 38,629	₩ 1,809,558	₩ 5,230,014
Net income	-	-	1,608,526	-	-	1,608,526
Acquisition of treasury stock	-	-	-	(37,680)	-	(37,680)
Conversion rights	-	13,638	-	-	-	13,638
Payment of dividends	-	-	(196,600)	-	-	(196,600)
Equity in losses of affiliates	-	-	(33,025)	-	-	(33,025)
Gain on valuation of investments, net	-	-	-	156,480	-	156,480
Overseas operations translation adjustments	-	-	-	(178,183)	-	(178,183)
Changes in minority interest	-	-	-	-	1,882,165	1,882,165
Adjustment for changes in ownership, net	-	255,328	-	-	-	255,328
Others	-	1,918	7,472	24,705	-	34,095
Balance at December 31, 2004	<u>₩ 783,961</u>	<u>₩ 1,993,942</u>	<u>₩ 2,261,181</u>	<u>₩ 3,951</u>	<u>₩ 3,691,723</u>	<u>₩ 8,734,758</u>

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

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2004 and 2003

(in millions of Korean won)

	2004	2003
Cash flows from operating activities		
Net income	₩ 1,608,526	₩ 704,976
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,205,142	1,827,482
Loss from impairment of intangible assets	38,105	-
Amortization of discounts on debentures	44,728	31,990
Provision for severance benefits	186,794	176,560
Gain from disposal of securities, net	(2,556)	(8,713)
Gain on valuation of securities, net	(98)	(40,268)
Loss from transfer of trade accounts and notes receivable	138,673	96,871
Bad debt expense (Reversal of allowance for doubtful accounts), net	(15,270)	61,617
Gain on foreign currency translation, net	(194,394)	(20,147)
Loss from disposal of investment securities, net	42,952	9,436
Loss from impairment of investment securities	82,393	29,477
Loss from disposal of property, plant and equipment, net	113,928	70,173
Equity in losses of affiliates, net	106,297	576,311
Gain on valuation of derivatives, net	(62,906)	(30,186)
Loss (gain) on transaction of derivatives, net	(53,228)	17,654
Minority interest in income of consolidated subsidiaries, net	911,684	533,746
Others	64	1,748
Changes in operating assets and liabilities		
Decrease (increase) in trade accounts and notes receivable	270,429	(1,336,653)
Decrease (increase) in other accounts receivable	(654,974)	240,118
Decrease (increase) in accrued income	205,158	(81,014)
Decrease in advances	21,806	108,735
Increase in other current assets	(124,524)	(4,807)
Increase in inventories	(1,052,142)	(1,048,729)
Decrease (increase) in prepaid expenses	(74,807)	2,307
Decrease (increase) in prepaid income taxes	(26,258)	95,131
Decrease (increase) in deferred income tax assets	83,854	(100,919)
Increase (decrease) in trade accounts and notes payable	(587,599)	848,756
Increase (decrease) in other accounts payable	153,269	(81,947)
Increase in accrued expenses	502,586	189,422
Increase (decrease) in withholdings	86,170	(15,311)
Decrease in advances from customers	(64,352)	(4,136)
Increase (decrease) in deferred income tax liabilities	(118)	4,578
Increase (decrease) in income taxes payable	6,179	(76,380)
Payment of severance benefits	(114,713)	(102,199)
Increase in severance insurance deposits	(32,173)	(35,273)
Decrease in contributions to the National Pension Fund	4,775	3,289
Increase (decrease) in other current liabilities	(160,402)	(50,499)
Decrease in unearned income	(2,184)	(457)
Increase in warranty reserve	63,692	18,844
Increase (decrease) in other long-term debt	(7,761)	29,390
Net cash provided by operating activities	<u>3,646,745</u>	<u>2,640,973</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2004 and 2003

(in millions of Korean won)

Cash flows from investing activities

Disposal of short-term investments	-	10,517
Acquisition of short-term investments	(83,794)	-
Decrease (increase) in short-term and long-term loans receivable, net	41,284	(82,302)
Acquisition of short-term financial instruments	-	(145,393)
Acquisition of long-term financial instruments	-	(121,340)
Proceeds from disposal of investment securities	132,207	979,201
Acquisition of investment securities	(417,603)	(1,023,652)
Increase in refundable deposits	(70,693)	(55,213)
Decrease (increase) in other non-current assets	11,073	(6,001)
Proceeds from disposal of property, plant and equipment	177,712	308,926
Acquisition of property, plant and equipment	(5,784,681)	(3,050,253)
Acquisition of intangible assets	(69,270)	(108,436)
Disposal of long-term financial instruments	122,455	-
Disposal of short-term financial instruments	5,397	-
Net cash used in investing activities	<u>(5,935,913)</u>	<u>(3,293,946)</u>

Cash flows from financing activities

Proceeds from short-term borrowings	1,714,700	425,277
Payment of current maturities of long-term debt	(1,498,478)	(898,256)
Payment of dividends	(196,634)	(157,396)
Repayment of debentures	-	(597,564)
Proceeds from issuance of debentures	1,696,659	1,949,183
Early redemption of long-term debt	-	(243)
Proceeds from long-term debt	552,794	411,514
Change in derivative transaction accounts, net	46,858	33,582
Proceeds from disposal of treasury stock	11,318	11,936
Acquisition of treasury stock	(46,298)	(9,400)
Change in overseas operations translation adjustments	(98,033)	104,098
Increase in minority interests	1,236,433	-
Others	-	(20,396)
Net cash provided by financing activities	<u>3,419,319</u>	<u>1,252,335</u>
Increase in cash due to changes in the consolidated entities	<u>4,500</u>	<u>79,306</u>
Net increase in cash and cash equivalents	1,134,651	678,668

Cash and cash equivalents (Note 28)

Beginning of the year	<u>1,581,545</u>	<u>902,877</u>
End of the year	<u>₩ 2,716,196</u>	<u>₩ 1,581,545</u>

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

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

1. The Consolidated Companies and Equity Method Investees

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

The Controlling Company

LG Electronics Inc. (the “Company”) was spun off from LG Electronics Investment Ltd. (formerly LG Electronics Inc.) on April 1, 2002, to engage in the manufacture and sale of electronic, and information and communication products. Former LG Electronics Inc. was incorporated in 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 December 31, 2004, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of December 31, 2004, the Company has outstanding capital stock amounting to ₩783,961 million, including non-voting preferred stock. The Company’s stock was relisted on the Korean Stock Exchange on April 22, 2002, and its depositary receipts (“DRs”) were relisted on the London Stock Exchange in September 2002.

As of December 31, 2004, LG Corp. and its related parties own 32.1% of the Company’s common stock (36.1% based on outstanding common stock alone), while financial institutions, foreign investors and others own the rest of the Company’s common stock.

Consolidated Subsidiaries and Equity Method Investees

Consolidated subsidiaries and equity method investees as of December 31, 2004, are as follows:

(in millions of Korean won)

Company	Shareholders’ equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
Domestic subsidiaries						
LG.Philips LCD Co., Ltd.	₩ 5,705,791	325,315,700	145,000,000	-	145,000,000	44.57
LG Micron Ltd.	335,168	7,500,000	2,699,702	-	2,699,702	36.00
LG Innotek Co., Ltd.	147,469	8,620,800	6,017,400	-	6,017,400	69.80
Hi Plaza Inc.	108,894	7,440,000	7,440,000	-	7,440,000	100.00
Stic IT 10th Fund	24,982	3,000	2,820	-	2,820	94.00
Hi Business Logistics	6,111	20,000	20,000	-	20,000	100.00
Domestic equity method investees						
LG IBM PC Co., Ltd.	34,060	4,860,000	2,381,400	-	2,381,400	49.00
Hankuk Electric Glass Co., Ltd.	702,744	8,073,375	1,614,675	-	1,614,675	20.00

LG Electronics Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

(in millions of Korean won)

