

LG Corp. Annual Report 2005

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# The LG Way

Annual  
Report 2005



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# Contents

## Part 1

002 Financial Highlights

004 The LG Way

006 Holding Structure

007 Gains (or Losses) from Equity Method

008 CEO's Letter

010 Board of Directors

012 Executive Officers

## Part 2

014 What is The LG Way

016 New Way

018 Wide Way

020 Right Way

## Part 3

022 We're going The LG Way

024 Electronics

032 Chemicals

040 Telecommunications & Services

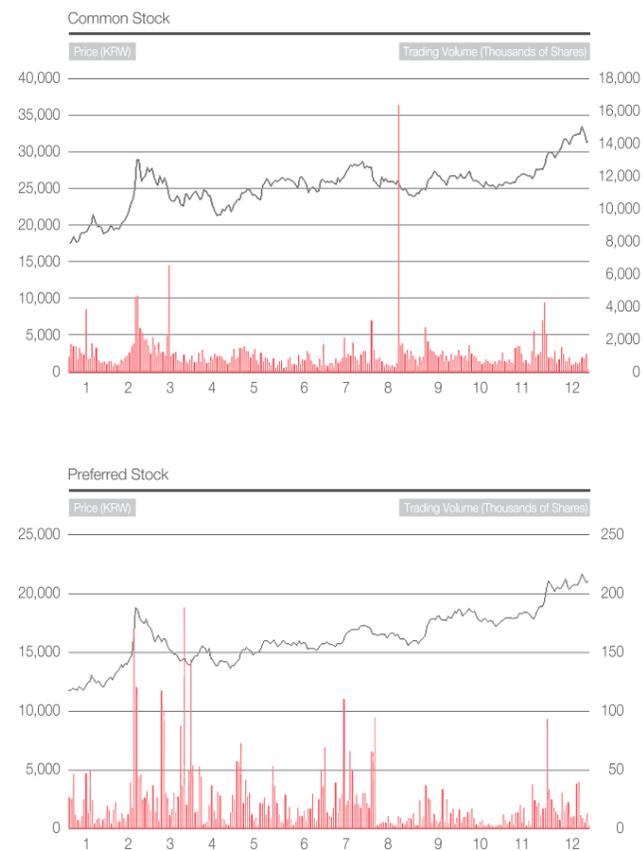
## Part 4

048 Management Discussion

056 Non-Consolidated Financial Statements

060 Consolidated Financial Statements

## Financial Highlights



(Unit: KRW one million)

	2005	2004
Total Assets	4,796,384	4,251,613
Current Assets	367,768	146,019
Fixed Assets	4,428,616	4,105,594
Total Liabilities	731,577	879,502
Current Liabilities	248,585	303,299
Long-term Liabilities	482,992	576,203
Total Shareholders' Equity	4,064,807	3,372,111
Capital Stock	879,359	879,359
Capital Surplus	1,604,977	1,604,977
Retained Earnings	1,512,021	1,857,099
Capital Adjustments	68,450	△ 969,324

Operating Revenue	496,104	760,963
Operating Expense	101,789	54,410
Operating Income	394,315	706,553
Non-operating Income	376,333	117,121
Non-operating Expenses	32,040	176,890
Income before Income Taxes	738,608	646,784
Income Tax Expense	135,422	71,236
Net Income	603,186	575,548

(Unit: KRW, %, times)

Net Debt-to-equity Ratio	△ 1.67	13.24
Return on Equity (ROE)	16.22	15.04
Book-value Per Share	26,067	22,554
Price Book-value Ratio (PBR)	Highest 1.29 Lowest 0.67	0.85 0.37
Earnings Per Share (EPS)	3,437	2,672
Price Earnings Ratio (PER)	Highest 9.81 Lowest 5.05	7.19 3.11
Stock Price	C/S Highest 33,700 C/S Lowest 17,350 P/S Highest 22,000 P/S Lowest 11,200 C/S YE 31,600 P/S YE 21,200	19,200 8,300 12,100 5,400 16,900 11,200
Number of Shares Issued	Common Stock 172,557,131 Preferred Stock 3,314,677	172,557,131 3,314,677

## Part 1

## The LG Way

**Ways made by others are not the only roads to travel. Charting a new course is LG's way of achieving greatness**

A way to build a No. 1 company through the practice of “Jeong-Do” Management<sup>(1)</sup>

A way that no other company has traveled before

A way to become a leading company that puts customer value ahead of everything, we are now paving the LG Way

<sup>(1)</sup> “Jeong-Do” Management is LG's unique code of conduct that governs our management activities. English translation of “Jeong-Do” is “Right Way”. “Jeong-Do” Management is the way we display our uncompromising integrity in pursuing LG's management principle of creating value for customers.

