

LG Electronics Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2005 and 2004

LG Electronics Inc. And Subsidiaries

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December 31, 2005 and 2004

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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, 2005 and 2004, the related consolidated statements of income, changes in shareholders’ equity and cash flows for the years ended December 31, 2005 and 2004, expressed in Korean won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries of LGE, whose financial statements, prior to the elimination of intercompany transactions, reflect 21% and 27% of the Company’s consolidated total assets as of December 31, 2005 and 2004, respectively, and 32% and 38% of the Company’s consolidated total sales for the years ended December 31, 2005 and 2004, respectively. These financial statements were audited by other auditors whose reports have been furnished us, and our opinion, insofar as it relates to the amounts included for LG Electronics U.S.A., Inc. and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in 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, 2005 and 2004, 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 33 to the accompanying consolidated financial statements, on January 1, 2005, the Company absorbed a part of the PC division of LG IBM PC Co., Ltd., a joint venture with IBM Korea Inc. On January 4, 2005, LG IBM PC Co., Ltd. was dissolved.

As discussed in Note 34 to the accompanying consolidated financial statements, on November 2, 2005, a joint venture company named, LG-Nortel Co., Ltd., between the Company and Nortel Corporation, was established. This was approved by the Board of Directors on August 16, 2005.

As discussed in Note 1 to the accompanying consolidated financial statements, in July 2005, the subsidiary, LG.Philips LCD Co., Ltd. issued a total of 32,500,000 shares of common stock in the form of American Depositary Shares ("ADSs") for total proceeds of US\$ 1,385,800 thousand. The Company intends to use the proceeds from these sales to fund the capital expenditures in connection with the construction of TFT-LCD fabrication plant and other LCD facilities in Korea.

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 informed about Korean accounting principles or auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 10, 2006

This report is effective as of March 10, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2005 and 2004

(in millions of Korean won)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 31)	₩ 2,981,502	₩ 2,716,196
Short-term financial instruments (Note 3)	60,670	189,567
Short-term investments (Note 4)	6,475	122,337
Trade accounts and notes receivable, net (Notes 26 and 31)	4,452,748	4,347,029
Inventories, net (Notes 6 and 12)	5,761,131	5,790,607
Short-term loans receivable (Notes 5 and 31)	23,154	21,616
Other accounts receivable, net (Notes 5 and 31)	625,007	1,022,243
Prepaid expenses	127,095	97,307
Accrued income, net (Note 5)	47,551	26,233
Advance payments, net (Note 5)	69,782	93,070
Prepaid income taxes	118,301	47,275
Derivative transaction debit (Note 17)	70,276	175,060
Deferred income tax assets (Note 23)	227,417	-
Other current assets	418,190	403,578
Total current assets	<u>14,989,299</u>	<u>15,052,118</u>
Property, plant and equipment, net (Notes 9, 11 and 12)	15,739,327	12,317,527
Long-term financial instruments (Notes 3 and 31)	20,108	18,547
Investment securities (Note 7)	61,628	91,793
Equity method investments (Note 8)	385,261	398,010
Refundable deposits	500,589	523,588
Long-term loans receivable, net (Note 5)	106,286	81,509
Long-term prepaid expense	322,507	198,318
Derivative transaction debit (Note 17)	4,386	-
Deferred income tax assets (Note 23)	428,140	471,058
Intangible assets, net (Note 10)	558,406	735,955
Other non-current assets	7,246	28,928
Total assets	<u>₩ 33,123,183</u>	<u>₩ 29,917,351</u>

LG Electronics Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2005 and 2004

(in millions of Korean won)

	2005	2004
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Notes 13 and 31)	₩ 5,152,708	₩ 5,862,396
Current maturities of long-term debts, net (Note 13)	1,643,920	1,014,629
Trade accounts and notes payable (Notes 26 and 31)	3,548,766	3,465,550
Other accounts payable (Note 31)	2,930,569	2,527,220
Accrued expenses	1,403,754	1,522,144
Advances from customers	331,135	276,418
Withholdings (Note 31)	138,138	155,915
Income taxes payable (Note 23)	69,959	124,018
Derivative transaction credit (Note 17)	35,354	56,881
Other current liabilities (Note 31)	293,366	181,928
Total current liabilities	<u>15,547,669</u>	<u>15,187,099</u>
Debtures and convertible bonds, net of current maturities and discounts on debtures (Note 14)		
	4,059,605	4,400,520
Long-term debts, net of current maturities (Notes 14 and 31)	1,593,739	1,035,817
Accrued severance benefits, net (Note 15)	333,122	300,821
Product warranty reserve (Note 16)	143,075	165,488
Derivative transaction credit (Note 17)	3,045	-
Deferred income tax liabilities (Note 23)	114,563	20,931
Other long-term liabilities (Note 17)	112,555	71,917
Total liabilities	<u>21,907,373</u>	<u>21,182,593</u>
Commitments and contingencies (Note 17)	-	-
Shareholders' equity		
Capital stock (Note 18)	800,226	783,961
Capital surplus (Note 19)	2,595,157	1,993,942
Retained earnings (Note 20)	2,580,796	2,261,181
Capital adjustments (Note 21)	51,629	3,951
Minority interest in consolidated subsidiaries	5,188,002	3,691,723
Total shareholders' equity	<u>11,215,810</u>	<u>8,734,758</u>
Total liabilities and shareholders' equity	<u>₩ 33,123,183</u>	<u>₩ 29,917,351</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, 2005 and 2004

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

	2005	2004
Sales (Notes 26 and 27)	₩ 44,445,128	₩ 43,249,446
Cost of sales (Note 26)	<u>34,287,877</u>	<u>32,415,961</u>
Gross profit	10,157,251	10,833,485
Selling and administrative expenses	<u>8,445,283</u>	<u>7,542,263</u>
Operating income	<u>1,711,968</u>	<u>3,291,222</u>
Non-operating income		
Interest income	175,765	155,937
Rental income	24,463	23,202
Foreign exchange gains	898,626	1,080,640
Gain from disposal of investments	61,647	32,693
Gain on valuation of equity method investments(Note 8)	11,575	-
Gain on disposal of property, plant and equipment	24,386	12,305
Gain on derivative transactions	72,620	119,654
Gain on valuation of derivatives	36,798	123,047
Refund of income taxes	41,520	65,170
Reversal of allowance for doubtful accounts	21,873	35,998
Gain on business transfer	28,607	-
Others	<u>127,533</u>	<u>220,409</u>
	<u>1,525,413</u>	<u>1,869,055</u>
Non-operating expenses		
Interest expense	561,782	424,140
Foreign exchange losses	821,075	918,599
Loss from transfer of trade accounts and notes receivable	172,542	138,673
Loss from disposal of property, plant and equipment	47,566	126,233
Loss from disposal of Intangible assets	25,066	-
Loss from disposal of investments	16,120	72,991
Loss on valuation of the equity method investments (Note 8)	198,858	106,297
Other bad debt expense	1,103	10,113
Donations	17,932	23,236
Loss on derivatives transactions	114,846	66,426
Loss on valuation of derivatives	14,027	60,141
Additional payment of income taxes	8,453	25,562
Loss from early redemption of deventures	9,067	-
Loss on impairment of property, plant and equipment	128	64
Loss on impairment of investment assets	2,022	82,393
Loss on impairment of intangible assets (Note 10)	89,137	38,105
Loss on payment guarantees	50,650	-
Others	<u>200,610</u>	<u>145,100</u>
	<u>2,350,984</u>	<u>2,238,073</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2005 and 2004

<i>(in millions of Korean won, except per share amounts)</i>	2005	2004
Income before income tax	886,397	2,922,204
Income tax expense (Note 23)	<u>(47,735)</u>	<u>401,994</u>
Income before minority interest	934,132	2,520,210
Minority interest in income of consolidated subsidiaries, net	<u>(328,570)</u>	<u>(911,684)</u>
Net income	<u>₩ 605,562</u>	<u>₩ 1,608,526</u>
Earnings per share and ordinary income per share (in won) (Note 24; ₩)	3,797	₩ 10,291
Diluted earnings per share and diluted ordinary income per share (in won) (Note 24)	3,766	9,898

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, 2005 and 2004

(in millions of Korean won)

	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interests	Total
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	₩ 783,961	₩ 1,993,942	₩ 2,261,181	₩ 3,951	₩ 3,691,723	₩ 8,734,758
Balance at						
January 1, 2005	₩ 783,961	₩ 1,993,942	₩ 2,261,181	₩ 3,951	₩ 3,691,723	₩ 8,734,758
Net income	-	-	605,562	-	-	605,562
From the absorption of a part of						
the PC division of LG IBM PC	614	7,272	-	-	-	7,886
Conversion of						
convertible bonds	15,651	197,515	-	-	-	213,166
Disposal of						
subsidiaries' securities	-	202,702	-	-	-	202,702
Disposal of						
treasury stock	-	264	-	1,764	-	2,028
Issuance of convertible bonds						
of subsidiaries	-	11,796	-	-	-	11,796
Payment of dividends	-	-	(234,851)	-	-	(234,851)
Adjustment for changes in						
ownership, net	-	285,665	-	32,935	-	318,600
Loss on valuation of						
derivatives, net	-	-	-	(20,652)	-	(20,652)
Income taxes added to						
shareholders' equity	-	(107,366)	3,308	-	-	(104,058)
Overseas operations						
translation adjustment	-	-	-	31,926	-	31,926
Changes in						
minority interest	-	-	-	-	1,496,279	1,496,279
Others	-	3,367	(54,404)	1,705	-	(49,332)
Balance at						
December 31, 2005	₩ 800,226	₩ 2,595,157	₩ 2,580,796	₩ 51,629	₩ 5,188,002	₩ 11,215,810

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, 2005 and 2004

<i>(in millions of Korean won)</i>	2005		2004	
Cash flows from operating activities				
Net income	₩	605,562	₩	1,608,526
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation		2,682,854		1,973,032
Amortization		184,700		232,110
Loss from impairment of intangible assets		89,137		38,105
Amortization of discounts on debentures		70,135		-
Provision for severance benefits		271,750		186,794
Loss from transfer of trade accounts and notes receivable		172,542		138,673
Bad debt expense (Reversal of allowance for doubtful accounts), net		9,579		(15,270)
Gain on foreign currency translation, net		(7,985)		(194,394)
Loss from disposal of investment securities, net		(45,527)		40,298
Loss from impairment of investment securities		2,022		82,393
Loss from disposal of property, plant and equipment, net		23,180		113,928
Loss on valuation of securities using the equity method, net		187,283		106,297
Gain on valuation of derivatives, net		(22,771)		(62,906)
Stock-based compensation cost		5,799		-
Gain on business transfer		(28,607)		-
Loss from disposal of intangible assets		25,066		44,728
Loss (gain) on transaction of derivatives, net		8,013		(53,228)
Loss on payment guarantees		50,650		-
Loss on early redemption of debentures		9,067		-
Minority interest in income of consolidated subsidiaries, net		328,570		911,684
Others		(185)		64
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable		(434,184)		270,429
Decrease (increase) in other accounts receivable		370,107		(654,974)
Decrease (increase) in accrued income		(22,566)		205,158
Decrease in advances		26,743		21,806
Increase in other current assets		(15,493)		(124,524)
Decrease (increase) in inventories		42,824		(1,052,142)
Increase in prepaid expenses		(158,261)		(74,807)
Increase in prepaid income taxes		(71,026)		(26,258)
Decrease (increase) in deferred income tax assets		(272,064)		83,854
Increase (decrease) in trade accounts and notes payable		65,139		(587,599)
Increase in other accounts payable		416,497		153,269
Increase (decrease) in accrued expenses		(134,095)		502,586
Increase (decrease) in withholdings		(19,504)		86,170
Increase (decrease) in advances from customers		55,303		(64,352)
Decrease in unearned income		(2,295)		(2,184)
Increase (decrease) in other current liabilities		87,348		(160,402)
Increase (decrease) in deferred income tax liabilities		87,469		(118)
Increase (decrease) in income taxes payable		(131,238)		6,179
Accrued severance benefits transferred from affiliated company, net		3,988		-
Payment of severance benefits		(271,447)		(114,713)
Increase in severance insurance deposits		(51,592)		(32,173)
Decrease in contributions to the National Pension Fund		3,329		4,775
Increase (decrease) in warranty reserve		(14,346)		63,692
Dividend received		9,932		-
Decrease in other long-term debt		(8,252)		(7,761)
Net cash provided by operating activities		<u>4,183,150</u>		<u>3,646,745</u>

LG Electronics Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2005 and 2004

<i>(in millions of Korean won)</i>	2005	2004
Cash flows from investing activities		
Disposal of short-term financial instruments	130,229	5,397
Disposal of long-term financial instruments	8	122,455
Disposal of short-term investments assets	152,101	-
Decrease (increase) in short-term and long-term loans, net	(16,284)	41,284
Acquisition of short-term financial instruments	(1,331)	-
Acquisition of long-term financial instruments	(1,166)	-
Acquisition of short-term investments	(9,121)	(83,794)
Disposal of investment securities	49,893	132,207
Acquisition of investment securities	(93,777)	(417,603)
Decrease (increase) in refundable deposits, net	25,276	(70,693)
Decrease in other non-current assets	21,623	11,073
Disposal of property, plant and equipment	227,854	177,712
Disposal of intangible assets	58,459	-
Disposal of derivatives	90,844	137,249
Acquisition of property, plant and equipment	(6,178,122)	(5,784,681)
Acquisition of intangible assets	(188,529)	(69,270)
Acquisition of derivatives	(38,102)	(90,391)
Increase from business transfer	151,163	-
Increase from merger	34,575	-
	<u>(5,584,407)</u>	<u>(5,889,055)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from short-term borrowings	3,630,897	1,714,700
Repayment of short-term borrowings	(4,340,270)	-
Repayment of current maturities of long-term debt	(1,014,629)	(1,498,478)
Repayment of long-term borrowings	(87,006)	-
Issuance of debentures	1,766,922	1,696,659
Proceeds from long-term debt	849,946	552,794
Redemption of debentures	(553,501)	-
Payment of dividends	(242,135)	(196,634)
Disposal of treasury stock	2,128	11,318
Disposal of subsidiaries' securities	413,224	-
Acquisition of treasury stock	-	(46,298)
Subsidiaries' issuance of common stock	1,401,342	1,236,433
Change in overseas operations translation adjustments	(143,144)	(98,033)
	<u>1,683,774</u>	<u>3,372,461</u>
Net cash provided by financing activities		
Increase(Dcrease) in cash due to changes in the consolidated entities	<u>(17,211)</u>	<u>4,500</u>
Net increase in cash and cash equivalents	265,306	1,134,651
Cash and cash equivalents (Note 32)		
Beginning of the year	<u>2,716,196</u>	<u>1,581,545</u>
End of the year	<u>₩ 2,981,502</u>	<u>₩ 2,716,196</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, 2005 and 2004

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, 2005, the Company operates manufacturing facilities mainly in Kuro, Pyeongtaek, Chongju, Gumi and Changwon in the Republic of Korea.