Company	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
Overseas subsidiaries						
LG Electronics Alabama, Inc. (LGEAI)	69,540	266	266	-	266	100.00
LG Electronics Almaty Kazak Co., Ltd. (LGEAK) ¹	15,508	-	-	-	-	100.00
LG Electronics Antwerp Logistics N.V. (LGEAL) ¹	1,637	-	-	-	-	100.00
LG Electronics Australia PTY, Ltd. (LGEAP)	7,305	2,685,000	2,685,000	-	2,685,000	100.00
LG Electronics Klima Sanayi ve Ticaret P.S. (LGEAT)	43,740	288,000	144,000	-	144,000	50.00
LG Electronics Da Amazonia Ltda. (LGEAZ) ¹	47,922	-	-	-	-	100.00
LG Electronics Colombia Ltda. (LGECEB) ¹	7,356	-	-	-	-	100.00
LG Electronics China Co., Ltd. (LGECH) ¹	15,608	-	-	-	-	100.00
LG Electronics Canada, Inc. (LGECI)	16,562	42,900	42,900	-	42,900	100.00
LG Electronics Philippines, Inc. (LGEPH) (formerly LGECEM)	1,713	739,036	739,036	-	739,036	100.00
Taizhou LG Chunlan Home Appliances Co., Ltd. (LGETR) (formerly LGECECT) ¹	24,285	-	-	-	-	100.00
LG Electronics Deutschland GmbH (LGEDG) ¹	24,464	-	-	-	-	100.00
LG Goldstar France S.A.R.L. (LGEFS)	6,243	69,848	32,798	37,050	69,848	100.00
PT LG Electronics Display Devices Indonesia (LGEDI)	66,687	41,240	41,240	-	41,240	100.00
LG Electronics Egypt Cairo S.A.E. (LGEEC)	1,467	13,510	13,510	-	13,510	100.00
LG Electronics Egypt S.A.E. (LGEEG)	1,909	144,000	120,910	-	120,910	83.97
LG Electronics Espana S.A. (LGEES)	27,191	219,390	219,390	-	219,390	100.00
LG Electronics Gulf FZE (LGEGF)	7,918	29	29	-	29	100.00
LG Electronics HK Limited (LGEHK)	4,445	2,852,825	2,852,825	-	2,852,825	100.00
LG Electronics Hellas S. A. (LGEHS)	6,820	1,000,000	1,000,000	-	1,000,000	100.00
LG Electronics Huizhou Inc. (LGEHZ) ¹	37,276	-	-	-	-	80.00
LG Electronics India PVT Ltd. (LGEIL)	121,860	112,649,459	112,649,459	-	112,649,459	100.00
PT LG Electronics Indonesia Ltd. (LGEIN)	30,739	40,700	31,200	9,500	40,700	100.00
LG Electronics Italy S.P.A. (LGEIS)	21,075	18,785,000	18,785,000	-	18,785,000	100.00
LG Electronics Japan Inc. (LGEJP)	1,954	1,380,000	1,380,000	-	1,380,000	100.00
LG Electronics Mlawa SP.Zo.O. (LGEEMA) ¹	52,139	-	-	-	-	100.00
LG Electronics Morocco S.A.R.L. (LGEEMC)	3,806	315,213	315,213	-	315,213	100.00
LG-Meca Electronics Haiphong, Inc. (LGEEMH) ¹	3,790	-	-	-	-	70.00
LG Electronics Magyar Kft (LGEEMK) ¹	9,170	-	-	-	-	100.00
LG Electronics Monterrey Mexico S.A. DE C.V. (LGEEMM)	6,870	27,094	26,938	156	27,094	100.00
LG Electronics Mexico S.A. DE C.V. (LGEEMS)	24,270	134,601	134,301	300	134,601	100.00
LG MITR Electronics Co., Ltd. (LGEEMT)	11,906	5,076,000	4,453,800	-	4,453,800	87.74
LG Electronics North of England Ltd. (LGENE)	9,981	9,000,000	9,000,000	-	9,000,000	100.00
Nanjing LG-Tontru Color Display System Co., Ltd. (LGEENT) ¹	33,036	-	-	-	-	70.00
LG Electronics Polska SP.Zo. O. (LGEPL) ¹	11,217	-	-	-	-	100.00
Nanjing LG Panda Appliances Co., Ltd. (LGEPN) ¹	20,772	-	-	-	-	70.00

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(in millions of Korean won)

Company	Shareholders' equity	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
			LGE	Subsidiaries	Total	
Overseas subsidiaries						
LG Electronics Peru S.A. (LGEPR)	3,185	23,507,492	23,507,492	-	23,507,492	100.00
LG Electronics Panama S.A. (LGEPS)	6,144	21,000	21,000	-	21,000	100.00
LG Electronics Portugal (LGEPT) ¹	20,524	-	-	-	-	100.00
LG Electronics Qinhuangdao Co., Ltd. (LGEQH) ¹	8,505	-	-	-	-	100.00
LG Electronics Russia Inc. (LGERI) ¹	10,300	-	-	-	-	95.00
LG Electronics S.A. Pty Ltd. (LGESA)	33,045	18,500,000	18,500,000	-	18,500,000	100.00
LG Electronics Service Europe Netherlands B.V. (LGESE) ¹	8,081	-	-	-	-	100.00
LG Electronics JIT Europe B.V.(LGEJE)	203	180	-	180	180	100.00
Shanghai LG Electronics Co., Ltd. (LGESH) ¹	16,428	-	-	-	-	70.00
LG Electronics de Sao Paulo Ltda. (LGESP) ¹	11,199	-	-	-	-	100.00
LG SEL Electronics Vietnam Inc. (LGEVN) (formerly LGESV) ¹	9,849	-	-	-	-	100.00
LG Electronics Sweden AB (LGESW)	5,780	44,345	44,345	-	44,345	100.00
LG Electronics Shenyang Inc. (LGESY) ¹	28,341	-	-	-	-	78.87
LG Electronics Tianjin Appliance Co., Ltd. (LGETA) ¹	130,011	-	-	-	-	80.00
LG Electronics Thailand Co., Ltd. (LGETH)	26,483	2,050,000	1,004,500	1,045,500	2,050,000	100.00
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	12,174	52,892,542	52,892,542	-	52,892,542	100.00
LG Electronics United Kingdom Ltd. (LGEUK)	7,501	192,000	192,000	-	192,000	100.00
LG Electronics U.S.A., Inc. (LGEUS)	53,493	32,884	32,884	-	32,884	100.00
LG Electronics Wales Ltd. (LGEWA)	878,745	2,042,202	2,042,202	-	2,042,202	100.00
EIC Properties PTE, Ltd.	5,754	34,170,000	13,052,940	-	13,052,940	38.20
LG Software PVT, Ltd. (LGSJ)	7,543	9,946,000	9,946,000	-	9,946,000	100.00
Zenith Electronics Corporation (Zenith)	6,364	2,000	2,000	-	2,000	100.00
LG Electronics MobileComm U.S.A.,Inc. (LGEU) (formerly LGICUS)	21,665	10,000	10,000	-	10,000	100.00
LG I&C Thailand (LGICTH)	9,419	76,000	45,600	-	45,600	60.00
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT) ¹	25,618	-	-	-	-	51.00
LG Holdings (HK) Ltd.	141,501	140,006,285	44,550,000	-	44,550,000	31.82
LGE (China) R&D Center ¹	6,544	-	-	-	-	100.00
Kunshan LGMS Computer Co., Ltd. (LGMSK) ¹	1,690	-	-	-	-	100.00
Kunshan LGMS Computer Co., Ltd. (LGEKS) ¹	3,027	-	-	-	-	100.00
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP) ¹	14,238	-	-	-	-	100.00
Qingdao LG Langchao Digital Communication Co., Ltd. (LGEQD) ¹	16,608	-	-	-	-	60.00
LG Electronics Czech S.R.O. (LGE CZ) ¹	6,993	-	-	-	-	100.00
LG Electronics Inc. Chile Limitada (LGECL) ¹	7,659	-	-	-	-	100.00
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN) ¹	6,301	-	-	-	-	49.00
LG Electronics Romania S.R.L (LGERO) ¹	8,427	-	-	-	-	100.00
LGEMX	13,146	513,626	-	513,626	513,626	100.00
LGERS	45,574	70,576,292	-	70,576,292	70,576,292	100.00
LG.Philips LCD America,Inc.	8,557	5,000,000	-	5,000,000	5,000,000	100.00
LG.Philips LCD Japan Co., Ltd.	4,020	1,900	-	1,900	1,900	100.00
LG.Philips LCD Germany GmbH	2,237	960,000	-	960,000	960,000	100.00
LG.Philips LCD Taiwan Co., Ltd.	10,976	11,549,994	-	11,549,994	11,549,994	100.00
LG.Philips LCD Nanjing Co., Ltd. ¹	128,405	-	-	-	-	100.00
LG.Philips LCD Hong Kong Co., Ltd.	2,527	115,000	-	115,000	115,000	100.00
LG.Philips LCD Shanghai Co., Ltd. ¹	1,694	-	-	-	-	100.00
LG Innotek Huizhou Co., Ltd. ¹	24,328	-	-	-	-	100.00
LG Innotek Yantai Co., Ltd. ¹	8,744	-	-	-	-	100.00
PT.LG Innotek Indonesia	6,240	500	-	500	500	100.00
LG Innotek USA Inc.	3,939	400	-	400	400	100.00
LG Micron(Fujian) Electronics Co.,Ltd ¹	21,407	-	-	-	-	80.00

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Overseas equity method investees

Hitachi-LG Data Storage Inc. (HLDS)	31,069	30,000	14,700	-	14,700	49.00
LG.Philips Displays Holding B.V.	259,048	68,182	-	34,090	34,090	50.00
Vietnam Korea Exchange, Ltd. (V.K.X.) ¹	5,099	-	-	-	-	40.00
SLD TELECOM Pte. Ltd.	120,995	137,912,962	58,944,000	-	58,944,000	42.74
LG-TOPS ¹	2,324	-	-	-	-	40.00

The consolidated subsidiaries and equity method investees are classified in accordance with the Enforcement Decree on External Audit for Corporations and the financial accounting standards for consolidated financial statements.