# Holding Structure



- As of March 31, 2006.  
 - Stake ratios are based on common stocks only.

# Gains (or Losses) from Equity Method

As of December 31, 2005

(Unit : KRW one million)

Company	Shares Owned	Stake Ratio <sup>(2)</sup> (%)	Book Value	BV Portion (%)	Gains from Equity Method			
					Before Negative Goodwill <sup>(3)</sup>	Portion (%)	After Negative Goodwill <sup>(3)</sup>	Portion (%)
LG Electronics Inc.	50,341,430	31.45	2,288,347	49.36%	223,499	36.20%	20,109	6.57%
Siltron Inc.	3,418,141	51.00	153,811	3.32%	12,615	2.04%	8,539	2.79%
Lusem Co., Ltd.	1,400,000	64.81	12,048	0.26%	2,990	0.48%	2,990	0.98%
<b>Electronics</b>			<b>2,454,206</b>	<b>52.93%</b>	<b>239,104</b>	<b>38.72%</b>	<b>31,638</b>	<b>10.34%</b>
LG Chem Ltd.	21,926,000	30.00	865,813	18.67%	120,424	19.50%	55,569	18.15%
LG Household & Health Care Ltd.	5,315,500	30.00	125,360	2.70%	19,154	3.10%	8,783	2.87%
LG Life Sciences, Ltd.	5,044,114	30.00	127,539	2.75%	(467)	-0.08%	(19,116)	-6.25%
LG MMA Corp.	1,200,000	50.00	86,353	1.86%	22,666	3.67%	22,666	7.40%
<b>Chemicals</b>			<b>1,205,065</b>	<b>25.99%</b>	<b>161,777</b>	<b>26.20%</b>	<b>67,902</b>	<b>22.18%</b>
LG TeleCom, Ltd.	103,614,396	37.37	384,726	8.30%	96,598	15.64%	84,715	27.68%
Dacom Corporation	20,063,033	31.32	270,112	5.83%	23,460	3.80%	32,271	10.54%
<b>Telecommunications</b>			<b>654,838</b>	<b>14.12%</b>	<b>120,058</b>	<b>19.44%</b>	<b>116,986</b>	<b>38.22%</b>
LG CNS Co., Ltd.	25,470,680	65.80	167,271	3.61%	49,396	8.00%	42,721	13.96%
Serveone	800,000	100.00	81,772	1.76%	36,549	5.92%	36,549	11.94%
LG N-Sys	1,000,000	100.00	32,727	0.71%	10,643	1.72%	10,643	3.48%
Konjiam Leisure Co., Ltd. <sup>(1)</sup>	200,000	100.00	17,664	0.38%	(1,102)	-0.18%	(1,102)	-0.36%
LG Management Development Institute	1,200,000	100.00	8,843	0.19%	827	0.13%	441	0.14%
LG Sports Ltd.	600,000	100.00	901	0.02%	(96)	-0.02%	5	0.00%
<b>Services</b>			<b>309,178</b>	<b>6.67%</b>	<b>96,217</b>	<b>15.58%</b>	<b>89,257</b>	<b>29.16%</b>
LG Hitachi Ltd.	245,000	49.00	13,005	0.28%	314	0.05%	314	0.10%
<b>Others</b>			<b>13,005</b>	<b>0.28%</b>	<b>314</b>	<b>0.05%</b>	<b>314</b>	<b>0.10%</b>
<b>Grand Total</b>			<b>4,636,292</b>	<b>100.00%</b>	<b>617,470</b>	<b>100.00%</b>	<b>306,097</b>	<b>100.00%</b>

(1) Konjiam Leisure Co., Ltd. was merged into Serveone in Jan. 1, 2006.

(2) Stake ratio represents the ratio of shares owned divided by the total number of shares outstanding (including preferred shares).

(3) When acquiring shares of a subsidiary that is subject to valuation by the equity method, the difference between the acquisition price (market price or fair value) and the net asset value on the book of the subsidiary is recognized as investment elimination gain or loss - similar to goodwill or negative goodwill. The generally accepted accounting principles ("GAAP") stipulate that this amount be amortized (-) or reversed (+) over an appropriate period of time with the limit of up to 20 years. The company stipulates that the amount be amortized over 5 years or reversed over 5 to 10 years.

# We will make LG Corp. the No. 1 company that puts customer value ahead of everything

Our valued shareholders and customers:

First of all, I would like to express my sincere gratitude for your unwavering trust and support.