As of December 31, 2005, the Company has outstanding capital stock amounting to ₩800,226 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, 2005, LG Corp. and its related parties own 31.5% of the Company’s total stocks including common stock and preferred stock, while financial institutions, foreign investors and others own the rest of the Company’s common stocks..

Consolidated Subsidiaries and Equity Method Investees

Consolidated subsidiaries and equity method investees as of December 31, 2005, are as follows:

(in millions of Korean won)

Company	Shareholders’ equity	Capital Stock	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
				LGE	Subsidiaries	Total	
Domestic subsidiaries							
LG Micron Ltd.	37,500	365,490	7,500,000	2,699,702	-	2,699,702	36.00
LG Innotek Co., Ltd.	43,104	233,821	8,620,800	6,017,400	-	6,017,400	69.80
LG.Philips LCD Co., Ltd.	1,789,079	7,675,597	357,815,700	135,625,000	-	135,625,000	37.90
Hi Plaza Inc.	37,200	115,200	7,440,000	7,440,000	-	7,440,000	100.00
Hi Business Logistics	3,600	12,093	720,000	720,000	-	720,000	100.00
Domestic equity method investees							
Hankuk Electric Glass Co., Ltd.	40,367	609,428	8,073,375	1,614,675	-	1,614,675	20.00
Paju Electric Glass Co., Ltd.	36,000	35,187	3,600,000	-	1,440,000	1,440,000	40.00
LG fund for small and medium enterprises	10,000	9,298	1	1	1	1	50.00
Blue Ocean Investment Fund	6,000	5,962	1	1	1	1	83.33
LG-Nortel Co., Ltd.	10,000	293,347	2,000,000	999,999	-	999,999	50.00

LG Electronics Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(in millions of Korean won)

Company	Shareholders' equity	Capital Stock	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
				LGE	Subsidiaries	Total	
Overseas subsidiaries							
LG Electronics Alabama, Inc. (LGEAD)	30	16,198	266	-	266	266	100.00
LG Electronics Almaty Kazak Co., Ltd. (LGEAK)	3,746	19,348	1	1	1	1	100.00
LG Electronics Antwerp Logistics N.V. (LGEAL)	967	1,461	10,000	-	10,000	10,000	10,000
LG Electronics Australia Pty, Ltd. (LGEAP)	1,558	480	2,685,000	2,685,000	-	2,685,000	100.00
LG Electronics Klima Sanayi ve Ticaret P.S. (LGEAT)	49,596	85,010	288,000	144,000	-	144,000	50.00
LG Electronics Da Amazonia Ltda. (LGEAZ)	80,354	119,529	1	1	1	1	100.00
LG Electronics Colombia Ltda. (LGECEB)	5,550	13,220	1	1	1	1	100.00
LG Electronics China Co., Ltd. (LGECH)	57,714	13,557	1	1	1	1	100.00
LG Electronics Canada, Inc. (LGECI)	13,779	17,672	42,900	42,900	-	42,900	100.00
LG Electronics Inc. Chile Limitada (LGECL)	5,856	7,520	1	1	1	1	100.00
LG Electronics Czech S.R.O. (LGECEZ)	6,534	7,842	1	1	1	1	100.00
LG Electronics Deutschland GmbH (LGEDG)	26,947	21,963	1	1	1	1	100.00
PT LG Electronics Display Devices Indonesia (LGEDI)	32,085	72,814	41,240	41,240	-	41,240	100.00
LG Electronics Egypt S.A.E. (LGEEG)	3,562	2,571	144,000	120,960	-	120,960	84.00
LG Electronics Espana S.A. (LGEES)	17,408	14,906	219,390	-	219,390	219,390	100.00
LG Goldstar France S.A.R.L. (LGEFS)	12,430	7,111	69,848	-	69,848	69,848	100.00
LG Electronics Gulf FZE (LGEGF)	8,312	9,024	29	29	-	29	100.00
LG Electronics HK Limited (LGEHK)	9,397	12,182	6,752,817	6,752,817	-	6,752,817	100.00
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN)	11,303	10,289	1	1	1	1	70.00
LG Electronics Hellas S. A. (LGEHS)	6,063	1,708	1,000,000	-	1,000,000	1,000,000	100.00
LG Electronics Huizhou Inc. (LGEHZ)	26,845	40,112	1	1	1	1	80.00
LG Electronics India PVT Ltd. (LGEIL)	32,159	168,405	112,649,459	112,649,459	-	112,649,459	100.00
PT LG Electronics Indonesia Ltd. (LGEIN)	16,623	13,657	40,700	31,200	9,500	40,700	100.00
LG Electronics Italy S.P.A. (LGEIS)	22,702	17,003	18,785,000	-	18,785,000	18,785,000	100.00
LG Electronics Japan Inc. (LGEJP)	12,978	9,551	1,380,000	1,380,000	-	1,380,000	100.00
Kunshan LGMS Computer Co., Ltd. (LGEKS)	4,808	4,077	1	1	1	1	100.00
LG Electronics Mlawa SP.Zo.O. (LGEMA)	92,401	97,482	278,027	278,027	-	278,027	100.00
LG Electronics Morocco S.A.R.L. (LGEMC)	3,352	2,015	315,213	315,213	-	315,213	100.00
LG Electronics Magyar Kft (LGEMK)	5,482	7,014	1	1	1	1	100.00
LG Electronics (M) SDN.BHD (LGEML)	7,869	7,188	37,700	37,700	-	37,700	100.00
LG Electronics Monterrey Mexico S.A. DE C.V. (LGEMM)	53,088	17,207	48,338	48,182	156	48,338	100.00
LG Electronics Mexico S.A. DE C.V. (LGEMS)	13,575	32,708	134,601	134,301	300	134,601	100.00
LG MITR Electronics Co., Ltd. (LGEMT)	17,770	6,501	5,076,000	5,076,000	-	5,076,000	100.00
LG Electronics MobileComm U.S.A. Inc. (LGEMU) (Subsidiary of LGEUS)	12,263	27,619	10,000	-	10,000	10,000	100.00
LG Electronics (Nanjing) Plazma Co., Ltd. (LGENP)	29,415	14,206	1	1	1	1	100.00
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	20,816	36,026	1	1	1	1	70.00
LG Electronics Philippines, Inc. (LGEPH) (formerly LGECEM)	22,181	750	739,036	739,036	-	739,036	100.00
LG Electronics Polska SP.Zo. O. (LGEPL)	9,189	20,184	28,366	-	28,366	28,366	100.00
Nanjing LG Panda Appliances Co., Ltd. (LGEPN)	14,165	26,797	1	1	1	1	70.00

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(in millions of Korean won)

Company	Shareholders' equity	Capital Stock	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
				LGE	Subsidiaries	Total	
Overseas subsidiaries							
LG Electronics Peru S.A. (LGEPR)	7,698	1,730	22,436,822	22,436,822	-	22,436,822	100.00
LG Electronics Panama S.A. (LGEPS)	2,333	10,725	21,000	21,000	-	21,000	100.00
LG Electronics Portugal (LGEPT)	20,926	14,665	1	1	1	1	100.00
LG Electronics Qinhuangdao Co., Ltd. (LGEQH)	7,024	9,483	1	1	1	1	100.00
LG Electronics Russia Inc. (LGERI)	412	12,366	2,410	2,290	-	2,290	95.00
LG Electronics Romania S.R.L (LGERO)	7,350	8,196	5	-	5	5	100.00
LG Electronics Mexicali. S.A. PEC.V. (LGEMX)	14,925	9,340	513,625	-	513,625	513,625	100.00
LG Electronics Reynosa. S.A. DEC.V. (LGERs)	46,757	52,634	70,576,292	-	70,576,292	70,576,292	100.00
LG Electronics S.A. Pty Ltd. (LGESA)	13,525	32,113	80,000,000	-	80,000,000	80,000,000	100.00
LG Electronics Service Europe Netherlands B.V. (LGESE)	10,481	527,086	6,544	6,544	-	6,544	100.00
LG Electronics JIT Europe B.V.(LGEJE)	25	249	180	-	180	180	100.00
Shanghai LG Electronics Co., Ltd. (LGESH)	12,728	14,510	1	1	1	1	70.00
LG Electronics Singapore Pte Ltd. (LGESL)	7,027	4,877	11,083,999	11,083,999	-	11,083,999	100.00
LG Electronics de Sao Paulo Ltda. (LGESP)	79,106	94,859	1	1	1	1	100.00
LG Electronics Sweden AB (LGESW)	5,668	5,039	44,357	-	44,357	44,357	100.00
LG Electronics Shenyang Inc. (LGESY)	18,616	26,719	1	1	1	1	78.87
LG Electronics Tianjin Appliance Co., Ltd. (LGETA)	122,490	138,539	1	1	1	1	80.00
LG Electronics Thailand Co., Ltd. (LGETH)	17,261	39,871	6,138,995	5,093,495	1,045,500	6,138,995	100.00
Taizhou LG-Chunlan Home Appliances Co., Ltd.(LGETR) (formerly LGECT)	67,644	36,474	1	1	1	1	100.00
LG Taistar Electronics Taiwan Co., Ltd. (LGETT)	18,981	14,610	52,892,542	52,892,542	-	52,892,542	100.00
LG Electronics United Kingdom Ltd. (LGEUK)	34,723	4,818	192,000	-	192,000	192,000	100.00
LG Electronics U.S.A., Inc. (LGEUS)	36,548	166,651	32,884	32,884	-	32,884	100.00
LG Electronics Vietnam Co., Ltd. (LGEVN)	5,525	16,825	1	1	1	1	100.00
LG Electronics Wales Ltd. (LGEWA)	418,932	710,137	2,042,202	-	2,042,202	2,042,202	100.00
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	24,101	28,821	1	1	1	1	54.00
LG Software PVT, Ltd. (LGSJ)	3,233	11,948	9,946,000	9,946,000	-	9,946,000	100.00
Zenith Electronics Corporation (Zenith)	-	(68,506)	2,000	-	2,000	2,000	100.00
EIC Properties PTE, Ltd.	24,914	8,743	34,170,000	13,052,940	-	13,052,940	38.20
LGE (China) R&D Center	8,201	8,057	1	1	1	1	100.00
LG BUILDING	156,721	144,523	1	1	1	1	100.00
LG Holdings (HK) Ltd	167,755	169,900	140,006,285	44,550,000	-	44,550,000	31.82
Qingdao LG Langchao Digital Communication Co., Ltd. (LGEQD)	17,611	18,937	1	1	1	1	60.00
LG Electronics Overseas Trading FZE(Dubai)	352	(1,371)	1	1	-	1	100.00
LG.Philips LCD America,Inc.	6,082	8,951	5,000,000	-	5,000,000	5,000,000	100.00
LG.Philips LCD Japan Co., Ltd.	1,088	4,106	1,900	-	1,900	1,900	100.00
LG.Philips LCD Germany GmbH	1,252	3,255	960,000	-	960,000	960,000	100.00
LG.Philips LCD Taiwan Co., Ltd.	4,189	12,232	11,550,000	-	11,550,000	11,550,000	100.00
LG.Philips LCD Nanjing Co., Ltd.	140,212	203,406	1	1	1	1	100.00
LG.Philips LCD Hong Kong Co., Ltd.	1,736	3,627	115,000	-	115,000	115,000	100.00
LG.Philips LCD Shanghai Co., Ltd.	596	2,713	1	1	1	1	100.00
LG.Philips LCD Poland Sp. zo.o.	16	10	500	-	500	500	100.00
LG Innotek Huizhou Co., Ltd.	9,741	25,473	1	1	1	1	100.00
LG Innotek Yantai Co., Ltd.	16,857	13,400	1	1	1	1	100.00
PT.LG Innotek Indonesia	5,564	6,670	5,000	-	5,000	5,000	100.00
LG Innotek USA Inc.	1,582	3,181	10,000	-	10,000	10,000	100.00
LG Micron(Fujian) Electronics Co., Ltd	31,309	17,241	1	1	1	1	80.00