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

Newly consolidated subsidiaries as of December 31, 2004, are as follows:

Consolidated subsidiaries	Reason
LG Electronics Romania S.R.L (LGERO)	The subsidiaries were newly established in 2004.
LG Electronics JIT Europe B.V.(LGEJE)	
LG Philips LCD Hong Kong Co., Ltd.	
LG Philips LCD Shanghai Co., Ltd.	
LG Innotek Yantai Co., Ltd.	
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN)	Subsidiaries whose total assets increased to more than ₩7,000 million.
Kunshan LGMS Computer Co., Ltd. (LGMSK)	
Hi Business Logistics	

As of December 31, 2004, LG-TOPS was reclassified from a consolidated subsidiary to an equity-method investee since its total assets are less than ₩ 7,000 million.

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2. Summary of Significant Accounting Policies

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

Basis of Consolidated Financial Statement Presentation

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

Accounting Estimates

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

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 No. 2, *Interim Financial Reporting*, through No. 9, *Convertible Securities*, became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, *Inventories*, 12, *Construction-Type Contracts*, and 13, *Debt Restructuring and Rescheduling*, became applicable to the Company on January 1, 2004. The Company adopted these Standards in its financial statements as of and for the year ended December 31, 2004.

Principles of Consolidation

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

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The accompanying consolidated financial statements include the accounts of LGE and its subsidiaries. Under the financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another if more than 50% of its issued share capital is held by the other company, or more than 30% of its issued share capital is held by the other company and that company is the largest shareholder. In cases where there are two or three investors with more than 30% ownership in the issued share capital of an investee and such investors, individually, are the largest shareholders, the investor, which belongs to a conglomerate along with the investee as defined by Monopoly Regulation and Fair Trade Act in the Republic of Korea, is required to consolidate such investee. Investments in 20% to 50% owned affiliated companies or investments in affiliated companies over which the Company exerts a significant influence are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share in the undistributed earnings or losses of these companies.

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

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

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

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

Revenue Recognition

Revenues from finished products and merchandise are recognized when 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.

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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.

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.

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 Investment Securities

Investments in equity securities of companies, over which the Company exercises a significant control or influence (controlled investees), are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership 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.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. Unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated considering the percentage of ownership.

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

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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.

Property, Plant and Equipment

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

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

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

Lease Transactions

Lease agreements that include a bargain purchase option, result in the transfer of ownership at the end of the lease term, have a term longer than 75% of the estimated economic life of the leased property, or have a present value of the minimum lease payments at the beginning of the lease term amounting to more than 90% of the fair value of the leased property, are accounted for as capital leases. Leases that do not meet these criteria are accounted for as operating leases, of which the total minimum lease payments are charged to expense over the lease period on a straight-line basis.

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.

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.

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

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

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 sale. Estimated costs of product warranties are charged to current operations at the time of sale and are included in the accompanying consolidated balance sheets as a product warranty reserve.

Accrued Severance Benefits

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

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

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

Convertible Bonds

The Company recorded 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 offset conversion rights adjustment by the face value of convertible bonds and add call premium to the face value of convertible bonds.

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Long-Term Accounts Receivable and Payable

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

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, contributed 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.

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.

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 rates in effect at the balance sheet date (₩1,043.8 : US\$1 as of December 31, 2004 and ₩1,197.8 : US\$1 as of December 31, 2003), and resulting translation gains or losses are recognized in current operations.

Translation of Foreign Currency Financial Statements

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

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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.

3. Financial Instruments

As of December 31, 2004, short-term financial instruments of ₩ 173,869 million (2003 : ₩6,749 million), and long-term financial instruments of ₩18,002 million (2003 : ₩9,713 million) are deposited in connection with maintaining checking accounts, various short-term borrowings and long-term debt, and research and development projects funded by the government. The withdrawal of these financial instruments is restricted (Note 11).

4. Short-term investments

Short-term investments as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004	2003
Available-for-sale securities	₩ 119,149	₩ 57,838
Trading securities (money market fund)	3,188	7,914
	<u>₩ 122,337</u>	<u>₩ 65,752</u>

Available-for-sale securities as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Fair value	Carrying value	Acquisition cost	Fair value	Carrying value
Beneficiary certificates ¹	-	₩ -	₩ -	₩ -	₩ 50,000	₩ 50,000	₩ 50,000
Commercial papers issued by LG Card Co., Ltd ²	-	149,169	119,115	119,115	-	-	-
Others		34	34	34	6,674	7,838	7,838
		<u>₩149,203</u>	<u>₩119,149</u>	<u>₩119,149</u>	<u>₩ 56,674</u>	<u>₩ 57,838</u>	<u>₩ 57,838</u>

¹ During 2004, the Company sold all the beneficiary certificates including corporate bonds and commercial papers issued by LG Card Co., Ltd.

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² As approved by the Board of Directors in 2004, the Company purchased LG Card Co., Ltd. (LG Card)'s commercial papers with a face value of ₩200,000 million as part of the fulfillment of LG Card's business normalization agreement with the creditor financial institutions. The commercial papers amounting to ₩149,169 million classified as short-term investments are scheduled to be collected before December 31, 2005. The remaining commercial papers amounting to ₩50,831 million were converted into equity of LG Card, and are classified as long-term investment securities (Note 7).

5. Receivables

Receivables, including trade accounts and notes receivable, as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004				2003			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value	Original amount	Allowance for doubtful accounts	Discounts for present value	Carrying value
Trade accounts and notes receivable	₩ 4,529,468	₩ 182,439	₩ -	₩ 4,347,029	₩ 4,905,568	₩ 212,751	₩ 2,904	₩ 4,689,913
Short-term loans	33,448	11,832	-	21,616	86,476	10	-	86,466
Other accounts receivable	1,042,470	19,051	1,176	1,022,243	386,320	16,416	-	369,904
Accrued income	26,478	245	-	26,233	231,636	416	-	231,220
Advances	102,605	9,535	-	93,070	124,410	9,520	-	114,890
Long-term loans	82,031	522	-	81,509	70,288	21,815	-	48,473
	<u>₩5,816,500</u>	<u>₩223,624</u>	<u>₩1,176</u>	<u>₩5,591,700</u>	<u>₩5,804,698</u>	<u>₩260,928</u>	<u>₩2,904</u>	<u>₩5,540,866</u>

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6. Inventories

Inventories as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004			2003
	Acquisition cost	Inventory valuation allowance	Carrying value	Carrying value
Merchandise and finished products	₩ 3,640,375	₩ (64,734)	₩ 3,575,641	₩ 2,871,211
Work-in-process	522,480	(4,003)	518,477	476,014
Raw materials and supplies	1,583,261	(11,222)	1,572,039	1,307,857
Other	125,039	(589)	124,450	83,383
	<u>₩ 5,871,155</u>	<u>₩ (80,548)</u>	<u>₩ 5,790,607</u>	<u>₩ 4,738,465</u>

7. Investment Securities

Investment securities as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Available-for-sale securities	₩ 89,958	₩ 272,680
Held-to-maturity securities	1,835	1,028
	<u>₩ 91,793</u>	<u>₩ 273,708</u>