We experienced some difficulties in 2005. Adverse market conditions caused by high oil prices and the appreciation of the Korean Won affected our businesses during the first half of 2005. It was a period that presented serious challenges to the competitiveness of our businesses, and enabled us to test and implement counter measures aimed at strengthening our fundamentals.

Our subsidiaries strived to reinforce the competitiveness necessary to operate effectively against changes in the environment while continuously offering our customers true and differentiated values. Such effort paid off as we kept some of the unfavorable macro economic factors at bay, and made a gradual recovery in the second half of 2005.

Although LG Corp.'s 2005 operating income decreased from that of 2004 due to the difficulties our subsidiaries experienced in the first half, our pre-tax income grew by 85 billion won thanks to effective management of our investment assets.

Our exemplary governance structure along with a relatively stable performance led to continuous increase in LG Corp.'s market value. Our market capitalization at year end 2005 stood at 5.5 trillion won, representing an 87% growth over the previous year. This marks a significant outperformance versus the KOSPI over the same period and represents a growth of 958 billion won since the demerger of GS Holdings in July 2004.

However, let me assure you that LG Corp. will not stay content with the achievements we made so far. We will make renewed efforts to continuously enhance customer satisfaction and shareholder value.

In 2006, we are determined to further solidify our basic belief of creating value for customers and move a step closer to realizing our vision of becoming a No. 1 LG, a company that all customers will recognize as a true leader. Our subsidiaries are also determined to make concerted efforts in delivering only the best products and services to make the LG brand a symbol of excellent customer value and satisfaction. By doing so, we will elevate the LG brand to a higher plane in the global market.

At the same time, we will systematically plan and prepare for the future of our businesses. Most importantly, we will continue to encourage our subsidiaries to build stronger business portfolios and upgrade their business models that will prove effective against any type of environmental challenge. We will urge them to continue investing in research and development aimed at securing competitive advantages. We will also induce them to deploy more resources to developing new businesses. LG Corp. on the other hand, will take a longer term perspective on building a stronger business portfolio, and will continue to explore and nurture new businesses that will lead us into a more prosperous future.

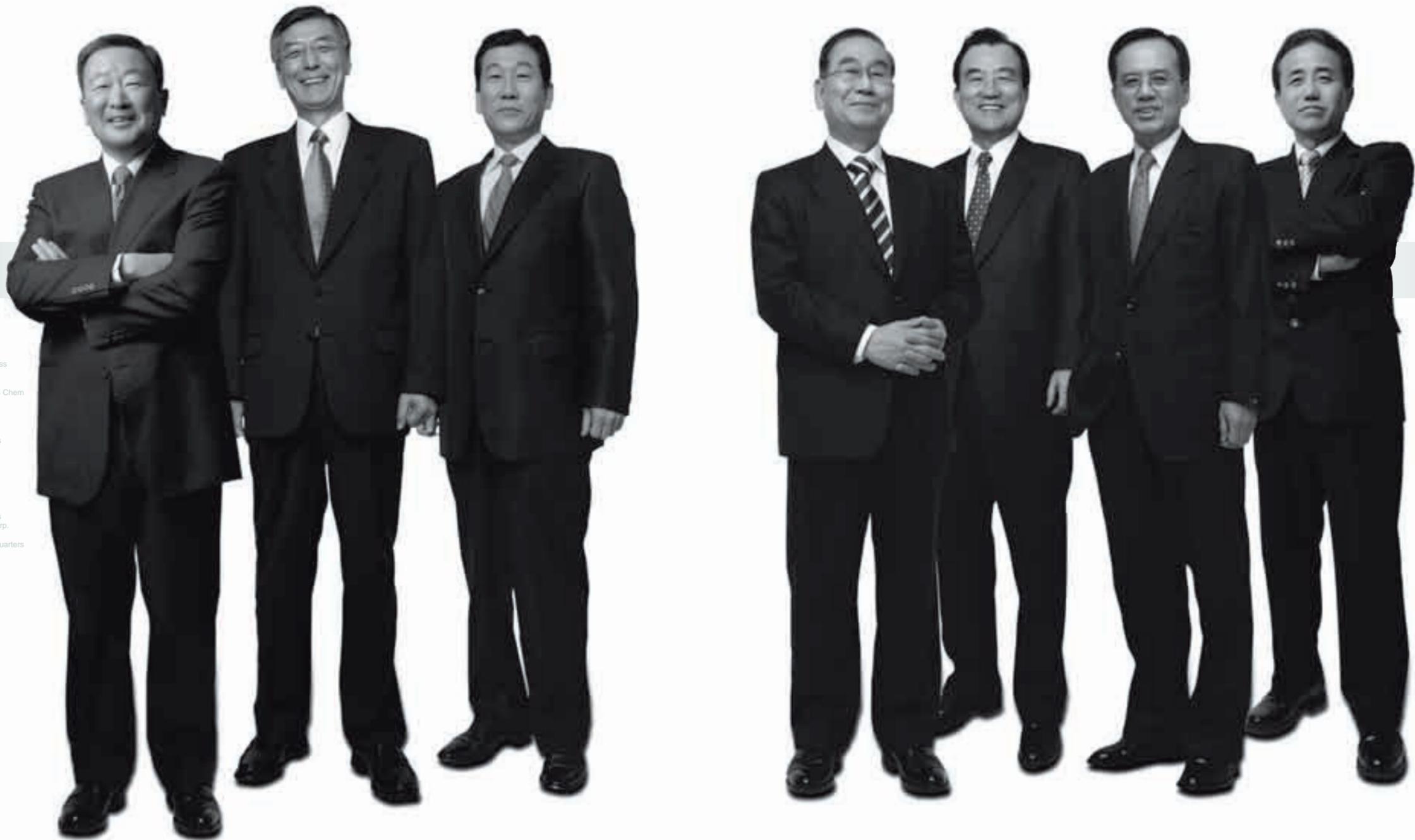
In addition to our promises above, we will meet our targets set for 2006. Though we do not expect to see significant improvement in the business environment this year, we are committed to attaining our goals by thoroughly executing effective measures against risk factors. Further, by exercising our unique management principle of "creating value for customers through management based on respect for human dignity," we are determined to become a company that is ultimately respected and trusted by our valued shareholders and customers, as well as by the market.