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Company	Shareholders' equity	Capital Stock	Total issued and outstanding shares	Shares owned by			Percentage of ownership (%)
				LGE	Subsidiaries	Total	
Overseas equity method investees							
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)	64	76	50,000	50,000	-	50,000	100.00
Hitachi-LG Data Storage Inc. (HLDS)	13,974	29,399	30,000	14,700	-	14,700	49.00
LG Electronics Austria GmbH (LGEAG)	6,094	6,094	1	1	1	1	100.00
LG Electronics Argentina S.A. (LGEAR)	4,583	1,493	1	1	1	1	100.00
LG Electronics Egypt Cairo S.A.E. (LGEEC)	4,382	2,654	13,510	13,510	-	13,510	100.00
LG Electronics Middle East Co., Ltd. (LGEME)	462	1,212	20,000	20,000	-	20,000	100.00
Goldstar Mobilecomm France SASU (LGEMF)	5,621	5,621	400,000	400,000	-	400,000	100.00
LG Electronics Mobile Research U.S.A.,LLC (LGEMR)	2,104	2,939	1	1	1	1	100.00
LG Electronics North of England Ltd. (LGENE)	5,615	1,257	9,000,000	9,000,000	-	9,000,000	100.00
LG Electronics RUS, LLC (LGERA)	10,621	10,621	1	1	1	1	100.00
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	3,480	1	1	1	1	100.00
LG Electronics Wroclaw Sp.Zo.o. (LGEWR)	952	952	3,000	3,000	-	3,000	100.00
LG Pasig	2	2,567	100	-	38	38	40.00
LG.Philips Displays Holding B.V.	2,563,304	(526,605)	68,182	-	34,090	34,090	50.00
Electromagnetica Goldstar S.R.L.	1,003	508	2,650	1,325	-	1,325	50.00
SLD TELECOM Pte. Ltd.	149,665	112,668	146,150,000	62,458,000	-	62,458,000	42.74
Triveni Digital Inc.	-	899	22,357,500	19,500,000	-	19,500,000	87.20
LG Electronics RUS-Marketing, LLC (LGERM)	204	204	1	1	1	1	100.00
Hi Logistics China Company Limited	5,176	4,997	1	1	1	1	100.00
Hi Logistics Europe B.V.	1,477	2,309	12,000	-	12,000	12,000	100.00
LG Micron(Taiwan) Ltd.	31	31	1	1	1	1	100.00
LG Innotek Poland Co. Ltd	16	16	1	1	1	1	100.00

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

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

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Newly consolidated subsidiaries as of December 31, 2005, are as follows:

Consolidated subsidiaries	Remarks
LG Electronics Overseas Trading FZE LG Electronics Singapore PTE LTD (LGESL) LG Philips LCD Poland SP.zo.o.	The subsidiaries were newly established in 2005.
LG Electronics (M) SDN. BHD(LGEML)	Its total assets increased to more than ₩7,000 million.

Excluded subsidiaries as of December 31, 2005, which were consolidated as of December 31, 2004, are as follows:

Excluded subsidiaries	Remarks
LG Electronics Egypt Cairo S.A.E(LGEEC)	Its total assets decreased to less than ₩7,000 million.
LG Electronics North of England Ltd.(LGENE)	The subsidiary is under liquidation.
STIC Ventures Co., Ltd. LGMSK Computer	The subsidiaries were liquidated in 2005.
LG-Meca Electronics Haiphong, Inc.(LGEMK)	The subsidiary was merged with LG Electronics Vietnam Co., Ltd.(LGEVN).
LG Srithai Information Co.,LTD.(LGICTH)	The subsidiary was acquired by LG-Nortel Co., Ltd.

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

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

LG.Philips LCD Co., Ltd. was incorporated in February 1985, to manufacture and sell Thin Film Transistor Liquid Crystal Display ("TFT LCD"). On July 26, 1999, LG Electronics Inc., Koninklijke Philips Electronics N.V. ("Philips") and the Company entered into a joint venture agreement. Pursuant to the agreement, the Company changed its name from LG LCD CO., Ltd. to LG.Philips LCD Co., Ltd. effective August 27, 1999, and on August 31, 1999, the Company issued new shares of common stock to Philips for ₩725,000 million.

In July 2004, pursuant to Securities Registration Statement filed on July 16, 2004, with the Korea Stock Exchange, the Company sold 8,640,000 shares of common stock for ₩298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004, with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depositary Shares ("ADSs") for proceeds of US\$ 748,800 thousand. In September 2004, pursuant the "Underwriting Agreement" dated July 15, 2004, the Company issued an additional 1,715,700 shares of common stock in the form of ADSs for proceeds of US\$ 51,471 thousand. In July 2005, pursuant to a Form F-1 Registration statement filed on July 22, 2005, with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of American Depositary Shares ("ADSs") for proceeds of US\$ 1,189,656 thousand. In addition, pursuant to the "Underwriting Agreement" dated July 21, 2005, the Company issued 4,600,000 shares of common stock for gross proceeds of US\$ 196,144 thousand.

(2) LG Innotek Co., Ltd.

LG Innotek Co., Ltd. was incorporated in February 1976, to manufacture and sell electronics, electrics and machinery components. As of December 31, 2005, the head office is in Seoul and its manufacturing plants are in Gumi and Gwangju. It merged with LG Connect and Development Co., Ltd in March 1999 and transferred the system business to Nex1 Future Co., Ltd.

(3) Hi Plaza Inc.

Hi Plaza Inc. was incorporated in May 1997, to sell electronics, and information and communication products, which LGE manufactures, in the domestic market. As of December 31, 2005, the head office is in Seoul and it operates 182 distributors throughout the country. Hi Plaza Inc. changed its name in October 1998.

(4) LG Micron Ltd.

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

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

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

LG Electronics Inc. and Subsidiaries
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(6) LG Electronics U.K. Ltd. ("LGEUK")

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

(7) Other consolidated subsidiaries

Other than the subsidiaries above, there are other 84 consolidated subsidiaries including Hi Business Logistics, eight subsidiaries of LG.Philips LCD Co., Ltd., four subsidiaries of LG Innotek Co., Ltd., a subsidiary of LG Micron Ltd. and 70 overseas subsidiaries selling and manufacturing LGE's product.

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

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

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

(2) LG-Nortel Co., Ltd.

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

(3) Hankuk Electric Glass Co., Ltd.

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

(4) Paju Electric Glass Co., Ltd.

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

(5) Other equity method investees

Other than the above, there are other 23 equity method investees consistig of two domestic investees and 21 overseas investees, including SLD Telecom Pte. Ltd.

A summary of financial data of the major consolidated subsidiaries as of December 31, 2005 and for the year ended December 31, 2005, prior to the elimination of intercompany transactions, follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Net assets	Sales	Net income (loss)
LG.Philips LCD Co., Ltd. ¹	₩ 13,674,082	₩ 5,998,485	₩7,675,597	₩ 10,075,580	₩ 517,012
LG Micron Ltd. ¹	937,582	568,643	368,939	790,715	37,724
LG Innotek Co., Ltd. ¹	534,679	300,857	233,822	1,003,036	26,532
Hi Plaza Inc.	177,696	62,497	115,199	598,326	6,307
LG Electronics USA Inc.	808,956	659,904	149,052	3,038,333	17,230
LG Electronics U.K. Ltd.	202,108	196,278	5,830	723,159	(1,081)
Others	13,437,013	10,458,878	2,978,135	34,071,153	33,726
Total	29,772,116	18,245,542	11,526,574	50,300,302	637,450

¹ This financial data is based on consolidated financial statements.

LG Electronics Inc. and Subsidiaries

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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 Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning on or after this date.

And as SKFAS No. 15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2005.

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 Investments

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

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

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

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

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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 to reduce the inventory to its net realizable value. The valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss cease 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 reversal is a deduction from cost of sales.

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 (₩1,013.0: US\$1 as of December 31, 2005 and ₩1,043.8 : US\$1 as of December 31, 2004), and resulting translation gains or losses are recognized in current operations. However, convertible bonds in foreign currency are translated into Korean won at the agreed rate of exchange, considering the exercise of conversion rights by the creditors.

Foreign currency financial statements of consolidated subsidiaries and equity method investees 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.

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.

In 2005, the Controlling Company reduced its estimate of the useful life of moulds included in tools from five years to two years to better reflect their economic useful life. This change resulted in an increase in depreciation expense for the year ended December 31, 2005, by ₩101,816 million.

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Intangible Assets

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

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

Research and Development Costs

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

Borrowing Costs

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

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

Convertible Bonds

The Company recorded the equity component of the convertible bonds (conversion rights) by deduction the fair value of the liability component from the issue proceeds. The liability component is shown gross with the full face amount recorded as liability and a contra adjustment account (conversion rights adjustment) as a deduction from the liability to arrive at a net amount equal to its fair value. The Company is obligated to pay guaranteed interest if and when the convertible bond matures without exercise and has accrued this interest if and when the convertible bond matures without exercise and has accrued this interest as an adjustment to the carrying value of the liability component.

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.

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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.

Stock Appreciations plan

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

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.

Income Taxes

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

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

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

Sale of Accounts and Notes Receivable

The Company sells certain accounts and 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.

Government grants

Government grants, which are to be repaid, are recognized as liabilities. Government grants, which are not required to be repaid and are intended to be used for the acquisition of assets, are deducted from the cost of the specified assets after their acquisition. Cash received in relation to grants given prior to the acquisition of assets is included in the cash balance but with an equal and opposite contra adjustment.

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.

Present Value Discount

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

Duty Refunds

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

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.

Reconciliation of the differences in accounting policies

For the year ended December 31, 2005, the following adjustments were made on the equity method investees to reconcile the differences in accounting policies between the Company and equity method investees:

<i>(in millions of Korean won)</i>	Adjustment	Amount
LG.Philips LCD Co., Ltd.	Adjustment capitalized interest expense to expense as incurred	₩ 21,037
LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred	6,800
Subsidiary of LG Holdings (HK) Ltd.	Adjustment capitalized interest expense to expense as incurred	1,010

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3. Financial Instruments

As of December 31, 2005, cash and cash equivalents of ₩81,764 million (2004 : nil), short-term financial instruments of ₩52,299 million (2004 : ₩173,869 million), and long-term financial instruments of ₩19,267 million (2004 : ₩18,002 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.

4. Short-term investments

Short-term investments as of December 31, 2005 and 2004, consist of the following:

<i>(in millions of Korean won)</i>	2005	2004
Available-for-sale securities	₩ -	₩ 119,149
Trading securities (money market fund)	6,475	3,188
	<u>₩ 6,475</u>	<u>₩ 122,337</u>

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

<i>(in millions of Korean won)</i>	Percentage of ownership (%) at December 31, 2005	2005			2004		
		Acquisition cost	Fair value	Carrying value	Acquisition cost	Fair value	Carrying value
Commercial papers issued by LG Card Co., Ltd ¹	-	₩ -	₩ -	₩ -	₩ 149,169	₩119,115	₩119,115
Others		-	-	-	34	34	34
		<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩149,203</u>	<u>₩119,149</u>	<u>₩119,149</u>

¹ As approved by the Board of Directors on February 6, 2004, the Company purchased LG card Co., Ltd. (LG Card)'s commercial papers with a face value of ₩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 and the remaining amount of ₩50,831 million were to converted into equity securities, classified as available-for-sale securities (Note 7). They were all collected during the year ended December 31, 2005.

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5. Receivables

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

<i>(in millions of Korean won)</i>	2005				2004			
	Original amount	Allowance for doubtful accounts	Discounts on present value	Carrying value	Original amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts and notes receivable	₩4,593,946	₩ (140,731)	₩ (467)	₩4,452,748	₩ 4,529,957	₩ (182,439)	₩ (489)	₩ 4,347,029
Short-term loans	24,452	(1,298)		23,154	33,448	(11,832)	-	21,616
Other accounts receivable	637,227	(12,220)		625,007	1,042,470	(19,051)	(1,176)	1,022,243
Accrued income	48,081	(530)		47,551	26,478	(245)	-	26,233
Advance payments	72,842	(3,060)		69,782	102,605	(9,535)	-	93,070
Long-term loans	107,312	(1,026)		106,286	82,031	(522)	-	81,509
	<u>₩5,483,861</u>	<u>₩ (158,865)</u>	<u>₩ (467)</u>	<u>₩5,324,529</u>	<u>₩5,816,989</u>	<u>₩ (223,624)</u>	<u>₩ (1,665)</u>	<u>₩5,591,700</u>

As of December 31, 2005, trade bills negotiated through banks that have not yet matured amount to approximately ₩4,203,082 million. The ₩3,484,175 million in trade bills to overseas subsidiaries were accounted for short-term borrowings in consolidation process (Note 13).