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Available-for-sale securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Net asset value/Market value	Carrying value	Acquisition cost	Net asset value/Market value	Carrying value
Marketable equity securities							
KT Corp. ³	-	₩ -	₩ -	₩ -	₩127,441	₩105,257	₩105,257
LG Investment & Securities Co., Ltd. ⁵	-	-	-	-	262,432	84,498	84,498
Nara Mold & Die Co., Ltd.	12.34	812	2,918	2,918	812	2,999	2,999
Voiceware Co., Ltd. ⁷	3.02	142	604	604	206	1,363	1,363
Jindoo Network Inc. ⁶	8.83	318	1,568	1,568	-	-	-
Vodavi Technology Inc.	19.86	2,928	6,761	6,761	2,928	5,992	5,992
Hutchison Telephone Company Limited ⁴	0.09	3,462	3,622	3,622	-	-	-
Others	-	500	280	280	501	787	787
		<u>8,162</u>	<u>15,753</u>	<u>15,753</u>	<u>394,320</u>	<u>200,896</u>	<u>200,896</u>
Non-marketable equity securities							
Domestic companies							
Innopla Co., Ltd.	19.90	245	854	245	245	555	245
Castec Korea Co., Ltd.	5.00	182	859	182	182	489	182
Korea Information Certificate Authority Inc.	9.35	1,852	1,230	1,852	1,852	1,695	1,852
Association of Electronics Environment	36.04	4,698	4,309	4,698	4,349	1,795	4,349
Megaround Co., Ltd. ⁶	-	-	-	-	318	315	318
Temco, Inc.	13.04	1,200	1,200	1,200	1,200	1,200	1,200
Manager Society, Inc.	3.70	200	14	200	200	200	200
Thermo Metrix Technology ⁷	-	-	-	-	158	158	158
Silicon Works	12.00	501	504	501	501	501	501
LG fund for small and medium Enterprises ⁴	50.00	2,500	2,435	2,500	-	-	-
TU Media Corporation	4.74	6,500	5,765	6,500	6,500	6,500	6,500
Standard Lazer System Co., Ltd. ¹	1.54	250	-	-	250	250	250
Digital World Corporation	1.27	180	180	180	180	180	180
Newco Display Inc.	10.00	400	400	400	400	400	400
Eron Technologies Corporation	0.37	138	138	138	138	138	138
Korean Defense Industry Development Association	-	-	-	-	3,171	3,171	3,171
Others	-	21,105	12,034	14,068	20,296	9,899	19,838
Overseas companies							
Gemfire Corp. ⁷	-	-	-	-	1,835	-	-
Neopoint Inc. ¹	16.62	1,604	-	-	1,604	-	-
E2OPEN.COM ¹	3.64	15,694	-	-	15,694	1,899	15,694
COMMIT Incorporated	13.47	4,990	4,990	4,990	4,990	4,990	4,990
SUNPOWER.INC	10.35	1,257	231	1,257	1,257	258	1,257
G.S. Mexicana S.A DE C.V.	-	-	-	-	104	104	104
CMEA II Venture Fund	8.66	3,966	1,144	1,234	1,154	1,154	1,154
Caspian Bank	1.80	1,044	1,044	1,044	1,198	1,198	1,198
Others	-	7,597	5,169	5,169	4,544	2,705	4,544
		<u>76,103</u>	<u>42,500</u>	<u>46,358</u>	<u>72,320</u>	<u>39,754</u>	<u>68,423</u>
Debt securities							
Bonds issued by the government		27	27	27	1,157	1,157	1,157
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		50,831	25,416	25,416	-	-	-
Others		500	200	200	-	-	-
		<u>53,562</u>	<u>27,847</u>	<u>27,847</u>	<u>3,361</u>	<u>3,361</u>	<u>3,361</u>
		<u>₩ 137,827</u>	<u>₩ 86,100</u>	<u>₩ 89,958</u>	<u>₩ 470,001</u>	<u>₩ 244,011</u>	<u>₩ 272,680</u>

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- ¹ Carrying value was fully written down due to the negative net book value or bankruptcy of the investee company as of December 31, 2004.
- ² As approved by the Board of Directors in 2004, the Company purchased LG Card Co., Ltd. (LG Card)'s commercial papers with a face value of ₩200,000 million as part of the fulfillment of LG Card's business normalization agreement with the creditor financial institutions. Upon the agreement with the creditors, the commercial papers of ₩50,831 million, classified as long-term investment securities, were converted into equity of LG Card and the remaining commercial papers amounting to ₩149,169 million, classified as short-term investments, are scheduled to be collected within December 31, 2005. The Company recognized an impairment loss of ₩55,212 million on the said commercial papers for the year ended December 31, 2004 (Note 4).
- ³ During 2004, the Company disposed of all the shares of KT Corp., resulting in a loss of ₩18,697 million.
- ⁴ During 2004, the Company newly purchased the investments.
- ⁵ As per the resolution of the Board of Directors, the Company entrusted its disposal and voting rights for the 10,180,531 shares of the common stock of LG Investment & Securities Co., Ltd. to Woori Bank, the representative of the creditor banks, as a part of the business normalization plan of LG Card. In April 2004, in accordance with the business normalization plan, Korea Development Bank exercised its preemptive right to purchase the shares of LG Investment & Securities Co., Ltd. Accordingly, the Company disposed of all its 10,180,531 shares, resulting in a loss from disposal of investment securities of ₩51,696 million.
- ⁶ During 2004, all the investment in Megaround Co., Ltd. were exchanged to investment in Jindoo Network Inc. marketable security because Megaround Co., Ltd. was merged with Jindoo Network Inc. Gain on valuation of investment in Jindoo Network Inc. amounting to ₩1,250 million was recorded as capital adjustments.
- ⁷ During 2004, the Company disposed of the investments, resulting in gain on disposal of investment securities of ₩487 million.

Held-to-maturity securities as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Subordinated bonds of ABN-AMRO ABCP	₩ 807	₩ -
Bonds issued by the government	1,028	1,028
	<u>₩ 1,835</u>	<u>₩ 1,028</u>

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

<i>(in millions of Korean won)</i>	2004	
	Available-for-sale securities	Held-to-maturity securities
Maturity		
One year or less ¹	₩ 119,115	₩ -
Over one year to five years	2,231	1,791
Over five years to ten years	-	44
	<u>₩ 121,346</u>	<u>₩ 1,835</u>

¹ These are classified as short-term investments (Note 4).

The details of changes in accumulated gains (losses) on valuation of available-for-sale securities as recorded as capital adjustments for the year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Gain (loss)	Disposal	December 31, 2004
KT Corp.	₩ (22,184)	₩ -	₩ (22,184)	₩ -
Nara Mold & Die Co., Ltd.	2,187	(80)	-	2,107
Voiceware Co., Ltd.	1,157	(473)	222	462
Jindoo Network Inc.	-	1,250	-	1,250
LG Investment & Securities Co., Ltd.	(75,994)	23,534	(52,460)	-
Vodavi Technology Inc.	3,063	770	-	3,833
Hutchison Telephone Company Limited	-	160	-	160
E2OPEN.COM	-	(15,190)	(15,190)	-
Others	269	(220)	269	(220)
Bonds issued by the government	(241)	-	(241)	-
	<u>₩ (91,743)</u>	<u>₩ 9,751</u>	<u>₩ (89,584)</u>	<u>₩ 7,592</u>

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8. Equity Method Investments

Equity method investments as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 2004	2004			2003		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
Domestic companies							
LG Sports Ltd. ⁷	-	₩ -	₩ -	₩ -	₩ 1,404	₩ 1,204	₩ 1,204
Hankuk Electric Glass Co., Ltd. ⁶	20.00	119,282	140,549	125,082	-	-	-
LG IBM PC Co., Ltd. ⁸	49.00	11,907	16,689	16,522	11,907	17,739	14,548
Hi Business Logistics ⁹	-	-	-	-	4,500	4,500	4,500
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	22,350	30,823	7,684	30,576	33,007
LG Electronics Austria GmbH (LGEAG) ²	100.00	116	116	116	116	116	116
LG Electronics Argentina S.A. (LGEAR) ^{1, 3}	100.00	7,410	-	-	7,410	-	-
LG Electronics Design Tech, Ltd. (LGEDT) ²	100.00	1,002	1,002	1,002	1,002	1,002	1,002
LG Electronics Middle East Co., Ltd. (LGEME) ²	100.00	462	462	462	462	462	462
LG Electronics (M) SDN.BHD (LGEML) ^{2, 4}	100.00	7,869	7,869	7,869	11	11	11
LG Philips Displays Holding B.V. ⁴	50.00	1,509,997	129,524	147,345	1,222,322	-	-
Triveni Digital Inc. ²	100.00	899	899	899	899	899	899
LG Electronics Ukraine Co., Ltd. (LGEUR) ²	100.00	1,041	1,041	1,041	1,041	1,041	1,041
Electromagnetica Goldstar S.R.L. ²	50.00	508	508	508	508	508	508
Vietnam Korea Exchange, Ltd. (V.K.X.)	40.00	1,736	2,040	2,064	1,736	2,316	2,328
LG-TOPS ³	40.00	2,699	902	930	-	-	-
SLD Telecom Pte. Ltd. ⁴	42.74	68,487	51,711	52,279	29,001	25,190	25,190
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGEHN) ⁹	-	-	-	-	3,036	3,036	3,036
Goldstar Mobilecomm France SASU (LGEMF) ⁵	100.00	5,621	5,621	5,621	-	-	-
LG Electronics RUS, LLC (LGERA) ⁵	100.00	5,411	5,411	5,411	-	-	-
		<u>₩ 1,752,167</u>	<u>₩ 386,730</u>	<u>₩ 398,010</u>	<u>₩ 1,293,075</u>	<u>₩ 88,636</u>	<u>₩ 87,888</u>

¹ Equity method of accounting has been suspended due to an accumulated loss on the investment.