On behalf of LG, I would like to thank you, our valued shareholders and customers for your confidence and support. You are the real force behind LG's success and I ask for your continued support.

Thank you very much.

Bon Moo Koo  
Chairman & CEO





**Koo, Bon Moo / Chairman of the Board**  
 Education Cleveland University, USA | M.A. Business  
 Current Chairman and CEO of LG Corp.  
 2001 Chairman and CEO of LGCI  
 1995 Chairman and CEO of LG Electronics / LG Chem  
 1981 Director of LG Electronics

**Kang, Yu Sig / Director**  
 Education Seoul National University | B.S. Business  
 Current Vice Chairman of LG Corp.  
 1999 Chief of LG Restructuring Headquarters  
 1987 Director of LG Electronics  
 1972 Joined LG Chem

**Jung, David Dohyun / Director**  
 Education Seoul National University | B.S. Business  
 Current CFO & Executive Vice President of LG Corp.  
 2003 Vice President of LG Corp.  
 2000 Vice President of LG Restructuring Headquarters  
 1983 Joined LG Executive Office

**Kim, Jin Hyun / Director**  
 Education Seoul National University | B.A. Sociology  
 Current Director of World Peace Forum  
 1999 Chairman of Munhwa Daily  
 1995 President of University of Seoul  
 1990 Minister of Science & Technology

**Kim, Yong Chin / Director**  
 Education Seoul National University |  
 M.A. German Language & Literature  
 Current Advisor to Ahn Kwon & Co.  
 1996 Minister of Science & Technology  
 1995 Governor of Bank Supervisory Service  
 1994 Vice Minister of Finance

**Koo, Ja Jung / Director**  
 Education Dongguk University | B.S. Trade  
 Current Outside Director of LG Corp.  
 1999 Chairman / Advisor of Hana Securities  
 1996 Governor of Boram Bank  
 1991 Auditor of Boram Bank

**Shin, Young Soo / Director**  
 Education Northwestern University, USA |  
 Ph.D. Industrial Engineering and  
 Management Sciences  
 Current Professor at Yonsei University School of Business  
 2003 Chief Librarian, Yonsei University Central Library  
 1999 Chairman, Korean Production &  
 Operation Management Society  
 1983 Chairman, Academy Council of Korea  
 Operations Research and  
 Management Science Society



Yin, Yu-Seong / Vice President  
Head of Chairman's Office

Han, Myeung Ho / Vice President  
Head of Management Administration (Chemicals)

Lee, Jong-Sang / Vice President  
General Counsel / Member of Korean Bar

Lee, Hyuk-Ju / Vice President  
Finance & Accounting Team



Shin, Yong Sam / Executive Vice President  
Head of Corporate Auditing Office

Lee, Michael Byungnam / Executive Vice President  
Head of Human Resources

Jung, Il Jae / Executive Vice President  
Head of Management Administration  
(Telecommunications and Services)  
& Brand Management