In September 2004, LG. Philips LCD Co., Ltd., a subsidiary, entered into a five-year accounts receivable securitization program (the “Program”) with a financial institution. The Program allows the Company 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 from 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, 2005, the outstanding balance of securitized accounts receivable held by the third party conduits totaled ₩272,571 million (2004: ₩305,203 million), of which the Company’s subordinated retained interest was ₩52,532 million (2004 : ₩59,324 million). Accordingly, ₩220,039 million (2004: ₩245,879 million) of accounts receivable balances, net of applicable allowances, was removed from the consolidated balance sheets at December 31, 2005. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately ₩8,737 million for the year ended December 31, 2005.

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6. Inventories

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

<i>(in millions of Korean won)</i>	2005			2004
	Acquisition cost	Inventory valuation allowance	Carrying value	Carrying value
Merchandise and finished products	₩ 3,324,535	₩ (72,220)	₩ 3,252,315	₩ 3,575,641
Work-in-process	628,220	(656)	627,564	518,477
Raw materials and supplies	1,655,564	(25,053)	1,630,511	1,572,039
Other	259,641	(8,900)	250,741	124,450
	<u>₩ 5,867,960</u>	<u>₩ (106,829)</u>	<u>₩ 5,761,131</u>	<u>₩ 5,790,607</u>

For the year ended December 31, 2005, LG. Philips LCD Co., Ltd., a subsidiary, recorded ramp-up cost of ₩18,928 million for the loss incurred due to the inordinary low volume of production.

As of December 31, 2005 and 2004, the inventories are insured against various property risks.

7. Investment Securities

Investment securities as of December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Available-for-sale securities	₩ 59,167	₩ 89,958
Held-to-maturity securities	<u>2,461</u>	<u>1,835</u>
	<u>₩ 61,628</u>	<u>₩ 91,793</u>

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

(in millions of Korean won)	Percentage of ownership (%) at December 31, 2005	2005			2004		
		Acquisition cost	Net asset value/Market value	Carrying value	Acquisition cost	Net asset value/Market value	Carrying value
Marketable equity securities							
Nara Mold & Die Co., Ltd.	12.57	₩ 812	₩ 5,087	₩ 5,087	₩ 812	₩ 2,918	₩ 2,918
Tube Media Co., Ltd. ⁴	-	-	-	-	142	604	604
Odicorp Co., Ltd.	8.83	318	1,556	1,556	318	1,568	1,568
Vodavi Technology Inc. ³	-	-	-	-	2,928	6,761	6,761
Hutchison Telephone ⁴	-	-	-	-	3,462	3,622	3,622
ADP Engineering Co., Ltd. ⁵	7.03	75	7,992	7,992	-	-	-
Digital Device, Inc. ⁷	0.98	229	215	215	-	-	-
IDS. ^{5,7}	4.22	608	4,946	4,946	-	-	-
Others	-	-	-	-	500	280	280
		2,042	19,796	19,796	8,162	15,753	15,753
Non-marketable equity securities							
Domestic companies							
Innopla Co., Ltd.	19.90	245	750	245	245	854	245
Castec Korea Co., Ltd.	5.00	182	766	182	182	859	182
Msoltech ¹	10.00	635	-	-	635	-	-
AL Tech Inc.	8.19	589	247	589	589	272	589
Korea Information Certificate Authority Inc.	9.35	1,852	1,339	1,852	1,852	1,230	1,852
Association of Electronics Environment	36.04	4,698	5,127	4,698	4,698	4,309	4,698
Temco, Inc. ¹	13.04	1,200	-	-	1,200	1,200	1,200
Netgenetech. Co., Ltd.	7.50	176	215	176	176	35	176
Manager Society, Inc.	3.70	200	5	200	200	14	200
Silicon Works ⁴	-	-	-	-	501	504	501
LG fund for small and medium Enterprises ³	-	-	-	-	2,500	2,435	2,500
TU Media Corp.	2.98	6,500	3,158	6,500	6,500	5,765	6,500
ADS Technologies Co., Ltd. ⁶	15.00	150	150	150	-	-	-
NARA M Tech, Inc. ⁶	19.90	597	597	597	-	-	-
Standard Lazer System Co., Ltd.	-	250	-	-	250	-	-
Digital World Corporation	1.25	180	130	130	180	180	180
Newco Display Inc.	7.41	400	400	400	400	400	400
Eron Technologies Corporation	0.49	138	-	-	138	138	138
Others ⁷	-	8,723	5,918	8,723	19,705	11,727	13,303
Overseas companies							
Erlang Technology Inc. ¹	6.90	1,129	-	-	1,129	-	-
Neopoint Inc. ^{1,8}	-	-	-	-	1,604	-	-
E2OPEN.COM ¹	3.64	15,694	-	-	15,694	-	-
COMMIT Incorporated	13.47	4,990	4,990	4,990	4,990	4,990	4,990
Monet Mobile Networks ¹	1.90	1,299	-	-	1,299	-	-
Sunpower.Inc.	10.35	1,257	169	1,257	1,257	231	1,257
CMEA II Venture Fund	6.93	3,849	1,377	1,377	3,966	1,144	1,234
Others	-	3,067	1,434	1,304	5,169	5,169	5,169
		58,000	26,772	33,370	75,059	41,456	45,314
Debt securities							
Bonds issued by the government ⁸	-	-	-	-	27	27	27
Convertible bonds issued by NeoDis Co., Ltd.	-	2,204	2,204	2,204	2,204	2,204	2,204
Commercial papers issued by LG Card Co., Ltd ²	-	-	-	-	50,831	25,416	25,416
Convertible bonds issued by Pentamicro Inc. ⁷	-	131	131	131	-	-	-
Caspian bank	-	1,013	1,013	1,013	1,044	1,044	1,044
Others	-	4,629	2,653	2,653	500	200	200
		7,977	6,001	6,001	54,606	28,891	28,891
		₩ 68,019	₩ 52,569	₩ 59,167	₩ 137,827	₩ 86,100	₩ 89,958

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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, 2005.
- ² In January 2005, the commercial papers of LG Card Co., Ltd. as of December 31, 2004, were converted into equity securities of LG Card. In May 2005, the Company sold these investment securities and recorded a gain on disposal of investment securities of ₩30,294 million.
- ³ In 2005, the investments were reclassified as equity method investment securities.
- ⁴ In 2005, the Company sold the investment securities.
- ⁵ In 2005, they listed their common stock on the KOSDAQ market.
- ⁶ New or additional investments were made during the year ended December 31, 2005.
- ⁷ In 2005, the Company newly or additionally acquired the investment due to the liquidation of STIC Ventures Co., Ltd.
- ⁸ In 2005, Noepoint, Inc. was liquidated and bonds issued by government were sold.

Held-to-maturity securities as of December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Subordinated bonds of ABN-AMRO ABCP	₩ 807	₩ 807
Others	<u>1,654</u>	<u>1,028</u>
	<u>₩ 2,461</u>	<u>₩ 1,835</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, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005		2004	
	Available-for-sale securities	Held-to-maturity securities	Available-for-sale securities	Held-to-maturity securities
Maturity				
One year or less ¹	₩ -	₩ -	₩ 119,115	₩ -
Over one year to five years	6,001	2,417	2,231	1,791
Over five years to ten years	-	44	-	44
	₩ 6,001	₩ 2,461	₩ 121,346	₩ 1,835

¹ These are classified as short-term investments.

The details of changes in accumulated gains (losses) on valuation of available-for-sale securities as recorded as capital adjustments for the years ended December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005	Gain (loss)	Disposal	Tax effect	December 31, 2005
Nara Mold & Die Co., Ltd.	₩ 2,107	₩ 2,169	₩ -	₩ (1,176)	₩ 3,100
Tube Media Co., Ltd.	462	331	793	-	-
Odicorp Co., Ltd.	1,250	(11)	-	(341)	898
Vodavi Technology Inc.	3,833	-	3,833	-	-
Hutchison Telephone	160	-	160	-	-
ADP Engineering Co., Ltd.	-	7,917	-	(2,177)	5,740
LG Card Co., Ltd.	-	13,804	13,804	-	-
Digital Device, Inc.	-	(14)	-	4	(10)
IDS.	-	4,338	-	(1,193)	3,145
Others	(220)	(2,710)	(220)	745	(1,965)
	₩ 7,592	₩ 25,824	₩ 18,370	₩ (4,138)	₩ 10,908

<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)	-
	₩ (91,743)	₩ 9,751	₩ (89,584)	₩ 7,592

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8. Equity-Method Investments

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

(in millions of Korean won)	Percentage of ownership (%) at December 31, 2005	2005			2004		
		Acquisition cost	Net asset value	Carrying value	Acquisition cost	Net asset value	Carrying value
Domestic companies							
Hankuk Electric Glass Co., Ltd.	20.00	₩ 119,282	₩ 121,295	₩ 111,087	₩ 119,282	₩ 140,549	₩ 125,082
LG IBM PC Co., Ltd. ⁷	-	-	-	-	11,907	16,689	16,522
LG fund for small and medium Enterprises ^{2,6}	50.00	5,000	5,000	5,000	-	-	-
Blue Ocean Investment Fund ²	83.33	5,000	5,000	5,000	-	-	-
LG-Nortel Co., Ltd. ¹⁰	50.00	153,254	146,674	130,560	-	-	-
Paju Electric Glass Co., Ltd.	40.00	14,400	14,083	14,156	-	-	-
		<u>296,936</u>	<u>292,052</u>	<u>265,803</u>	<u>131,189</u>	<u>157,238</u>	<u>141,604</u>
Overseas companies							
Goldstar Electronics Thailand Co., Ltd. (G.S.T.) ²	100.00	36	36	36	36	36	36
Hitachi-LG Data Storage Inc. (HLDS)	49.00	7,684	22,410	30,643	7,684	22,350	30,823
LG Electronics Austria GmbH (LGEAG) ^{2,4}	100.00	5,993	5,993	5,993	116	116	116
LG Electronics Argentina S.A. (LGEAR) ¹	100.00	7,410	-	-	7,410	-	-
LG Electronics Design Tech. Ltd. (LGEDT) ^{2,9}	-	-	-	-	1,002	1,002	1,002
LG Electronics Egypt Cairo S.A.E. (LGEEC) ⁸	100.00	4,382	2,144	3,194	-	-	-
LG Electronics Middle East Co., Ltd. (LGEME) ²	100.00	462	462	462	462	462	462
Goldstar Mobilecomm France SASU (LGEMF) ²	100.00	5,621	5,621	5,621	5,621	5,621	5,621
LG Electronics (M) SDN.BHD (LGEML) ¹¹	100.00	-	-	-	7,869	7,869	7,869
LG Electronics Mobile Research U.S.A., LLC (LGEMR) ²	100.00	2,026	2,026	2,026	-	-	-
LG Electronics North of England Ltd. (LGENE) ³	100.00	11,229	-	-	-	-	-
LG Electronics RUS, LLC (LGERA) ^{2,4}	100.00	10,621	10,621	10,621	5,411	5,411	5,411
LG Electronics Ukraine Co., Ltd. (LGEUR) ²	100.00	1,041	1,041	1,041	1,041	1,041	1,041
LG Electronics Wroclaw Sp.Zo.o. (LGEWR) ²	100.00	1,004	1,004	1,004	-	-	-
LG Infocomm Thailand, Inc. (LGICTH) ¹⁰	-	-	-	-	-	-	-
Kunshan LGMS Computer Co., Ltd. (LGMSK) ⁹	-	-	-	-	-	-	-
LG Philips Displays Holding B.V. ¹	50.00	1,509,997	(224,358)	-	1,509,997	129,524	147,345
LG TOPS	-	-	-	-	2,699	902	930
Vietnam Korea Exchange, Ltd. (V.K.X.) ¹⁰	-	-	-	-	1,736	2,040	2,064
Electromagnetica Goldstar S.R.L. ²	50.00	508	508	508	508	508	508
SLD Telecom Pte. Ltd. ⁴	42.74	72,194	49,254	49,760	68,487	51,711	52,279
Triveni Digital Inc. ²	87.20	899	899	899	899	899	899
LG Electronics RUS-Marketing, LLC (LGERM) ²	100.00	204	204	204	-	-	-
Hi Logistics China Company Limited ⁵	100.00	5,151	5,283	5,089	-	-	-
Hi Logistics Europe B.V. ⁵	100.00	2,346	2,309	2,309	-	-	-
Vodavi Technology Inc. ^{6,10}	-	-	-	-	-	-	-
LG Pasig	51.00	1	-	-	-	-	-
LG Micron(Taiwan) Ltd. ²	100.00	31	31	31	-	-	-
LG Innotek Poland Co. Ltd ⁵	100.00	18	17	17	-	-	-
		<u>1,648,858</u>	<u>(114,495)</u>	<u>119,458</u>	<u>1,620,978</u>	<u>229,492</u>	<u>256,406</u>
		<u>₩1,945,794</u>	<u>₩ 177,557</u>	<u>₩ 385,261</u>	<u>₩1,752,167</u>	<u>₩ 386,730</u>	<u>₩ 398,010</u>

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

² The equity method was suspended for investments in small-sized subsidiaries and affiliates whose total assets as of the previous year end amounted to less than ₩7,000 million, or which have just been established in 2005, in accordance with accounting principles generally accepted in the Republic of Korea.