² 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 are stated at cost, in accordance with accounting principles generally accepted in the Republic of Korea.

³ The operations of these subsidiaries were suspended as of December 31, 2004. These were reclassified into a equity method investment security in 2004 from consolidated subsidiary in 2003.

⁴ During 2004, the Company purchased additional shares of these subsidiaries.

⁵ These subsidiaries were newly established during 2004.

⁶ The Company newly purchased the shares of these subsidiaries during 2004.

⁷ During 2004, the Company disposed of all the shares of LG Sports Ltd., resulting in a loss amounting to ₩598 million.

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- ⁸ The Company and IBM Korea Inc. divided their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005 the Company merged with a portion of the PC division from the joint venture.
- ⁹ It was reclassified into a consolidated subsidiary in 2004 from equity method investment security in 2003.

For the year ended December 31, 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 are as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Addition	Amortization	December 31, 2004
Domestic companies				
Hankuk Electric Glass Co., Ltd.	₩ -	₩ (17,010)	₩ 3,402	₩ (13,608)
Overseas companies				
Hitachi-LG Data Storage Inc. (HLDS)	76	(16)	(30)	30
LG.Philips Displays Holding B.V.	(125,599)	8,304	46,918	(70,377)
Vietnam Korea Exchange, Ltd. (V.K.X.)	99	(25)	(49)	25
SLD Telecom Pte. Ltd.	-	847	(144)	703
	<u>(125,424)</u>	<u>9,110</u>	<u>46,695</u>	<u>(69,619)</u>
	<u>₩ (125,424)</u>	<u>₩ (7,900)</u>	<u>₩ 50,097</u>	<u>₩ (83,227)</u>

For the year ended December 31, 2003, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are as follows:

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

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2004	Equity in earnings (losses) of affiliates, net	Others	December 31, 2004
Domestic companies				
LG Sports Ltd.	₩ 1,204	₩ 34	₩ (1,238)	₩ -
Hankuk Electric Glass Co., Ltd.	-	7,301	117,781	125,082
LG IBM PC Co., Ltd.	14,548	6,376	(4,402)	16,522
Hi Business Logistics (formerly Hi Logistics System (HLS))	4,500	-	(4,500)	-
	<u>20,252</u>	<u>13,711</u>	<u>107,641</u>	<u>141,604</u>
Overseas companies				
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)	36	-	-	36
Hitachi-LG Data Storage Inc. (HLDS)	33,007	5,342	(7,526)	30,823
LG Electronics Austria GmbH (LGEAG)	116	-	-	116
LG Electronics Design Tech, Ltd.(LGEDT)	1,002	-	-	1,002
LG Electronics Middle East Co., Ltd. (LGEME)	462	-	-	462
LG Electronics (M) SDN.BHD (LGEML)	11	-	7,858	7,869
LG.Philips Displays Holding B.V.	-	(121,800)	269,145	147,345
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	-	-	1,041
Vietnam Korea Exchange, Ltd. (V.K.X.)	2,328	18	(282)	2,064
LG-TOPS	-	23	907	930
Electromagnetica Goldstar S.R.L.	508	-	-	508
SLD Telecom Pte. Ltd.	25,190	(3,591)	30,680	52,279
Triveni Digital Inc.	899	-	-	899
Goldstar Mobilecomm France SASU (LGEMF)	-	-	5,621	5,621
LG Electronics RUS, LLC (LGERA)	-	-	5,411	5,411
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN)	3,036	-	(3,036)	-
	<u>67,636</u>	<u>(120,008)</u>	<u>308,778</u>	<u>256,406</u>
	<u>₩ 87,888</u>	<u>₩ (106,297)</u>	<u>₩ 416,419</u>	<u>₩ 398,010</u>

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

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

As per the resolution of the Board of Directors in July 2004, the Company invested ₩289,125 million (equivalent to US\$ 250 million) in LG Electronics Wales Ltd. (“LGEWA”) which, in turn, invested to its subsidiary, LG.Philips Displays Holding B.V. (“LPD”) according to an agreement with the LPD’s creditor financial institutions. The other conditions in the said agreement included the deferment of loan repayment and the reduction in the interest rate of the said loan. Further, the Company revoked previous guarantee for LPD and provided the new guarantee of ₩ 57,825 million (equivalent to US\$50 million).

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Others ¹	Construction -in-progress	Total
Balance as of January 1, 2004	₩ 992,209	₩ 2,061,763	₩ 218,440	₩ 3,356,521	₩ 23,341	₩ 526,503	₩ 429,810	₩ 1,320,301	₩ 8,928,888
Acquisitions and capital expenditure	10,047	135,723	14,480	399,327	12,943	308,066	233,953	4,609,591	5,724,130
Transfer-in (out)	225,069	615,331	9,460	2,817,267	1,617	42,827	36,060	(3,766,972)	(19,341)
Disposals	(39,594)	(44,296)	(3,888)	(57,194)	(3,268)	(114,755)	(9,964)	(18,680)	(291,639)
Depreciation	-	(98,861)	(14,700)	(1,499,558)	(8,390)	(183,671)	(167,852)	-	(1,973,032)
Others ²	100,020	(146,080)	(16,049)	(40,509)	(3,571)	(27,476)	(65,969)	148,155	(51,479)
Balance as of December 31, 2004	₩ 1,287,751	₩ 2,523,580	₩ 207,743	₩ 4,975,854	₩ 22,672	₩ 551,494	₩ 456,038	₩ 2,292,395	₩ 12,317,527
Accumulated depreciation as of December 31, 2004	₩ -	₩ (409,693)	₩ (70,859)	₩ (5,480,332)	₩ (23,658)	₩ (473,720)	₩ (562,138)	₩ -	₩ (7,020,400)

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

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

¹ During 2004, the Company reclassified machinery and equipment in transit from 'others' to construction-in-progress. As of January 1, 2004, 'others' included machinery and equipment in transit amounting to ₩41,109 million.

² This includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

As of December 31, 2004, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩1,100,277 million (2003 : ₩843,134 million).

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10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other intangible assets	Total
Balance as of January 1, 2004	₩ 285,975	₩ (1,820)	₩ 387,443	₩ 140,009	₩ 151,358	₩ 962,965
Additions	753	-	33,023	2,109	33,385	69,270
Disposals	(728)	-	(199)	(1,529)	(2,447)	(4,903)
Amortization	(40,153)	1,453	(88,453)	(65,364)	(39,593)	(232,110)
Impairment ¹	-	-	(38,105)	-	-	(38,105)
Others ²	-	-	26,979	172	(48,313)	(21,162)
Balance as of December 31, 2004	<u>₩ 245,847</u>	<u>₩ (367)</u>	<u>₩ 320,688</u>	<u>₩ 75,397</u>	<u>₩ 94,390</u>	<u>₩ 735,955</u>

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

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

¹ The Company recognized impairment losses on intangible assets due to expiration of industrial property rights.

² This includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Amortization of intangible assets amounting to ₩232,110 million for the year ended December 31, 2004 (2003: ₩224,931 million), were classified as manufacturing costs and selling and administrative expenses.

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Significant intangible assets as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004	2003	Remaining years of amortization
Goodwill	₩ 215,017	₩ 254,399	six years
Industrial property rights	197,067	311,531	one to 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, LG Electronics Investment Ltd. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to LGE. Related amortization expenses of goodwill and industrial property rights approximate ₩ 39,382 million and ₩ 76,359 million, respectively, for the year ended December 31, 2004.

Research and development costs incurred for the years ended December 31, 2004 and 2003 were accounted for as follows:

<i>(in millions of Korean won)</i>	2004	2003
Expensed	₩ 1,541,102	₩ 1,088,790
Development costs capitalized	2,109	7,012
	<u>₩ 1,543,211</u>	<u>₩ 1,095,802</u>

11. Pledged Assets

A certain portion of property, plant and equipment as of December 31, 2004, is pledged as collateral for various loans from banks up to a maximum won equivalent amount of approximately ₩ 1,085,605 million (Notes 13 and 14). The said amount as of December 31, 2004, includes the equivalent of US\$102 million, JP ¥150 million and EUR360 million. In addition, a portion of trade accounts and notes receivable, short-term and long-term financial instruments, and inventories as of December 31, 2004, is pledged as collateral for L/C opening and factoring contracts.

12. Insured Assets

As of December 31, 2004, property, plant and equipment, other than land and certain construction in-progress, and inventories are insured against fire and other casualty losses up to approximately ₩52,390,301 million. In addition, the Company is insured against loss arising from the transportation of goods up to approximately ₩2,319,921 million.