Kim, Sang-Hun / Executive Vice President  
Head of General Counsel

Kim, Joo Hyung / Executive Vice President  
Head of Management Administration  
(Electronics)

Part 2

What is The LG Way

LG is applying a different way of thinking in order to create greater corporate value  
LG is practicing the right way of management in order to maximize shareholder value

# New Way

We are building an LG that our competitors will find formidable but will want to learn from... by developing new technologies through new ways of thinking

Chuko Liang, Genghis Khan, Queen Elizabeth I, Bill Gates... Their rivals feared and respected these outstanding leaders because of their ability to constantly search for new ideas and create new things.

Companies are no different. Only leading companies gain recognition, especially more when the business environment is not favorable. When a company develops a leading technology based on an innovative idea unthought-of by others, when a company penetrates the world market on the back of unrivaled quality and services, that company builds the No. 1 brand and grows into a No. 1 company.

Guided by management principles summarized as "Creating value for customers" and "Respecting human dignity," LG strives to realize its vision of becoming a No. 1 company.

"Creating value for customers" epitomizes LG's endeavors to maximize customer value based on new thinking and new technologies and "Respecting human dignity" refers to LG's organizational management principle that focuses on maximizing business competitiveness by attracting superior talents and providing fair, performance-based compensation.

Our focus on these principles is showing visible results as rightly pointed out by Bill Gates of Microsoft Corporation, who last year said that "LG brand today represents a promise to offer innovative technologies and solutions to customers all over the world." Indeed, LG became one of the most popular brands in each of the BRICs markets and a global brand in many advanced markets standing shoulder to shoulder with other premier brands of the world.

However, LG will not slow down its challenges and innovations to become the No. 1 company, as its ultimate goal is none other than "An LG that our competitors find formidable but want to learn from".

# Wide Way

We are building an LG that is most attractive to investors...  
by significantly expanding our portfolio of global No.1 brands

The LG Bridge that is now more famous in Russia than the Kremlin Palace, LG Multimedia Show that has become the world-renowned attraction in Las Vegas, and the general consensus "LG Sony Si Mehenger He" (LG is more expensive than Sony) representing LG's brand power that sweeps across the Indian subcontinent...

From the BRICs markets, i.e., Brazil, Russia, India and China, and to the advanced markets in the US, Europe, and Japan, LG is making a leap into joining the ranks of globally leading companies by expanding its scope of operation to cover the entire world.

These efforts constitute the process of realizing our goal of becoming a "No. 1 LG" by securing global competitiveness, building superior brand power, and strengthening preeminent market presence, and representing LG's firm commitment to becoming a company most attractive to its shareholders and investors.

To this end, LG allocates a significant portion of its resources to attaining the goal of building its electronics business into the global top three and its chemical business into the global No. 1 in the area of information and electronic materials.

As a result, LG's electronics business introduces cutting-edge technologies that are recognized as world's first on a monthly basis, while its chemicals business develops high value-added and high functional products to completely free itself from price competition.

More specifically, LG makes consistent efforts to solidify its position as the true market leader and to enjoy unparalleled premium in the market in terms of quality, technology, products and price. LG will expand its portfolio of the world's No. 1 products to 40 items by 2010 from the current 17 items which includes optical storage devices, household air conditioners, DVD players, vacuum cleaners, transparent ABS, shadow masks, etc.

To build an LG that is the most attractive to investors on the back of No. 1 brands recognized by the world...  
This is the promise that LG gives to our valued shareholders and customers.



The merchants of Venice, the merchants of Osaka, and the famous Korean merchants of Gaeseong ...  
They gained worldwide fame not because of their outstanding skills as merchants but because of their impeccable reputation of creditworthiness.  
The Silicon Valley, Longwood Medical Area of Boston, and Bangalore of India...  
They became centers of information technology and biotechnology because they are located where the world's finest talents flock in.

Companies are no different.  
Today's No. 1 company is not just the largest in size.  
A true No. 1 company is the one with the largest confidence and the largest dream.  
As such, only those companies who secure confidence from their customers and shareholders based on sound and transparent business management practices and who make the largest investments in developing global talents can become great companies that are respected over a long period of time.

Realizing a goal takes hard actions.  
LG is determined to take the way to becoming a true No. 1 company by relentlessly practicing "Jeong-Do Management."  
When people refer to "Jeong-Do Management." they often think of compliance, fair trade, and ethical conduct.  
However, these are considered only the basic practices in LG.  
These basic practices may be sufficient for other companies in fulfilling their social responsibility to a certain extent, but LG's "Jeong-Do Management" goes a step further to include fair evaluation and compensation based on performance, growth and symbiotic relationship, and competence.