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- ³ Reclassified from a consolidated subsidiary to an equity-method investee since its operations were suspended as of December 31, 2005.
- ⁴ The Company purchased additional shares of these subsidiaries in 2005.
- ⁵ These were established in 2005.
- ⁶ They were reclassified from available-for-sale securities.
- ⁷ The Company and IBM Korea Inc. dissolved their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005, the Company absorbed with a portion of the PC division from dissolved joint venture (Note 33).
- ⁸ Reclassified from a consolidated subsidiary to an equity-method investee since its total assets decreased to less than ₩7,000 million.
- ⁹ This subsidiary was liquidated in 2005.
- ¹⁰ In 2005, the Company contributed the securities of LGICTH, V.K.X, GNTel Co., Ltd, and Vodavi Technology Inc. as investment in kind to the joint venture between the Company and Nortel Corporation. The Company received shares of the joint venture, LG-Nortel Co., Ltd (Note 34).
- ¹¹ Reclassified from an equity-method investee to a consolidated subsidiary in 2005.

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

For the year ended December 31, 2005, the details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005	Addition	Amortization	December 31, 2005
Domestic companies				
Hankuk Electric Glass Co., Ltd.	₩ (13,608)	₩ -	₩ 3,402	₩ (10,206)
LG-Nortel Co., Ltd	-	406	(13)	393
	<u>(13,608)</u>	<u>406</u>	<u>3,389</u>	<u>(9,813)</u>
Overseas companies				
LG Electronics Egypt Cairo S.A.E. (LGEEC)	-	1,649	(600)	1,049
Hitachi-LG Data Storage Inc. (HLDS)	30	-	(30)	-
LG Philips Displays Holding B.V.	(70,377)	-	63,593	(6,784)
Vietnam Korea Exchange, Ltd. (V.K.X.)	25	-	(25)	-
SLD Telecom Pte. Ltd.	703	-	(196)	507
Vodavi Technology Inc.	-	3,775	(3,775)	-
	<u>(69,619)</u>	<u>5,424</u>	<u>58,967</u>	<u>(5,228)</u>
	<u>₩ (83,227)</u>	<u>₩ 5,830</u>	<u>₩ 62,356</u>	<u>₩ (15,041)</u>

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

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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>

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

For the year ended December 31, 2005, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting were as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Total
Domestic companies			
LG IBM PC Co., Ltd.	₩ 124	₩ 3	₩ 127
Hankuk Electric Glass Co., Ltd.	1,856	-	1,856
GNTel Co., Ltd	-	569	569
LG-Nortel Co., Ltd	(2,202)	(14,304)	(16,506)
	<u>(222)</u>	<u>(13,732)</u>	<u>(13,954)</u>
Overseas companies			
LG Electronics North of England Ltd. (LGENE)	-	27	27
LG Electronics Egypt Cairo S.A.E. (LGEEC)	84	-	84
Hitachi-LG Data Storage Inc. (HLDS)	(9)	-	(9)
LG.Philips Displays Holding B.V.	1,228	55	1,283
LG Infocomm Thailand, Inc. (LGICTH)	1,507	-	1,507
Vodavi Technology Inc.	(327)	-	(327)
	<u>2,483</u>	<u>82</u>	<u>2,565</u>
	<u>₩ 2,261</u>	<u>₩ (13,650)</u>	<u>₩ (11,389)</u>

¹ Positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

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For the year ended December 31, 2004, the details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting were as follows:

<i>(in millions of Korean won)</i>	Inventories	Property, plant and equipment	Total
Domestic companies			
LG IBM PC Co., Ltd.	₩ 2,313	₩ 9	₩ 2,322
Hankuk Electric Glass Co., Ltd.	(1,858)	-	(1,858)
	<u>455</u>	<u>9</u>	<u>464</u>
Overseas companies			
Hitachi-LG Data Storage Inc. (HLDS)	(75)	-	(75)
LG.Philips Displays Holding B.V.	(1,072)	19	(1,053)
Vodavi Technology Inc.	88	-	88
	<u>(1,059)</u>	<u>19</u>	<u>(1,040)</u>
	<u>₩ (604)</u>	<u>₩ 28</u>	<u>₩ (576)</u>

¹ Positive numbers represent equity in earnings of affiliates while negative numbers represent equity in losses of affiliates.

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Changes in investments in subsidiaries and affiliates accounted for using the equity method for the year ended December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	January 1, 2005	Equity in earnings (losses) of affiliates, net	Others ¹	December 31, 2005
Domestic companies				
Hankuk Electric Glass Co., Ltd.	₩ 125,082	₩ (10,873)	₩ (3,122)	₩ 111,087
LG IBM PC Co., Ltd.	16,522	(2,489)	(14,033)	-
STIC Ventures Co., Ltd.		(4,384)	4,384	-
LG fund for small and medium Enterprises	-	-	5,000	5,000
Blue Ocean Investment Fund	-	-	5,000	5,000
LG-Nortel Co., Ltd	-	(22,462)	153,022	130,560
Paju Electric Glass Co., Ltd.	-	(244)	14,400	14,156
GNTel Co., Ltd		1,716	(1,716)	
	<u>141,604</u>	<u>(38,736)</u>	<u>162,935</u>	<u>265,803</u>
Overseas companies				
Goldstar Electronics Thailand Co., Ltd. (G.S.T.)	36	-	-	36
Hitachi-LG Data Storage Inc. (HLDS)	30,823	7,836	(8,016)	30,643
LG Electronics Austria GmbH (LGEAG)	116	-	5,877	5,993
LG Electronics Design Tech, Ltd. (LGEDT)	1,002	-	(1,002)	-
LG Electronics Egypt Cairo S.A.E. (LGEEC)	-	118	3,076	3,194
LG Electronics Middle East Co., Ltd. (LGEME)	462	-	-	462
Goldstar Mobilecomm France SASU (LGEMF)	5,621	-	-	5,621
LG Electronics (M) SDN.BHD (LGEML)	7,869	-	(7,869)	-
LG Electronics Mobile Research U.S.A.,LLC (LGEMR)	-	-	2,026	2,026
LG Electronics North of England Ltd. (LGENE)	-	27	(27)	-
LG Electronics RUS, LLC (LGERA)	5,411	-	5,210	10,621
LG Electronics Ukraine Co., Ltd. (LGEUR)	1,041	-	-	1,041
LG Electronics Wroclaw Sp.Zo.o. (LGEWR)	-	-	1,004	1,004
LG Infocomm Thailand, Inc. (LGICTH)	-	1,731	(1,731)	-
LG Philips Displays Holding B.V.	147,345	(150,239)	2,894	-
LG TOPS	930	-	(930)	-
Vietnam Korea Exchange, Ltd. (V.K.X.)	2,064	117	(2,181)	-
Electromagnetica Goldstar S.R.L.	508	-	-	508
SLD Telecom Pte. Ltd.	52,279	(4,563)	2,044	49,760
Triveni Digital Inc.	899	-	-	899
LG Electronics RUS-Marketing, LLC (LGERM)	-	-	204	204
Hi Logistics China Company Limited	-	(105)	5,194	5,089
Hi Logistics Europe B.V.	-	31	2,278	2,309
Vodavi Technology Inc.	-	(3,499)	3,499	-
LG Pasig	-	(1)	1	-
LG Micron(Taiwan) Ltd.	-	-	31	31
LG Innotek Poland Co. Ltd	-	-	17	17
	<u>256,406</u>	<u>(148,547)</u>	<u>11,599</u>	<u>119,458</u>
	<u>₩ 398,010</u>	<u>₩ (187,283)</u>	<u>₩ 174,534</u>	<u>₩ 385,261</u>

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

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>	Equity in earnings			December 31, 2004
	January 1, 2004	(losses) of affiliates, net	Others	
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 (LGE AG)	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>

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

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A summary of financial information of major equity method investees as of December 31, 2005 and for the year ended December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Net assets	Sales	Net income (loss)
LG-Nortel Co., Ltd.	₩ 516,555	₩ 223,208	₩ 293,347	₩ 91,181	₩ (11,884)
Hankuk Electric Glass Co., Ltd.	647,278	37,849	609,429	332,356	(78,762)
Paju Electric Glass Co., Ltd.	54,079	18,872	35,207	-	(609)
LG. Philips Displays Holding B.V.	1,452,634	1,901,349	(448,715)	3,121,336	(759,928)
SLD TELECOM Pte. Ltd.	119,914	4,661	115,253	2,048	(10,681)

As of December 31, 2005, the market values of marketable equity method investment are as follows:

	Number of shares owned	Market price per share (in won)	Market value (in millions)	Book value (in millions)
Hankuk Electric Glass Co., Ltd.	₩ 1,614,675	₩ 34,000	₩ 54,899	₩ 111,087

The changes in the respective accumulated losses of equity method investees from which the application of the equity method of accounting has been suspended due to their accumulated losses for the year ended December 31, 2005, are as follows:

	2005	
<i>(in millions of Korean won)</i>	Accumulated losses	Accumulated capital adjustment
LG Electronics Argentina S.A. (LGEAR)	₩ 29,500	₩ -
LG. Philips Displays Holding B.V.	312,780	-
	₩ 342,280	₩ -

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Others ²	Construction- in-progress	Total
Balance as of									
January 1, 2005	₩1,287,751	₩ 2,523,580	₩ 207,743	₩ 4,975,854	₩ 22,672	₩ 551,494	₩ 456,038	₩ 2,292,395	₩ 12,317,527
Acquisitions and capital expenditure	23,870	185,697	23,062	367,751	7,809	199,946	204,500	5,165,487	6,178,122
Transfer-in (out) ¹	91,517	1,269,614	29,081	3,663,528	6,195	151,582	89,237	(5,317,871)	(17,117)
Disposals	(42,828)	(61,886)	(1,703)	(44,404)	(2,975)	(28,973)	(55,352)	(12,913)	(251,034)
Depreciation	-	(125,546)	(16,359)	(1,990,180)	(8,511)	(359,354)	(182,904)	-	(2,682,854)
Others ²	(151,879)	117,960	14,878	349,577	1,878	13,666	26,568	(177,965)	194,683
Balance as of									
December 31, 2005	₩1,208,431	₩ 3,909,419	₩ 256,702	₩ 7,322,126	₩ 27,068	₩ 528,361	₩ 538,087	₩ 1,949,133	₩ 15,739,327
Accumulated depreciation as of December 31, 2005	₩ -	₩ (540,952)	₩(86,943)	₩(7,446,557)	₩(28,277)	₩(747,321)	₩ (609,426)	₩ -	₩ (9,459,476)

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

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

Changes in property, plant and equipment for the year ended December 31, 2004, were 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 ¹	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)

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

As of December 31, 2005, the value of the Company's land located in Korea, as determined by the local government in Korea for property tax assessment purpose, approximates ₩1,400,422 million (2004 : ₩1,100,277 million).

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10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2005, 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, 2005	₩ 245,847	₩ (367)	₩ 320,688	₩ 75,397	₩ 94,390	₩ 735,955
Additions ¹	8,754	-	93,219	50,740	40,901	193,614
Disposals	(1,393)	-	(109,702)	(1,857)	(2,581)	(115,533)
Amortization	(24,427)	110	(84,993)	(43,537)	(31,853)	(184,700)
Impairment ²	(89,031)	-	-	(101)	(5)	(89,137)
Others ³	(38,014)	24	115,620	(4,803)	(54,620)	18,207
Balance as of December 31, 2005	<u>₩ 101,736</u>	<u>₩ (233)</u>	<u>₩ 334,832</u>	<u>₩ 75,839</u>	<u>₩ 46,232</u>	<u>₩ 558,406</u>

¹ Includes goodwill of ₩2,596 million arising from the absorption of a portion of PC division of LG IBM PC Co., Ltd. (Note 33).

² In accordance with disposal and investment in kind transactions of the Systems division, related goodwill of ₩89,031 million was fully expensed as impairment loss (Note 34).

³ Includes changes in consolidated subsidiaries and changes resulting from translation of foreign currency financial statements.

Changes in intangible assets for the year ended December 31, 2004, 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, 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>

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

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

Amortization of intangible assets was presented under manufacturing costs, and selling and administrative expenses. Total amortization expenses for the year ended December 31, 2005 amount to ₩184,700 million (2004 : ₩232,100 million).

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

<i>(in millions of Korean won)</i>	2005	2004	Remaining years for amortization
Goodwill	₩ 91,330	₩ 215,017	Six years
Industrial property rights	137,039	197,067	One through six years

As a result of LG Electronics Investment Ltd. (formerly LG Electronics Inc., now merged into LG Corp.)'s merger with LG Information & Communications, Ltd. in September 2000, former LG Electronics Inc. recognized goodwill amounting to ₩393,820 million and acquired industrial property rights amounting to ₩578,788 million. At the time of spin-off, such goodwill and industrial property rights were transferred to the Company. Related amortization expenses of goodwill and industrial property rights approximate ₩34,656 million and ₩60,028 million, respectively, for the year ended December 31, 2005. In accordance with disposal and investment in kind transactions of the Systems division, related goodwill ₩89,031 million was fully expensed this year as loss on impairment (Note 34).

Research and development costs incurred for the years ended December 31, 2005 and 2004, were accounted for as follows:

<i>(in millions of Korean won)</i>	2005	2004
Expensed	₩ 1,722,695	₩ 1,541,102
Development costs capitalized	50,740	2,109
	<u>₩ 1,773,435</u>	<u>₩ 1,543,211</u>

11. Pledged Assets

A certain portion of property, plant and equipment as of December 31, 2005, is pledged as collateral for various loans from banks up to a maximum of approximately ₩1,112,635 million, the total equivalent of US\$ 99 million, JPY 150 million and EUR 360 million (Notes 13 and 14).