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

Short-term borrowings as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2004	2004	2003
Bank overdrafts	1.1 ~ 12.5	₩ 133,453	₩ -
General term loans ¹	CD+0.8, 5.22 ~ 20.6	44,510	147,950
Foreign currency loans	1.68 ~ 8.25	5,011,766	3,833,525
Commercial papers	3.68 ~ 5.70	120,500	169,318
Others	4.0 ~ 5.75	552,167	34,526
		<u>₩ 5,862,396</u>	<u>₩ 4,185,319</u>

¹ CD represents the annual interest rate for certificates of deposits.

See Note 11 for collateral arrangements on the above borrowings.

Current maturities of long-term debts as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	2004	2003
Debentures	₩ 909,137	₩ 1,455,087
Discount on debentures	(5,012)	(2,961)
Long-term debt	110,504	74,160
	<u>₩1,014,629</u>	<u>₩ 1,526,286</u>

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14. Debentures, Convertible Bonds and Long-Term Debts

Debentures and convertible bonds as of December 31, 2004 and 2003, consists of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2004	2004	2003
Debentures			
Public, guaranteed payable through 2005	-	₩ -	₩ 1,000
Private, non-guaranteed payable through 2006	5.7~9.35	136,000	316,000
Public, non-guaranteed payable through 2009	4.00 ~ 7.00	2,231,000	90,000
Public, non-guaranteed payable through 2009	3.5 ~ 6.0	1,350,000	3,140,000
Floating rate notes of US \$996 million through 2007 (2003 : US \$1,075 million and INR 160 million)	3M Libor+0.6 ~ 1.9 6M Libor+0.5 ~ 1.25	1,034,992	1,290,071
		<u>4,751,992</u>	<u>4,837,071</u>
Convertible Bonds			
Zero coupon rate convertible bonds of US \$287.5 million (2003:US \$287.5 million), payable through 2006	-	339,796	339,796
Zero coupon rate convertible bonds of US \$250 million (2003 : nil), payable through 2007	-	296,975	-
		<u>636,771</u>	<u>339,796</u>
		5,388,763	5,176,867
Less: Current maturities		(909,137)	(1,455,087)
Discount on debentures		(66,691)	(69,005)
Conversion rights adjustment		(49,508)	(13,840)
Premium for conversion rights		37,093	-
		<u>₩ 4,400,520</u>	<u>₩ 3,638,935</u>

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

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

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- 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

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 on the 20 consecutive Korea Exchange business days preceding and including the second Korea Exchange business day prior to the day falling six months after the issue date is above ₩ 65,600.
 - Conversion period: May 18, 2005 through May 7, 2007

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Long-term debts as of December 31, 2004 and 2003, consist of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2004	2004	2003
Won currency loans			
Shinhan Bank and others	3.59 -6.50	₩ 680	₩ 3,843
Hana Bank and others	6.27	20,000	20,000
Chohung Bank and others	5.00	14	68
Korea Development Bank and others	1.00 ~ 6.47	102,174	44,622
Export-Import Bank of Korea	5.9 ~ 6.1	117,800	58,700
Daegu Bank	5.8	10,000	-
		<u>250,668</u>	<u>127,233</u>
Foreign currency loans ¹			
Hong Kong and Shanghai Banking Corp.	3M LIBOR + 1.45	31,314	-
Woori Bank	3M LIBOR + 1.0	36,246	41,802
Kookmin Bank	6M LIBOR + 1.25	80,102	-
Korea Development Bank and others	3M Eulibor+1.75	213,749	-
Export-Import Bank of Korea	6M Libor+1.2 ~ 1.54	90,156	217,562
Banque Paribas	-	-	1,963
Societe Generale	-	-	2,505
Barclays Bank	-	-	59,770
ICBC and others	3.2 ~ 5.5	96,956	-
China Construction Bank	5.02	11,162	-
Bank of China	2.36 ~3.61	14,468	1,198
Others	2.29 ~ 13.00	321,500	201,956
		<u>895,653</u>	<u>526,756</u>
Less: Current maturities		<u>(110,504)</u>	<u>(74,160)</u>
		<u>₩ 1,035,817</u>	<u>₩ 579,829</u>

- ¹ Representing US \$ 429 million, EUR 144 million, CNY 651 million, GBP 42 million, MXN 578 million, THB 568 million and TRL 8,074,456 million (2003: \$ 269 million, CNY 344 million, INR 3 million, GBP 12 million, MXN 787 million, THB 319 million, TRL 23,667,539 million and SGD 16 million).

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

The maturities of long-term debts as of December 31, 2004, are as follows:

<i>(in millions of Korean won)</i>	For the year ending December 31,	Debentures and convertible bonds	Long-term debt	Total
	2006	₩ 2,045,531	₩ 256,575	₩ 2,302,106
	2007	1,344,095	249,534	1,593,629
	2008	340,000	279,284	619,284
	2009	750,000	162,780	912,780
	2010 and thereafter	-	87,644	87,644
		<u>₩ 4,479,626</u>	<u>₩ 1,035,817</u>	<u>₩ 5,515,443</u>

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15. Leases

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

As of December 31, 2004, future lease payments under operating lease agreements are as follows:

<i>(in millions of Korean won)</i>			
For the year ending December 31,		Lease payments	
2005		₩	7,299
2006			5,613
2007			3,474
2008			2,967
2009 and thereafter			3,077
		₩	<u>22,430</u>

16. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Beginning balance	₩ 686,052	₩ 600,109
Severance payments	(123,554)	(110,140)
Transfer-in from (transfer-out to) affiliated companies, net	8,841	8,085
Increase arising from changes in consolidated entities	-	11,438
Provisions	186,794	176,560
	<u>758,133</u>	<u>686,052</u>
Contribution to the National Pension Fund	(18,400)	(23,175)
Severance insurance deposits	(438,912)	(406,739)
	<u>₩ 300,821</u>	<u>₩ 256,138</u>

The severance benefits are funded at approximately 57.9%, (2003: 59.3%) as of December 31, 2004, through employee severance insurance plans with Kyobo Life Insurance Co, Ltd. and other life insurance companies. The amounts funded under employee severance insurance plans, or severance insurance deposits, are presented as a deduction from accrued severance benefits.

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17. Commitments and Contingencies

As of December 31, 2004, the Company provided several notes and checks to financial institutions as collateral in relation to various borrowings and guarantees of indebtedness.

As of December 31, 2004, the Company was a party to various technical assistance agreements with various foreign companies for the manufacture of certain product lines.

As of December 31, 2004, the Company has bank overdraft facility agreements with various banks amounting to ₩608,500 million. In addition, the Company has entered into a loan agreement with CitiBank Korea amounting to ₩35,000 million.

As of December 31, 2004, the Company has sales agreements for export trade receivables with various banks amounting to ₩6,533,718 million. As of December 31, 2004, the outstanding balance of domestic trade notes receivable and export trade accounts receivable sold at a discount to various financial institutions with recourse amounted to ₩1,512,954 million. The Company has corporate electronic settlement services contracts for collection of accounts receivable with various banks amounting to ₩190,000 million. In addition, the Company has note discounting agreements with various banks amounting to ₩35,000 million. The outstanding notes sold at discount of delivered to creditors, for which the Company is contingently liable upon the note issuers' default, amount to ₩3,934 million as of December 31, 2004.

As of December 31, 2004, the Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩980,000 million.

As of December 31, 2004, the Company has sales contracts with several companies, the undelivered portions of which amounted to approximately ₩6,438 million for KT Corp., ₩1,519 million for Hanarotelecom Inc., ₩45,543 million for Public Telecommunication Corporation and others in Yemen.

As of December 31, 2004, the Company is contingently liable for guarantees approximating ₩55,843 million on indebtedness of the other company including equity method investees, and has received guarantees approximating ₩45,459 million from various financial institutions for the tax payment of the Company (Note 25). As of December 31, 2004, the Company received guarantees amounting to ₩148,778 million in relation to the contracts.

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As of December 31, 2004, LG.Philips LCD Co., Ltd., a subsidiary, has a revolving credit facility agreement with Shinhan Bank and Hana Bank totaling ₩200,000 million. In September 2004, LG.Philips LCD Co., Ltd. entered into a five-year accounts receivable securitization program (the "Program") with a financial institution. The Program allows LG.Philips LCD Co., Ltd. to sell, on a revolving basis, an undivided interest up to US\$300 million in eligible accounts receivables of four subsidiaries, namely, LG.Philips LCD America ("LPLA"), LG.Philips LCD Germany ("LPLG"), LG.Philips LCD Taiwan ("LPLT") and LG.Philips LCD Japan ("LPLJ"), while retaining a subordinated interest in a portion of the receivables. The eligible receivables of LPLA and LPLG are sold without legal recourse to third party conduits through LG. Philips LCD America Finance Corporation, a qualifying bankruptcy-remote special purpose entity, which is wholly owned by LPLA but is not consolidated for financial reporting purposes. The eligible receivables of LPLT and LPLJ are sold without legal recourse to third party conduits through ABN AMRO Taipei Branch and ABN AMRO Tokyo Branch, respectively.