Ethical management practices only serve as the basics for "Jeong-Do Management" because it requires strong competence to become a company truly trusted by shareholders and society. To build competence, LG believes that talented people must receive consistent support, fair evaluation and apt compensation to realize their full potential.

LG endeavors to become a great company admired and desired by all customers and talented people in the world.

# Right Way

We are building an LG most trusted by customers and admired by talented people by taking the right way as a responsible corporate citizen





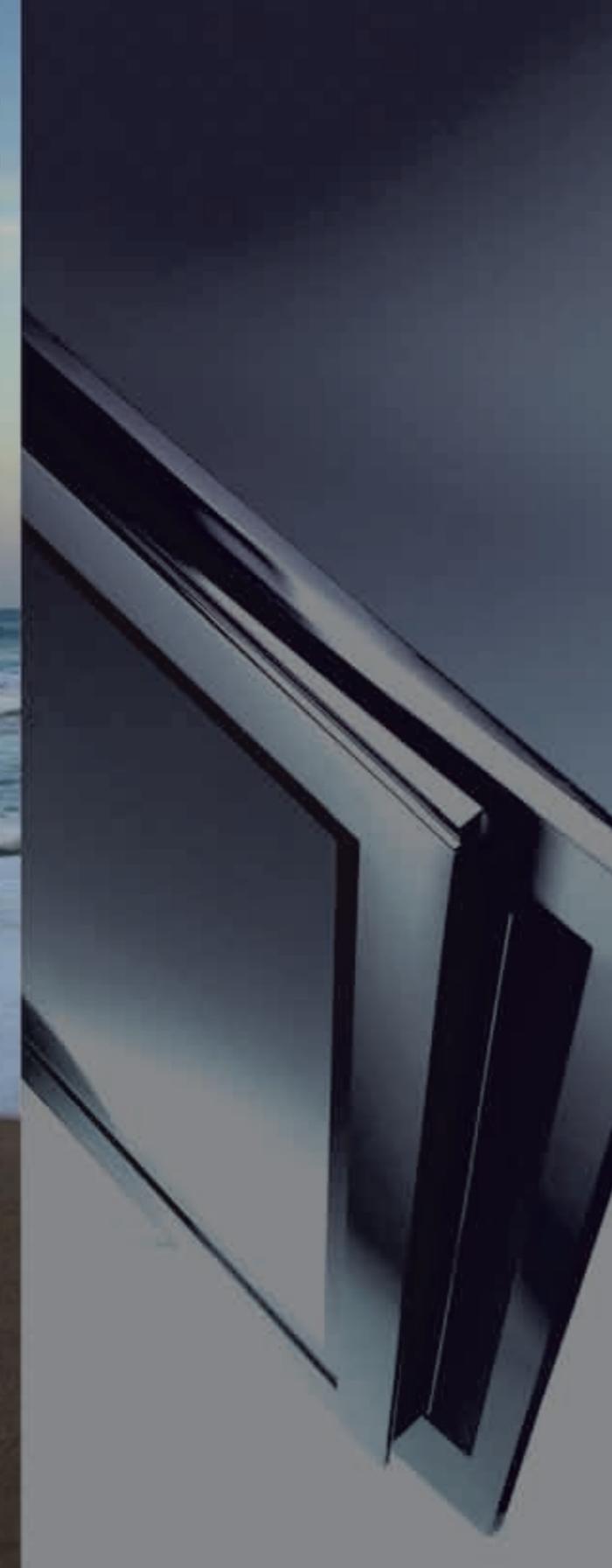
Part 3

We're going The LG Way

In order to become a company that continues to lead the way into the future, LG is searching for new growth and markets  
In order to serve and offer greater value to our customers, LG has already begun to take the right way towards practicing customer value-oriented management

Electronics

LG is growing stronger  
LG is strengthening its presence in the  
world...  
as a global leader in the electronics  
industry