12. Insured Assets

As of December 31, 2005, 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 ₩ 52,112,124 million. In addition, the Company is insured against loss arising from the transport of goods.

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

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

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2005	2005	2004
Bank overdrafts	11.50	₩ 86,687	₩ 133,453
General term loans	6.55	183,476	44,510
Foreign currency loans ¹	Libor+0.5~19.89	4,526,284	5,011,766
Commercial papers	5.82	15,000	120,500
Others	5.12~10.08	341,261	552,167
		<u>₩ 5,152,708</u>	<u>₩ 5,862,396</u>

¹ Includes trade bills to overseas subsidiaries negotiated through banks but not yet matured amounting to ₩3,484,175 million (2004 : ₩3,705,582 million) (Note 5).

See Note 11 for collateral arrangements on the above borrowings.

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

<i>(in millions of Korean won)</i>	2005	2004
Debentures	₩ 1,440,565	₩ 909,137
Discount on debentures	(8,267)	(5,012)
Long-term debt	<u>211,622</u>	<u>110,504</u>
	<u>₩ 1,643,920</u>	<u>₩1,014,629</u>

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14. Debentures, Convertible Bonds and Long-Term Debts

Debentures and convertible bonds as of December 31, 2005 and 2004, consists of the following:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at December 31, 2005	2005	2004
Debentures			
Guaranteed debentures	7.00	₩ 1,000	₩ 11,000
Non-guaranteed debentures	7.97	3,565,000	3,706,000
Foreign currency, non-guaranteed debentures of US \$1,064 million (2004:US \$992 million)	Libor+1.90	1,077,326	1,034,992
		<u>4,643,326</u>	<u>4,751,992</u>
Convertible Bonds			
Zero coupon rate convertible bonds of US \$104.6 million (2004:US \$287.5 million), payable through 2006		123,639	339,796
Zero coupon rate convertible bonds of US \$250 million (2004 : US \$250 million), payable through 2007		296,975	296,975
Zero coupon rate convertible bonds of US \$475 million, payable after 2010		483,780	-
		<u>904,394</u>	<u>636,771</u>
		5,547,720	5,388,763
Less: Current maturities		(1,440,565)	(909,137)
Discount on debentures		(38,083)	(66,691)
Conversion rights adjustment		(131,172)	(49,508)
Premium for conversion rights		121,705	37,093
		<u>₩ 4,059,605</u>	<u>₩ 4,400,520</u>

For the year ended December 31, 2005, the Controlling Company redeemed the portion of the debentures early before their maturities. Thus, the Company recorded losses on early redemption of debentures amounting to ₩8,238 million.

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The Controlling 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.
- 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

For the year ended December 31, 2005, the foreign currency convertible bonds amounting to ₩216,158 million were converted to 3,130,077 shares of common stock. As a result, capital and capital surplus increased by ₩15,650 million and ₩207,587 million, respectively. The conversion rights equivalent to the 1,790,364 shares of common stock remain unconverted as of December 31, 2005.

The Controlling 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.

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- 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

LG.Philips LCD Co., Ltd., subsidiary, issued foreign currency convertible bonds on April 19, 2005. The terms and conditions of issuance are as follows:

- Type of bonds: Public convertible bond
- Total face value of bonds: US\$475 million
- Date of issuance: April 19, 2005
- Terms and conditions for issuance of bonds
 - Coupon rate: 0% , Effective interest rate to maturity: 3.96%
 - Maturity: April 19, 2010
 - The Company redeems the bonds at 117.49% of face value in a lump sum on the date of maturity.
 - Call option: the Company holds the right to redeem the bonds at face value plus interest accrued from date of issuance to the redemption date date, calculated on the year rate 3.25% , provided that the market value per share of common stock remains at least 130% of the conversion price for at least 30 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 108.39% 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: 8,276,681 shares
 - Conversion price: ₩58,251 per share. The conversion price is subject to adjustment based on certain events
 - Conversion period: June 27, 2005 through April 4, 2010

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

<i>(in millions)</i>	Annual interest rate (%) at December 31, 2005		2005		2004	
			In foreign currency	In won currency	In foreign currency	In won currency
Long -tem debt in won currency loans	6.08			₩ 278,921		₩ 316,464
	7.00	US\$	881	892,498	US\$ 345	360,117
Long-term debt in foreign currency loans	EULIBOR + 3.20	EUR	322	386,208	EUR 148	210,654
	5.02	CNY	166	14,496	CNY 119	14,991
	20.70	Others		233,238		244,095
				1,805,361		1,146,321
Less: Current maturities				(211,622)		(110,504)
				₩ 1,593,739		₩ 1,035,817

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

The maturities of long-term debts outstanding as of December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	For the year ending December 31,		Long-term debt	Debentures and Convertible bonds	Total
2007		₩	627,704	₩ 1,234,575	₩ 1,862,279
2008			656,654	431,000	1,087,654
2009			172,927	750,000	922,927
2010 and thereafter			136,454	1,691,580	1,828,034
		₩	1,593,739	₩ 4,107,155	₩ 5,700,894

15. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Beginning balance	₩ 758,133	₩ 686,052
Severance payments	(271,447)	(123,554)
Others ¹	62,146	8,841
Provisions	271,750	186,794
	820,582	758,133
Loss : Contribution to the National Pension Fund	(14,505)	(18,400)
Severance insurance deposits	(472,955)	(438,912)
	₩ 333,122	₩ 300,821

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

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The severance benefits are funded at approximately 57.6%, (2004: 57.9%) as of December 31, 2005, 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.

16. Product warranty reserve

Changes in the product warranty reserve of the Controlling Company for the year ended December 31, 2005, are as follows:

	2005
<i>(in millions of Korean won)</i>	
Balance, January 1, 2005	₩ 145,657
Provisions during the year	43,377
Decreases in business transfer	(8,067)
Actual payment	(68,468)
Balance, December 31, 2005	<u>₩ 112,499</u>

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

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17. Commitments and Contingencies

As of December 31, 2005, 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, 2005, the Company has bank overdraft facility agreements with various banks, and the upper limit of Controlling Company is ₩445,500 million.

As of December 31, 2005, the Controlling Company has sales agreements for export trade accounts receivable with various banks amounting to ₩ 6,040,013 million, and corporate electronic settlement services contracts for collection of accounts receivable with Hana Bank and the other amounting to ₩230,000 million (Note 5). The subsidiaries also have a revolving credit facility agreement and sales agreements for accounts receivable with several banks.

As of December 31, 2005, the Controlling Company has corporate electronic settlement services contracts for payment of trade accounts payable with various banks amounting to ₩ 1,050,000 million.

As of December 31, 2005, the Company has made agreements with several banks in relation to the opening of letters of credit.

As of December 31, 2005, the Controlling Company and LG Micron Ltd., a subsidiary, are provided with repayment guarantee of ₩81,266 million and ₩1,963 million, respectively, from Seoul Guarantee Insurance Company relating to the completion of sales.

As of December 31, 2005, the Company has various technical assistance agreements with various foreign companies for the manufacture of certain product lines and trademark licenses agreements with LG Corporation and Philips Electronics.

As of December 31, 2005, the Controlling Company is contingently liable for guarantees approximating ₩2,148,347 million including US\$1,529 million on the indebtedness of its subsidiaries and affiliates, as follows:

(in millions of Korean won)

LG Electronics Italia S.P.A (LGEIS)	₩	212,730
PT LG Electronics Display Devices Indonesia (LGEDI)		171,197
LG Electronics Service Europe Netherland B.A (LGESE)		137,136
LG Electronics Mexico S.A. DE. C.V. (LGEMS)		121,612
LG Electronics Thailand Co., Ltd. (LGETH)		111,937
LG Electronics Wales Ltd. (LGEWA)		111,793
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)		109,243
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)		109,117
LG Electronics U.K. Ltd. (LGEUK)		91,170
LG Electronics U.S.A., Inc. (LGEUS)		87,118
LG Electronics Mlawa SP.ZO.O (LGEMA)		80,506
LG Electronics Da Amazonia Ltda (LGEAZ)		70,910
LG Electronics China Co., Ltd. (LGECH)		69,142
LG Electronics HK Limited		50,650
LG.Philips Displays Holding B.V. ¹		50,650

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Others	563,436
	<u>₩ 2,148,347</u>

- ¹ For the year ended December 31, 2005, the Company accrues a reserve for the contingent losses with regard to payment guarantee to LG.Philips Displays Holdings B.V.

As of December 31, 2005, the Company is named as a defendant in legal actions which were brought against the Company by Mahmood Saleh Abbar Co. in Saudi Arabia and Whirpool Co., Ltd. in United States of America. In addition, the Company is named as either the defendant or the plaintiff in various foreign and domestic legal actions arising from the normal course of business. For the Controlling Company, the aggregate amounts of foreign and domestic claims as the defendant and plaintiff amounted to approximately US\$ 145,632 thousand, EUR 500 thousand and ₩5,615 million, as of December 31, 2005. The Company believes that although the outcome of these legal actions is uncertain, they would not result in a material ultimate loss for the Company.

The Company accrues a reserve for contingent losses amounting to ₩50,650 million relating to payment guarantee to LG.Philips Displays Holdings B.V. This contingent liability is recorded in other long-term liabilities.

The Company leases equipment such as notebooks under operating leases expiring in various years through 2010. The Company's liabilities according to operating lease agreements as of December 31, 2005, are as follows:

(in millions of Korean won)

Year ended December 31	
2006	₩ 25,824
2007	11,523
2008	2,883
2009	489
2010	42
Total lease payment	<u>₩ 40,761</u>

In order to reduce the impact of changes in exchange rates on future cash flows, the Controlling Company has entered into foreign currency forward contracts. As of December 31, 2005, the Company has outstanding forward contracts with ABN-AMRO and others for selling US dollars amounting to US\$164 million at contract exchange rates of ₩1,010.00 : US\$1 ~ ₩1,053.90 : US\$1, with contract due dates of January through April 2006.

As of December 31, 2005, the Controlling Company has outstanding forward contracts with BNP Paribas Bank and others for selling euro and buying US dollars amounting to €54 million at contract exchange rates of €1.1808 : US\$1 ~ €1.2163 : US\$1, with contract due dates of January through March 2006.

As of December 31, 2005, the Controlling Company has outstanding forward contracts with BOTM and others to sell US dollars and buy Japanese yen amounting to US\$22 million at contract exchange rates of ¥108.13 : US\$1 ~ ¥117.39 : US\$1 from January to April 2006.

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As a result of the above foreign currency forward contracts, an unrealized valuation gain and loss amounting to ₩3,370 million and ₩834 million, respectively, were charged to current operations for the year ended December 31, 2005.

In order to reduce the impact of changes in exchange rates, the Controlling Company has also entered into foreign currency option contracts. An unrealized valuation gain and loss amounting to ₩1,378 million and ₩325 million, respectively, were recorded for the year ended December 31, 2005.

A summary of the terms of outstanding currency option contracts as of December 31, 2005, follows:

Option type	Amount (in millions)	Exercise price	Contract due date
Put	US\$200	₩990.0/US\$ ~ ₩1,020.0/US\$	January 5, 2006 through June 28, 2006
Call	US\$200	₩1,033.0/US\$ ~ ₩1,086.8/US\$	January 5, 2006 through June 28, 2006

In order to reduce the impact of changes in interest rates and exchange rates, the Controlling Company has also entered into a cross currency swap contract. An unrealized valuation gain and loss amounting to ₩4,386 million and ₩2,842 million, respectively, were recorded to currency swap for the year ended December 31, 2005.

A summary of the terms of the outstanding cross currency swap contract as of December 31, 2005, follows:

(in millions)	Transaction amount		Annual interest rate (%)		Maturity
	Disbursement	Receipts	Receipts	Disbursement	
JP Morgan Chase and others	US\$300	€247	5.00%	3.70%	June 17, 2010
The Korea Development Bank	US\$100	€ 83	1M Libor+0.41%	2.00%	May 27, 2008

A summary of the terms of the outstanding cross interest rates swap contracts as of December 31, 2005, follows:

(in millions)	Transaction amount	Annual interest rate (%)		Maturity
		Receipts	Disbursement	
CSFB	US\$100	5.00%-Contingent Spread	4.04%	June 17, 2010

As a result of the above derivatives contracts, a realized gain of ₩39,369 million and a realized loss of ₩36,036 million were recorded as a non-operating income and expense, respectively, for the year ended December 31, 2005.

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

A summary of said contracts follows:

<i>(in millions)</i>				
Contracting party	Selling position	Buying position	Contract foreign exchange rate	Maturity date
HSBC and others	US\$ 3,266	₩ 3,357,233	₩994.31: US\$1- ₩1,058.65: US\$1	January 2, 2006 - December 12, 2006
Citibank and others	EUR 104	₩ 131,182	₩1,219.31: EUR 1- ₩1,352.44: EUR1	January 23, 2006 - December 20, 2006
ABN AMRO and others	₩ 370,919	JP¥ 40,239	₩8.669: JP¥1- ₩9.92: JP¥1	January 2, 2006 - December 1, 2006
Korea Exchange Bank and others	US\$ 135	JP¥ 15,800	JP¥112.23: US\$1- JP¥120.4: US\$1	January 4, 2006 - March 28, 2006

As a result of the above foreign currency forward contracts, the Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of ₩63,962 million and ₩26,061 million, respectively, as of December 31, 2005. Total unrealized gains and losses of ₩26,081 million and ₩1,514 million, respectively, were charged to operations for the year ended December 31, 2005, as these contracts did not meet the requirements for a cash flow hedge. Unrealized gains and losses of ₩29,292 million and ₩18,982 million, respectively, incurred relating to cash flow hedges from forecasted exports, were recorded as capital adjustments.