As of December 31, 2004, the outstanding balance of securitized accounts receivable held by the third party conduits totaled ₩305,203 million, of which LG.Philips LCD Co., Ltd. subordinated retained interest was ₩59,324 million. Accordingly, ₩245,879 million of accounts receivable balances, net of applicable allowances, were removed from the consolidated balance sheet as of December 31, 2004. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately ₩3,906 million for the year ended December 31, 2004.

In order to reduce the impact of changes in exchange rates on future cash flows, LGE enters into foreign currency forward contracts. As of December 31, 2004, LGE has outstanding forward contracts with ABN-AMRO and others for selling US dollars amounting to US\$ 198 million (contract rates: ₩1,035.70: US\$ 1 ~ ₩1,180.30: US\$ 1, contract due dates: January through July 2005). As of December 31, 2004, LGE has outstanding forward contracts with Societe General and others for selling Euro and buying US dollars amounting to EUR 37 million (contract rates: €1.2459: US\$1~ €1.3436: US\$1, contract due dates: January through March 2005). In addition, as of December 31, 2004, LGE has outstanding forward contracts with UFJ Bank and others for selling US dollars and buying Japanese yen amounting to US\$ 75 million (contract rates: ¥ 102.84: US\$1 ~ ¥ 107.08: US\$1, contract due dates: January through March 2005). As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩11,097 million and ₩2,201 million, respectively, were charged to current operations for the year ended December 31, 2004.

In order to reduce the impact of changes in exchange rates, LGE has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩12,051 million and ₩1,422 million, respectively, were recorded for the year ended December 31, 2004.

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A summary of the terms of outstanding currency option contracts as of December 31, 2004, is as follows:

Option type	Amount (in millions)	Exercise price	Contract due date
Put	US\$160	₩1,035.0/US\$ ~ ₩1,170.0/US\$	January 4, 2005 through June 10, 2005
Call	US\$150	₩1,053.1/US\$ ~ ₩1,188.0/US\$	January 4, 2005 through June 10, 2005

In order to reduce the impact of changes in interest rates and exchange rates, LGE has entered into a cross currency swap contract. An unrealized valuation gain of ₩31,568 million was charged to current operations for the year ended December 31, 2004.

A summary of the terms of the outstanding cross currency swap contract as of December 31, 2004, is as follows:

<i>(in millions)</i>	Transaction amount		Annual interest rate (%)		Maturity
	Receipts	Disbursement	Receipts	Disbursement	
Standard Chartered Bank	₩ 110,000	US\$ 93	4.50%	3M Libor + 0.79%	November 7, 2005
Barclays Bank	117,150	100	5.00%	3M Libor +1.17%	February 26, 2007

As a result of the above derivatives contracts, a realized gain of ₩38,367 million and a realized loss of ₩12,716 million were recorded as a non-operating income and expense, respectively, for the year ended December 31, 2004.

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

As a result of foreign currency transactions, a gain and loss of ₩80,306 million and ₩51,597 million, respectively, were realized for the year ended December 31, 2004. LG.Philips LCD Co., Ltd. had outstanding forward contracts for buying Japanese yen, and Korean won amounting to ¥22,655 million, and ₩1,577,449 million, respectively, and for selling US dollars amounting to US\$1,622 million. As a result of the above foreign currency contracts, LG.Philips LCD Co., Ltd. recorded unrealized gains and losses on outstanding foreign currency forward contracts of ₩123,585 million and ₩35 million, respectively. Unrealized gains and losses of ₩68,298 million and ₩35 million, respectively, were charged to current operations for the year ended December 31, 2004, because these contracts did not meet the requirements for a cash flow hedge. Unrealized gains amounting to ₩55,287 million were incurred relating to cash flow hedges from forecasted exports which were recorded as capital adjustments. The hedged forecasted transactions are expected to occur in 2005, and the aggregate amount of all deferred gains recorded in capital adjustments, which is expected to be realized as income within 12 months from December 31, 2004, is ₩55,287 million.

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

A summary of these contracts as of December 31, 2004, follows:

(in millions)

Contracting party	Buying position	Selling position
HSBC	US\$ 600	₩ 673,480

As of December 31, 2004, unrealized losses of ₩54,107 million were charged to current operations, because these contracts did not meet the requirements for hedge accounting for financial statement purposes.

As of December 31, 2004, nine overseas subsidiaries, including LG Electronics Mexico S.A. de C. V. (LGEMS), have foreign currency forward contracts for buying US dollars and Euro amounting to US\$100 million and €11 million, respectively, in order to reduce the impact of changes in exchange rates on future cash flows from the purchase of raw materials and finished goods. As of December 31, 2004, LG Electronics Da Amazonia Ltda. (LGEAZ), an overseas subsidiary, has foreign currency swap contracts for buying US\$11 million and selling BRL30 million in order to reduce the impact of changes in exchange rates on its future cash flows from borrowings and related interest expense.

As of December 31, 2004, the Company is named as a defendant in legal actions which were brought against the Company by AVS Corporation in Canada. In addition, the Company is named as the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

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18. Capital Stock

Capital stock as of December 31, 2004, is as follows:

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

As of December 31, 2004, 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.

19. Capital Surplus

Capital surplus as of December 31, 2004 and 2003, is as follows:

<i>(in millions Korean won)</i>	2004	2003
LGE's capital surplus		
Additional paid-in capital	₩ 1,876,153	₩ 1,876,153
Others	31,390	15,833
LGE's share in subsidiaries' and equity method investees' capital surplus	<u>86,399</u>	<u>(168,928)</u>
	<u>₩ 1,993,942</u>	<u>₩ 1,723,058</u>

As a result of the spin-off, on April 1, 2002, ₩1,876,153 million was recorded as capital surplus representing the difference between net assets transferred from LG Electronics Investment Ltd. amounting to ₩2,815,707 million, and ₩939,554 million, comprising of capital stock amounting to ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. amounting to ₩155,593 million.

As a result of the issuance of foreign currency convertible bonds in August 2003 and May 2004, a premium for conversion rights of ₩29,471 million was recorded as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. In addition, as a result of disposal of treasury stock, gains on disposal of treasury stock of ₩1,919 million were recorded as a capital surplus.

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20. Retained Earnings

Retained earnings as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Legal reserve	₩ 35,403	₩ 15,743
Other reserves		
Reserve for improvement of financial structure	27,771	27,771
Reserve for research and manpower development	506,200	76,590
	<u>569,374</u>	<u>120,104</u>
Unappropriated retained earnings	1,691,807	754,704
	<u>₩2,261,181</u>	<u>₩ 874,808</u>

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

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21. Capital Adjustments

Capital adjustments as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Treasury stock	₩ (46,657)	₩ (8,977)
Loss on valuation of investments	(5,046)	(161,526)
Loss from disposal of treasury stock	-	(62)
Overseas operations translation credit	31,011	209,194
Gain on valuation of derivative financial instruments	24,643	-
	<u>₩ 3,951</u>	<u>₩ 38,629</u>

The Company has retained treasury stocks consisting of 793,208 shares (2003: 194,953 shares) of common stock and 4,680 shares (2003: 4,678 shares) of preferred stock as of December 31, 2004. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell these in the future.

22. Income Tax Expense

Income tax expense for the years ended December 31, 2004 and 2003, consists of the following:

<i>(in millions of Korean won)</i>	2004	2003
Current income taxes	₩ 336,400	₩ 320,007
Deferred income taxes	42,737	(102,927)
Income taxes added to shareholders' equity	22,857	5,815
	<u>₩ 401,994</u>	<u>₩ 222,895</u>

Components of deferred income taxes as of December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	Deferred income tax assets (liabilities)	
	2004	2003
Depreciation	₩ (30,800)	₩ 2,768
Bad debt expense	28,089	44,163
Product warranty reserve	45,161	36,576
Development costs	(10,089)	(21,470)
Equity method investments	(23,074)	266,193
Tax credits carried forward	262,057	115,820
Accrued expenses	113,320	41,006
Others	65,463	8,904
	<u>450,127</u>	<u>493,960</u>
Less : Valuation allowance	-	(1,096)
	<u>₩ 450,127</u>	<u>₩ 492,864</u>

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The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable value.