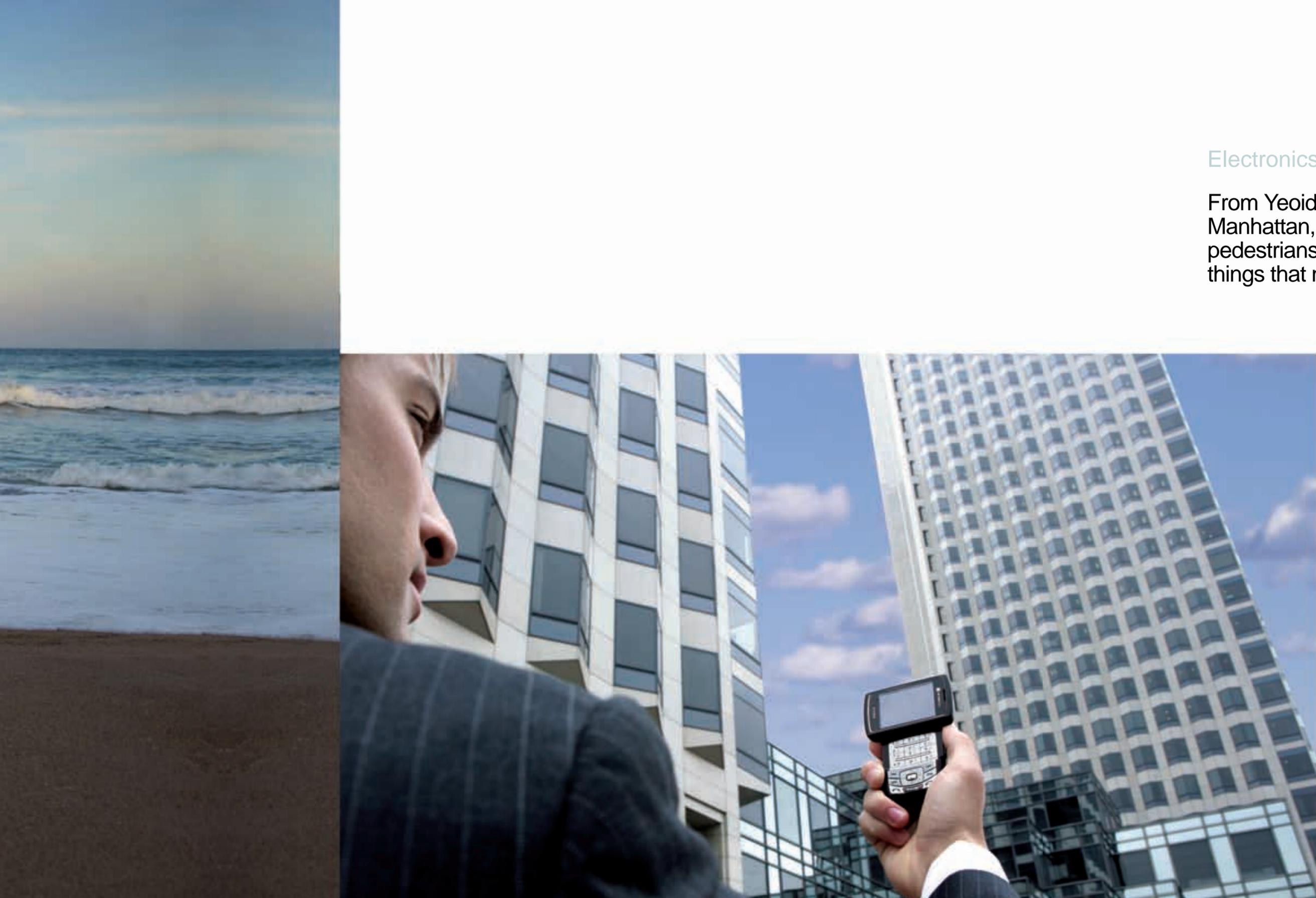
## Electronics

From Yeoido Park in Seoul, to the streets of Manhattan, to lovers in Beijing, and to the morning pedestrians of Sao Paulo, LG's technology creates things that never existed in the world before

### 2005 Performance

A picture frame-type air conditioners that enable displaying works of fine arts through appliances, a cell phone modeled after a sports car, a super slim slide cell phone with 14.9 mm touch pads, and the world's first "Digital Video Recording" Plasma TV sets are some of the most innovative products that LG Electronics launched in 2005, and won worldwide acclaim. On the back of these premium products, LG Electronics posted sales of USD 23.8 billion in 2005. Exports accounted for 77% of the sales at USD 18.3 billion and sales in Korea marked USD 5.5 billion. LG Electronics also posted an operating income of USD 914.6 million, an ordinary income of USD 741.4 million, and a net income of USD 702.8 million in 2005. The mobile communications business sold over 55 million handset units globally to solidify its status as the world's fourth largest mobile handset maker. The display business recorded USD 5.1 billion in sales on the back of surging sales of the "Digital Video Recording" Plasma TV sets. The digital appliances business made USD 5.8 billion in sales as it transformed itself into higher value-added sales structure centering upon premium products such as Whisen™ world's best-selling air conditioners, and Tromm™ washing machines.