The forecasted hedged transactions are expected to transpire on December 20, 2006. The aggregate amount of all deferred gains and losses of ₩37,881 million and ₩24,547 million, respectively, recorded net of tax under capital adjustments, are expected to be included in the determination of gain and loss within a year from December 31, 2005.

For the year ended December 31, 2005, the Company recorded realized exchange gains of ₩89,311 million (2004: ₩80,306 million) on foreign currency forward contracts upon settlement, and realized exchange losses amounted to ₩100,935 million (2004: ₩51,597 million).

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

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A summary of such contracts follows:

<i>(in millions)</i>				Contract foreign	
Contracting party	Buying position	Selling position		exchange rate	Maturity date
ABN Amro and others	US\$ 430	-		3M Libor	February 10, 2006 -
	-	₩ 442,830		3.25% - 4.40%	December 8, 2006

As of December 31, 2005, unrealized gains and losses of ₩1,277 million and ₩7,617 million, respectively, were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

The consolidated subsidiaries including LG Electronics USA Inc. have entered into several derivative contracts with financial institutions.

18. Capital Stock

Capital stock as of December 31, 2005 and 2004, consists of:

	Par value per share	2005		2004	
		Number of shares issued	Amount (in millions)	Number of shares issued	Amount (in millions)
Common stock ¹	₩ 5,000	142,859,174	₩ 714,296	139,606,263	₩ 698,031
Preferred stock ²	5,000	17,185,992	85,930	17,185,992	85,930
		<u>160,045,166</u>	<u>₩ 800,226</u>	<u>156,792,255</u>	<u>₩ 783,961</u>

¹ For the year ended December 31, 2005, the Company absorbed a part of the PC division of LG IBM PC and issued 122,834 shares to IBM Korea Inc., and foreign currency convertible bonds were converted into 3,130,077 shares of common stock (Note 14).

² The preferred shareholders have no voting rights and are entitled to preferred dividends at a rate of one percentage point over that of common stock. This preferred dividend rate is not applicable to stock dividends.

As of December 31, 2005 and 2004, the number of shares authorized is 600 million shares.

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For the year ended December 31, 2005, changes in capital stock and capital surplus are as follows:

Date	Description	Common stock	Preferred stock	Capital Surplus
Balance, January 1, 2005		₩ 698,031	₩ 85,930	₩1,876,153
January, 2005	Issuance of stock	614	-	7,272
March, 2005	Conversion of			
	convertible bonds	43	-	555
October, 2005	"	214	-	2,831
November, 2005	"	6,846	-	90,724
December, 2005	"	8,548	-	113,477
Balance, December 31, 2005		<u>₩ 714,296</u>	<u>₩ 85,930</u>	<u>₩2,091,012</u>

19. Capital Surplus

Capital surplus as of December 31, 2005 and 2004, is as follows:

<i>(in millions Korean won)</i>	2005	2004
LGE's capital surplus		
Additional paid-in capital	₩ 2,091,012	₩ 1,876,153
Others	16,247	31,390
LGE's share in subsidiaries' and equity method investees' capital surplus	<u>487,898</u>	<u>86,399</u>
	<u>₩ 2,595,157</u>	<u>₩ 1,993,942</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. of ₩2,815,707 million, net of capital stock of ₩783,961 million and capital adjustments transferred from LG Electronics Investment Ltd. of ₩155,593 million. In addition, for the year ended December 31, 2005, ₩214,859 million was recorded as a capital surplus due to issuance of stock and conversion of convertible bonds.

As a result of the issuance of foreign currency convertible bonds in 2003 and 2004, a premium for conversion rights of ₩14,064 million, net of tax was recorded as a capital surplus representing the difference between the issuance price of convertible bonds and the present value of bonds under identical conditions without conversion rights. In addition, as a result of disposal of treasury stock, gains on disposal of treasury stock of ₩2,183 million were recorded as a capital surplus.

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20. Retained Earnings

Retained earnings as of December 31, 2005 and 2004, consist of:

<i>(in millions of Korean won)</i>	2004	2003
Legal reserve	₩ 58,888	₩ 35,403
Other reserves		
Reserve for improvement of financial structure	27,771	27,771
Reserve for research and manpower development	1,742,000	506,200
	<u>1,828,659</u>	<u>569,374</u>
Unappropriated retained earnings	752,137	1,691,807
	<u>₩2,580,796</u>	<u>₩2,261,181</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, 2005 and 2004, consist of the following:

<i>(in millions of Korean won)</i>	2005	2004
Treasury stock	₩ (44,893)	₩ (46,657)
Gain on valuation of derivatives	3,991	24,643
Gain on valuation of available-for-sale securities	29,594	(5,046)
Overseas operations translation credit	62,937	31,011
	₩ 51,629	₩ 3,951

The Controlling Company has retained treasury stocks consisting of 763,146 shares (2004 : 793,207 shares) of common stock and 4,681 shares (2004 : 4,681 shares) of preferred stock as of December 31, 2005. The Company intends to either grant these treasury stocks to employees and directors as compensation, or to sell them in the future.

22. Stock Options

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

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

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

Compensation cost recognized for the year ended December 31, 2005, amounted to ₩5,799 million and ₩8,199 million of total unrecognized compensation costs related to stock options above is expected to be recognized over the remaining period.

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

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

As of December 31, 2005, the number of shares to be exercised is 410,000 as 40,000 options were canceled due to the retirement of an executive officer. The exercise price decreased from ₩44,260 to ₩44,050 due to the additional issuance of common stock in 2005.

The Company did not recognize any compensation costs related to stock option above in 2005 as market price is below than exercise price as of December 31, 2005.

23. Income Tax

Income tax expense for the years ended December 31, 2005 and 2004, consists of the following:

<i>(in millions of Korean won)</i>	2005	2004
Current income tax	₩ 222,312	₩ 336,400
Deferred income taxes from temporary differences	159,399	188,974
Deferred income taxes from tax credit	(250,266)	(146,237)
Income taxes added to shareholders' equity	(179,180)	22,857
	<u>₩ (47,735)</u>	<u>₩ 401,994</u>

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The deferred income tax liabilities added to shareholders' equity as of December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Deferred income tax effect		
in shareholders' equity		
Gain on valuation of available-for-sale securities and others	₩ (4,883)	₩ -
Adjustment from Consolidation and others	(95,284)	
Others	(2,026)	-
	<u>(102,193)</u>	<u>-</u>
Current income tax effect		
In shareholders' equity		
Loss on excess of the costs of equity method investment	-	23,668
Gain on disposal of treasury stock	(100)	(811)
Gain on disposal of equity method investment	(76,887)	-
	<u>(76,987)</u>	<u>22,857</u>
Income tax expense (benefit)	₩ (179,180)	₩ 22,857

Components of deferred income taxes as of December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	Deferred income tax assets (liabilities)	
	2005	2004
Depreciation	₩ (56,381)	₩ (30,800)
Bad debt expense	3,933	28,089
Product warranty reserve	30,937	45,161
Development costs	(3,623)	(10,089)
Equity method investments	(285,984)	(23,074)
Tax credits carried forward	512,323	262,057
Accrued expenses	143,562	113,320
Others	196,227	65,463
	<u>540,994</u>	<u>450,127</u>
Less : Valuation allowance	-	-
	<u>₩ 540,994</u>	<u>₩ 450,127</u>
Deferred income tax assets	<u>₩ 655,557</u>	<u>₩ 471,058</u>
Deferred income tax liabilities	<u>₩ (114,563)</u>	<u>₩ (20,931)</u>

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to realize such assets, the assets are reduced to its estimated net realizable value. As of December 31, 2005, deferred income tax assets resulting from equity method investment securities are not recorded because the Company's ability to realize those deferred income tax assets is uncertain.

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As of December 31, 2005, the current portion of deferred income tax assets and liabilities amount to ₩227,417 million, while the non-current portion of deferred income tax assets and liabilities amount to ₩428,140 million and ₩114,563 million, respectively.

The statutory income tax rate, including resident tax surcharges, applicable to LGE and its domestic subsidiaries was approximately 27.5% and 29.7% in 2005 and 2004 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 27.5% for the temporary differences expected to be realized in the future.

As a result of tax adjustments and tax credits, effective tax rate of the Company for the year ended December 31, 2005 is approximately negative 5.5% (2004: 13.8%).

24. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted-average number of common shares outstanding during the 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, 2005 and 2004, are calculated as follows:

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

	2005	2004
Net income as reported on the statement of income	₩ 605,562	₩ 1,608,526
Less: Preferred stock dividends (Note 25)	(22,336)	(26,631)
Additional income available for dividends allocated to preferred stock	<u>(43,753)</u>	<u>(151,297)</u>
Net income allocated to common stock	539,473	1,430,598
Weighted-average number of common shares outstanding	<u>142,087,793</u>	<u>139,016,745</u>
Basic earnings per share and ordinary income per share (in won)	<u>₩ 3,797</u>	<u>₩ 10,291</u>

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

Diluted earnings per share is computed by dividing diluted net income, which is adjusted by adding back the after-tax amount of interest expense on any convertible debt and dividends on any convertible preferred stock, by the weighted-average number of common shares and diluted securities outstanding during the 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.

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Diluted earnings per share for years ended December 31, 2005 and 2004, are calculated as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2005	2004
Net income allocated to common stock	₩ 539,473	₩ 1,430,598
Add: Interest expense on convertible bonds, net of tax	13,897	14,027
Diluted net income allocated to common stock	553,370	1,444,625
Weighted-average number of common shares and diluted securities outstanding	146,927,378	145,949,525
Diluted earnings per share (in won)	₩ 3,766	₩ 9,898

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

The diluted securities outstanding as of December 31, 2005, are as follows:

(in millions, except conversion price)

Diluted security	Face value	Conversion period	Number of shares of common stock to be issued	Conversion price
Foreign currency denominated convertible bonds of US\$287 million, issued in 2003	₩123,638	September 12, 2003 through July 28, 2006	1,790,364 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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25. Dividends

Details of the Controlling Company's dividends declared for the years ended December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005		2004	
	Dividend ratio (%)	Dividend amount	Dividend ratio (%)	Dividend amount
Common stock	25%	₩ 177,620	30%	₩ 208,220
Preferred stock	26%	22,336	31%	26,631
		<u>₩ 199,956</u>		<u>₩ 234,851</u>

The Controlling Company's dividend payout ratio for the years ended December 31, 2005 and 2004, is computed as follows:

<i>(in millions of Korean won, except for ratios)</i>	2005	2004
Total dividends (A)	₩ 199,956	₩ 234,851
Net income of the Controlling Company (B)	<u>702,801</u>	<u>1,545,954</u>
Dividend payout ratio ((A)/(B))	<u>28.45%</u>	<u>15.19%</u>

The Controlling Company's dividend yield ratio for the years ended December 31, 2005 and 2004, is computed as follows:

<i>(in Korean won)</i>	2005		2004	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (A)	₩ 1,250	₩ 1,300	₩ 1,500	₩ 1,550
Market price as of balance sheet date (B)	<u>89,300</u>	<u>59,500</u>	<u>64,100</u>	<u>36,000</u>
Dividend yield ratio ((A)/(B))	<u>1.40%</u>	<u>2.18%</u>	<u>2.34%</u>	<u>4.31%</u>

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26. Related Party Transactions

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies for the years ended December 31, 2005 and 2004, and the related account balances as of December 31, 2005 and 2004, are summarized as follows:

Transactions between the Controlling Company and its consolidated subsidiaries

<i>(in millions of Korean won)</i>	Sales and other income	Purchases and other expenses	Receivables	Payables
LG Electronics MobileComm U.S.A. Inc (LGEMU)	₩ 2,632,425	₩ 15,676	₩ -	₩ -
LG Electronics Italy S.P.A. (LGEIS)	1,277,095	96,195	2,408	21,800
LG Electronics U.S.A., Inc. (LGEUS)	1,118,041	13,938	247,336	36
LG Electronics Huizhou Inc. (LGEHZ)	816,456	13,595	2,188	1,518
LG Electronics Service Europe Netherlands B.V. (LGESE)	719,084	13,114	27,943	956
Langcho LG Digital Mobile Communication Co., Ltd. (LGEYT)	718,121	4,636	181	1,233
LG Electronics Australia Pty, Ltd. (LGEAP)	584,965	4,599	217,629	-
LG Electronics Mlawa SP.Zo.O. (LGEMA)	572,018	18,430	66,437	63
Hi Plaza Inc.	443,287	12,961	10,799	2,970
LG Electronics de Sao Paulo Ltda. (LGESP)	381,357	668	11,788	-
Others	7,068,509	2,157,117	2,962,677	405,870
2005	<u>₩ 16,331,358</u>	<u>₩ 2,350,929</u>	<u>₩ 3,549,386</u>	<u>₩ 434,446</u>
2004	<u>₩ 15,943,445</u>	<u>₩ 1,983,468</u>	<u>₩ 3,476,905</u>	<u>₩ 370,345</u>