The statutory income tax rate, including resident tax surcharges, applicable to LGE and its domestic subsidiaries was approximately 29.7% in 2004 and 2003, and was amended to 27.5% effective for fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003. Deferred income tax assets were computed by applying the present tax rate of 29.7% for the temporary differences expected to be realized in 2004, and by applying the amended tax rate of 27.5% for the temporary differences expected to be realized in fiscal years beginning January 1, 2005 and thereafter, except for 29.7% for certain temporary differences expected to be filed as revision of the prior years' tax return in 2005.

As a result of tax adjustments and tax credits, effective tax rate of the Company for the year ended December 31, 2004 is approximately 13.8% (2003: 15.2%).

23. 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 year. 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 year.

Basic earnings per share for the years ended December 31, 2004 and 2003 are calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2004	2003
Net income as reported on the statements of income	₩ 1,608,526	₩ 704,976
Less: Preferred stock dividends (Note 24)	(26,631)	(22,336)
Additional income available for dividends allocated to preferred stock	<u>(151,297)</u>	<u>(55,779)</u>
Net income allocated to common stock	1,430,598	626,861
Weighted-average number of common shares outstanding	<u>139,016,745</u>	<u>139,357,190</u>
Basic earnings per share (in won)	<u>₩ 10,291</u>	<u>₩ 4,498</u>

Basic ordinary income per share is identical to the basic earnings per share since there was no extraordinary gain or loss.

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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 year. 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 year.

Diluted earnings per share for the years ended December 31, 2004 and 2003, are calculated as follows:

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

	2004	2003
Net income allocated to common stock	₩ 1,430,598	₩ 626,861
Add: Interest expense on convertible bonds, net of tax ¹	<u>14,027</u>	<u>2,129</u>
Diluted net income allocated to common stock	1,444,625	628,990
Weighted-average number of common shares and diluted securities outstanding	<u>145,949,525</u>	<u>141,272,019</u>
Diluted earnings per share (in won)	<u>₩ 9,898</u>	<u>₩ 4,452</u>

¹ This is computed based on the effective tax rate.

Diluted ordinary income per share is identical to the diluted earnings per share since there was no extraordinary gain or loss.

The diluted securities outstanding as of December 31, 2004, are as follows:

(in millions, except conversion price)

Diluted securities	Korean won equivalent	Conversion period	Number of shares of common stock to be issued	Conversion price
Foreign currency denominated convertible bonds of US\$287.5 million, issued in 2003	₩339,796	September 12, 2003 through July 28, 2006	4,920,464 shares	₩68,900 per share
Foreign currency denominated convertible bonds of US\$250 million, issued in 2004	₩296,975	May 18, 2005 through May 7, 2007	3,049,221 shares	₩96,869 per share

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24. Dividends

Details of LGE's dividends declared for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004		2003	
	Dividend ratio (%)	Dividend amount	Dividend ratio (%)	Dividend amount
Common stock	30%	₩ 208,220	25%	₩ 174,264
Preferred stock	31%	26,631	26%	22,336
		<u>₩ 234,851</u>		<u>₩ 196,600</u>

LGE's dividend payout ratio for the years ended December 31, 2004 and 2003, is computed as follows:

<i>(in millions of Korean won, except for ratios)</i>	2004	2003
Total dividends (A)	₩ 234,851	₩ 196,600
Net income of LGE (B)	<u>1,545,954</u>	<u>662,824</u>
Dividend payout ratio ((A)/(B))	<u>15.19%</u>	<u>29.66%</u>

LGE's dividend yield ratio for the years ended December 31, 2004 and 2003, is computed as follows:

<i>(in Korean won)</i>	2004		2003	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (A)	₩ 1,500	₩ 1,550	₩ 1,250	₩ 1,300
Market price as of balance sheet date (B)	<u>64,100</u>	<u>36,000</u>	<u>58,600</u>	<u>25,950</u>
Dividend yield ratio ((A)/(B))	<u>2.34%</u>	<u>4.31%</u>	<u>2.13%</u>	<u>5.01%</u>

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25. Transactions with Related Parties

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies for the years ended December 31, 2004 and 2003, and the related account balances as of December 31, 2004 and 2003, are summarized as follows:

Transactions between LGE and its consolidated subsidiaries

<i>(in millions of Korean won)</i>	2004	2003
Receivables	₩ 3,476,905	₩ 2,650,146
Payables	370,345	430,995
Sales and other income	15,943,445	11,001,774
Purchases and other expenses	1,983,468	1,400,860
Guarantees	1,710,659	1,350,064

Transactions between consolidated subsidiaries

<i>(in millions of Korean won)</i>	2004	2003
Receivables and payables	₩ 2,044,054	₩ 1,550,579
Sales, purchases and others	9,960,351	7,349,975
Guarantees	211,451	59,551

Transactions between the Company and equity-method investees

<i>(in millions of Korean won)</i>	2004	2003
Receivables and payables	₩ 231,153	₩ 117,995
Sales, purchases and others	2,065,123	1,604,048
Guarantees	52,190	239,560

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26. Segment Information

The Company has organized reportable business divisions comprising of the Digital Display & Media division, Digital Appliance division, Telecommunication Equipment & Handset division, LCD division and other business 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.

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

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

Financial data by business division as of December 31, 2004 and 2003, and for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004		2003	
	External sales	Operating Income (loss)	External sales	Operating Income (loss)
Business Division				
Digital Display & Media ¹	₩16,134,244	₩ 370,620	₩13,343,503	₩ 481,554
Digital Appliance	10,135,823	507,388	8,587,184	567,523
Telecommunication Equipment & Handset ¹	9,451,387	616,653	8,218,024	293,581
LCD	8,328,170	1,728,357	6,098,335	1,101,127
Other businesses and supporting division	2,732,209	164,666	2,794,520	83,204
Elimination of internal transactions	(3,532,387)	(96,462)	(3,447,031)	(99,888)
	<u>₩43,249,446</u>	<u>₩3,291,222</u>	<u>₩35,594,534</u>	<u>₩2,427,101</u>

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

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Financial data by geographic area for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004		2003	
	External sales	Ratio	External sales	Ratio
Domestic	₩ 5,900,313	14%	₩ 6,039,966	17%
North America	9,639,516	22%	8,153,919	23%
Europe	6,959,040	16%	5,635,523	16%
Central & South America	1,714,473	4%	1,186,900	3%
Central Asia & Africa	2,420,290	6%	1,843,333	5%
Asia	8,872,275	20%	7,338,556	21%
China	5,460,955	13%	3,314,080	9%
CIS	2,282,584	5%	2,082,257	6%
	<u>₩ 43,249,446</u>	<u>100%</u>	<u>₩ 35,594,534</u>	<u>100%</u>

27. Value Added Information

LGE's details of accounts included in the computation of value added based on non-consolidated financial statements for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004			2003		
	Selling and administrative expenses	Manufacturing costs	Total	Selling and administrative expenses	Manufacturing costs	Total
Salaries	₩ 632,759	₩ 736,913	₩ 1,369,672	₩ 490,534	₩ 590,443	₩ 1,080,977
Severance benefits	67,667	105,915	173,582	57,248	78,502	135,750
Welfare expenses	88,818	125,454	214,272	82,149	123,289	205,438
Rental charges	55,694	11,165	66,859	44,770	13,946	58,716
Depreciation and amortization	284,198	383,168	667,366	293,181	324,713	617,894
Taxes and dues	14,346	10,559	24,905	9,449	8,376	17,825
	<u>₩ 1,143,482</u>	<u>₩ 1,373,174</u>	<u>₩ 2,516,656</u>	<u>₩ 977,331</u>	<u>₩ 1,139,269</u>	<u>₩ 2,116,600</u>

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28. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2004 and 2003, are as follows:

<i>(in millions of Korean won)</i>	2004	2003
Transfer to property, plant and equipment from construction-in-progress	₩ 627,760	₩ 435,366
Reclassification of current maturities of long-term debt	110,504	4,475
Reclassification of current maturities of debentures	909,137	985,251
Increase (decrease) in other accounts payable in relation to the acquisition of property, plant and equipment	(60,551)	229,430
Increase in assets due to changes in subsidiaries	-	537,049
Increase in liabilities due to changes in subsidiaries	-	258,515

29. Subsequent Events

The Company and IBM Korea Inc. divided their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005 the Company merged with a portion of the PC division from the joint venture.

On January 24, 2005, the Company signed a memorandum of understanding with Nortel Networks Corporation of Canada for establishment of a joint venture to engage in the field of communication equipment and networking solution.

30. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the consolidated financial statements as of and for December 31, 2003, presented herein for comparative purposes, have been reclassified to conform to the consolidated financial statements presentation as of and for the year ended December 31, 2004. These reclassifications had no effect on previously reported net income or shareholders' equity.