Transactions between consolidated subsidiaries

<i>(in millions of Korean won)</i>		Sales and other income	Purchases and other expenses	Receivables	Payables
Selling subsidiaries	Purchasing subsidiaries				
Langcho LG Digital Mobile Communication Co., Ltd. (LGEYT)	LG Electronics MobileComm U.S.A. Inc. (LGEMU)	₩ 748,302	₩ -	₩ 145,761	₩ -
LG Electronics Mexicali. S.A. PEC.V. (LGEMX)	LG Electronics U.S.A., Inc. (LGEUS)	577,961	-	112,813	-
LG Electronics HK Limited (LGEHK)	LG Electronics Huizhou Inc. (LGEHZ)	449,606	1,221	46,615	6
LG.Philips LCD Co., Ltd.	Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	413,020	-	53,965	-
Nanjing LG-Tontru Color Display System Co., Ltd. (LGENT)	LG Electronics Service Europe Netherlands B.V. (LGESE)	372,271	-	-	-
LG.Philips LCD Co., Ltd.	LG Electronics Magyar Kft (LGEMK)	336,969	-	60,055	-
LG Electronics Huizhou Inc. (LGEHZ)	LG Electronics Service Europe Netherlands B.V. (LGESE)	334,011	-	15,045	-
LG Electronics Huizhou Inc (LGEHZ)	LG Electronics MobileComm U.S.A. Inc. (LGEMU)	319,759	-	12,675	-

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<i>(in millions of Korean won)</i>		Sales and other income	Purchases and other expenses	Receivables	Payables
Selling subsidiaries	Purchasing subsidiaries				
LG.Philips LCD Co., Ltd.	LG Electronics Wales Ltd. (LGEWA)	305,487	-	22,660	-
LG Electronics Reynosa. S.A. DEC.V. (LGERS)	LG Electronics U.S.A., Inc. (LGEUS)	252,923	-	2,254	-
Others	Others	<u>8,393,216</u>	<u>12,502,304</u>	<u>2,598,186</u>	<u>3,070,023</u>
	2005	<u>₩ 12,503,525</u>	<u>₩ 12,503,525</u>	<u>₩3,070,029</u>	<u>₩3,070,029</u>
	2004	<u>₩ 9,960,351</u>	<u>₩ 9,960,351</u>	<u>₩2,044,054</u>	<u>₩2,044,054</u>

Transactions between the Company and equity-method investees

<i>(in millions of Korean won)</i>		Sales and other income	Purchases and other expenses	Receivables	Payables
Selling company	Purchasing company				
LG Electronics Inc.	Hitachi-LG Data Storage Inc. (HLDS)	₩ 489,586	₩ 40,907	₩ 10,412	₩ 5,961
LG Electronics Inc.	LG.Philips Displays Holding B.V.	18,966	422,009	34,773	3,975
LG Electronics Huizhou Inc. (LGEHZ)	Hitachi-LG Data Storage Inc. (HLDS)	1,159,177	-	377,967	-
LG Micron Ltd.	LG.Philips Displays Holding B.V.	110,742	-	10,439	-
LG Electronics Service Europe Netherlands B.V. (LGESE)	Hitachi-LG Data Storage Inc. (HLDS)	-	431,272	-	164,923
LG Electronics U.S.A., Inc. (LGEUS)	Hitachi-LG Data Storage Inc. (HLDS)	-	316,612	-	75,340
LG Electronics JIT Europe B.V.(LGEJE)	Hitachi-LG Data Storage Inc. (HLDS)	-	232,264	-	85,391
LG Electronics Panama S.A. (LGEPS)	Hitachi-LG Data Storage Inc. (HLDS)	-	125,425	-	26,188
LG Electronics United Kingdom Ltd. (LGEUK)	Hitachi-LG Data Storage Inc. (HLDS)	-	63,977	-	836
LG Electronics Polska SP.Zo. O. (LGEPL)	Hitachi-LG Data Storage Inc. (HLDS)	-	29,781	-	362
Others	Others	<u>670,695</u>	<u>718,442</u>	<u>-</u>	<u>45,371</u>
	2005	<u>₩ 2,449,166</u>	<u>₩ 2,380,689</u>	<u>₩ 433,591</u>	<u>₩ 408,347</u>
	2004	<u>₩ 2,065,123</u>	<u>₩ 2,004,383</u>	<u>₩ 231,153</u>	<u>₩ 217,396</u>

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27. Segment Information

The Company has organized reportable business divisions comprising of the Digital Display division, Media division, Digital Appliance division, Mobile Communications division and LCD division of the subsidiary, LG.Philips LCD Co., Ltd. In addition, the Company has a centralized supporting division to provide general and administrative, marketing and sales and research and development services to each business division.

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

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

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

Financial data by business division as of December 31, 2005 and 2004, and for the years ended December 31, 2005 and 2004, are as follows:

	2005		2004	
	External sales	Operating Income (loss)	External sales	Operating Income (loss)
<i>(in millions of Korean won)</i>				
Business Division				
Digital Display	₩ 10,187,397	₩ (16,480)	₩ 9,900,971	₩ 175,963
Digital Media	5,825,459	221,780	6,233,273	194,657
Digital Appliance	10,247,869	588,861	10,135,823	507,388
Mobile Communications	10,183,376	450,779	9,451,387	616,653
LCD	10,075,580	469,697	8,328,170	1,728,357
Other businesses and supporting division	2,548,275	80,063	2,732,209	164,666
Elimination of internal transactions	(4,622,828)	(82,732)	(3,532,387)	(96,462)
	<u>₩ 44,445,128</u>	<u>₩ 1,711,968</u>	<u>₩43,249,446</u>	<u>₩ 3,291,222</u>

¹ As of January 1, 2004, the Controlling Company 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, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005		2004	
	External sales	Ratio	External sales	Ratio
Domestic	₩ 7,189,443	16%	₩ 5,900,313	14%
North America	9,678,068	22%	9,639,516	22%
Europe	10,217,049	23%	6,959,040	16%
Central & South America	2,442,516	5%	1,714,473	4%
Asia	7,735,873	18%	8,872,275	20%
China	6,873,239	15%	5,460,955	13%
Others	308,940	1%	4,702,874	11%
	<u>₩ 44,445,128</u>		<u>₩ 43,249,446</u>	

28. Value Added Information

Details of accounts of the Controlling Company included in the computation of value added based on non-consolidated financial statements for the years ended December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005			2004		
	Selling and administrative expenses	Manufacturing costs	Total	Selling and administrative expenses	Manufacturing costs	Total
Salaries	₩ 711,980	₩ 704,647	₩ 1,416,627	₩ 632,759	₩ 736,913	₩ 1,369,672
Severance benefits	91,011	99,364	190,375	67,667	105,915	173,582
Welfare expenses	109,405	134,010	243,415	88,818	125,454	214,272
Rental charges	82,849	18,752	101,601	55,694	11,165	66,859
Depreciation and amortization	270,860	540,473	811,333	284,198	383,168	667,366
Taxes and dues	15,988	8,136	24,124	14,346	10,559	24,905
	<u>₩ 1,282,093</u>	<u>₩ 1,505,382</u>	<u>₩ 2,787,475</u>	<u>₩ 1,143,482</u>	<u>₩ 1,373,174</u>	<u>₩ 2,516,656</u>

29. Environmental Investments

For the year ended December 31, 2005, the Controlling Company's environmental investments, pursuant to environmental laws and the Company's environmental policies, amounted to ₩ 65,628 million (2004: ₩38,552 million).

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30. Employee Welfare and Social Contributions

The Controlling Company's investments in employee welfare for the year ended December 31, 2005, amounted to ₩243,415 million (2004: ₩221,146 million).

The Controlling Company's social contributions for the year ended December 31, 2005, amounted to ₩13,742 million (2004: ₩10,352 million).

31. Assets and Liabilities Denominated in Foreign Currencies

As of December 31, 2005 and 2004, monetary assets and liabilities denominated in foreign currencies are as follows:

<i>(in millions)</i>	2005		2004			
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent		
Cash and cash equivalents	EUR	262	₩ 314,118	EUR	236	₩ 335,153
	CNY	1,271	159,464	CNY	525	66,221
	US\$	79	79,655	US\$	188	196,615
	GBP	25	44,014	GBP	28	55,460
	Others	-	168,707	Others	-	138,514
		₩ 765,958			₩ 791,963	
Trade accounts receivable	US\$	763	₩ 772,919	US\$	645	₩ 673,659
	CNY	2,355	295,636	CNY	2,207	278,286
	BRL	594	256,953	BRL	480	188,918
	EUR	191	229,048	EUR	213	302,419
	MXN	2,231	212,016	MXN	2,182	203,990
	Others	-	964,352	Others	-	925,963
		₩ 2,730,924			₩ 2,573,235	
Other accounts receivable	EUR	191	₩ 229,121	EUR	206	₩ 15,765
	INR	1,668	37,463	INR	1,196	5,768
	PLZ	105	32,566	PLZ	139	512
	Others	-	122,702	Others	-	493,283
		₩ 421,852			₩ 515,328	
Short-term loans receivable	US\$	14	₩ 14,131	US\$	2	₩ 1,568
	EUR	8	9,501	EUR	11	15,642
	Others	-	2,642	Others	-	721
		₩ 26,274			₩ 17,931	
Long-term financial instruments	EUR	4	₩ 4,705	EUR	0	₩ 39
	US\$	1	657	US\$	21	22,422
	Others	-	293	Others	-	266
		₩ 5,655			₩ 22,727	
Trade accounts payable	CNY	5,369	₩ 673,801	CNY	4,628	₩ 583,740
	US\$	378	382,761	US\$	248	259,280
	EUR	136	162,722	EUR	39	55,915
	Others	-	349,074	Others	-	298,299
		₩ 1,568,358			₩ 1,197,234	

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<i>(in millions)</i>	Foreign currency	2005		Foreign currency	2004	
			Korean won equivalent			Korean won equivalent
Other accounts payable	EUR	113	₩ 135,332	EUR	92	₩ 130,557
	CNY	992	124,556	CNY	1,185	149,420
	US\$	41	41,747	US\$	30	31,600
	Others	-	94,636	Others	-	124,475
			₩ 396,271			₩ 436,052
Withholdings	MXN	279	₩ 26,523	MXN	309	₩ 28,916
	US\$	23	23,000	USD	13	13,334
	EUR	19	22,823	EUR	12	17,044
	GBP	10	18,291	GBP	5	9,544
	Others	-	19,266	Others	-	36,561
			₩ 109,903			₩ 105,399
Short-term borrowings	CNY	4,870	₩ 611,208	CNY	4,758	₩ 600,105
	US\$	327	331,562	US\$	207	215,897
	GBP	72	126,638	GBP	81	163,700
	EUR	84	100,725	EUR	75	106,291
	Others	-	675,949	Others	-	699,823
			₩ 1,846,082			₩ 1,785,816
Other current liabilities	INR	4,309	₩ 96,778	INR	69	₩ 1,659
	US\$	49	49,786	US\$	68	71,470
	CNY	177	22,239	CNY	243	30,698
	Others	16,351	30,502	Others	55,299	35,878
			₩ 199,305			₩ 139,705
Logn-term debts	CNY	1,493	₩ 187,382	CNY	651	₩ 82,082
	MXN	758	72,025	MXN	578	53,995
	Others	-	393	Others	-	74,204
			₩ 259,800			₩ 210,281

32. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2005 and 2004, are as follows:

<i>(in millions of Korean won)</i>	2005	2004
Reclassification of current maturities of debentures	₩ 211,622	₩ 909,137
Reclassification of current maturities of long-term debts	1,432,298	110,504
Conversion of foreign convertible bonds into common stocks	216,158	-
Decrease in assets due to changes in the consolidated entities	56,880	-
Decrease in liabilities due to changes in the consolidated entities	23,164	-

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

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

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

The ₩2,596 million difference between the fair value of net assets amounting to ₩10,044 million for the PC division of LG IBM PC and its merger cost of ₩12,640 million is recorded as goodwill.

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

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

34. Establishment of a Joint Venture

On November 2, 2005, a joint venture between the Company and Nortel Corporation. ("LG-Nortel Co., Ltd") was established, which was approved by the Board of Directors on August 16, 2005.

The significant terms of the joint venture agreement are as follows:

- Investment in kind or transfer assets and employees, except for real properties, machinery and equipment and employees related to manufacturing, belonging to the Systems division of the Company to the joint venture.
- The Company received US\$ 145 million from Nortel Corporation and acquired 50% minus one share of common stocks and all of the preferred stocks of the joint venture.

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Summary of financial information of the Systems division of the Company which was contributed as investment in kind or transferred, follows:

<i>(in millions of Korean won)</i>	Amount
Total assets	₩ 261,997
Total liabilities	44,608
Net assets	<u>₩ 217,389</u>

The Company recorded gain on business transfer of ₩28,607 million relating to investment in kind or transfer of assets to the joint venture.

Goodwill amounting to ₩89,031 million was fully expensed in 2005 as loss on impairment relating to the Systems division.

35. Event Subsequent to Balance Sheet Date

On January 4, 2006, the foreign currency convertible bonds with a face value of US\$ 22 million were converted in to 376,692 shares of common stock, which were then listed on the Korea Stock Exchange on January 13, 2006.

36. Reclassification of prior year financial statement presentation

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.