LG.Philips LCD, a subsidiary of LG Electronics, was recognized by Display Search, the renowned industry research firm based in the US, as the No. 1 in the global LCD industry in 2005. It was the proud result of the determined efforts of the company and all its employees who endured great pains to achieve the goal of becoming a No. 1 both in quality and in quantity. Based on these outstanding achievements, the company posted USD 8.9 billion in sales in 2005, representing 21% growth year-on-year. The company also recorded an operating income of USD 447.6 million and an ordinary income of USD 367.3 million in 2005. In particular, the 7th generation production line in Paju, Korea, where global attention is focused, successfully began mass producing the 42-inch panels just a month after the pilot production took place in November 2005, demonstrating once again the world's finest line construction capability and process technology held by LG. In addition, with launch of the 7th generation production line, LG.Philips LCD established a cost-effective production system that amply supports the company's quest for leadership in a variety of business areas.



## 2006 Business Strategies

LG Electronics undertakes to become the true leader in the global electronics and information communication industry.

To this end, LG Electronics is proactively making preparations for the future by focusing on developing next generation growth engines in addition to its current core businesses such as mobile handsets, digital TVs, and digital displays.

In the mobile handset business, LG Electronics is leading the global market by launching products equipped with state-of-the-art functionality and designs that stand out and suit the rapidly changing trends in the market. LG Electronics is pioneering a new dimension in the mobile handset landscape by launching the world's first 3rd generation terrestrial broadcast DMB (digital multimedia broadcasting) phones, the MediaFLO phones, the DVB-H phones, and the "Digital Video Recording" DMB phones, in addition to the CDMA phones and 3G (WCDMA) phones where the company has already taken the global No. 1 position. Furthermore, LG Electronics also plans to lead the next generation multimedia market centering upon HSDPA and WiBro handsets. With such effort, LG Electronics endeavors to become one of the top 3 players by 2010 in the mobile handset business. LG Electronics is widely recognized as the world's top TV manufacturer and a leader in the global digital display industry with its global production base and leading technologies. Fully capitalizing on its competitiveness in the display module business, LG Electronics targets the No. 1 position in the global digital TV market by 2010, specifically in PDP and LCD TVs, the monitor segment and the PDP module segment. At the same time, LG Electronics makes committed efforts to lead the new era that unfolds ahead of us by launching a wide variety of digital convergence products and strengthening the digital multimedia business. In home appliances and the digital information appliances businesses where LG Electronics currently enjoys worldwide recognition, the company will make renewed efforts to elevate its reputation further.

LG.Philips LCD is the global No. 1 company both in form and substance, and leads the world market with its superior technology, timely investment, and cost leadership. Based on these strengths, the company will make further efforts to be recognized by the customers as the ultimate leader in TFT LCDs by seeing from the perspective of customers, identifying what customers want even before they say it, and developing and providing differentiated products in a timely manner. Our commitment to these principles is evidenced by making 2006 the "Year of Realizing No. 1 Customer Value."

Leveraging on the successful launch of the 7<sup>th</sup> generation production line in Paju, Korea, LG.Philips LCD will further strengthen its leadership in the large-screen TV market of 42-inches and above by realizing the best quality emulated but unachievable by competitors and achieving sustainable growth in profits. Likewise, LG.Philips LCD will retain its leadership in the industry by making more R&D investments in new businesses such as the LTPS and OLEDs.

## Electronics

The world market still offers tremendous opportunities, and LG wants to preemptively tap and capitalize on such potentials





(Unit : KRW one million)

## Subsidiaries

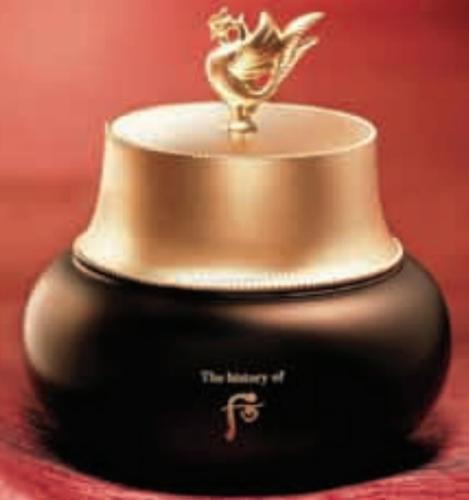
	LG Electronics Inc. Mobile Communications, Digital Appliance, Digital Media		Siltron Inc. Semiconductors and electronics materials		Lusem Co., Ltd. Drive IC	
	2005	2004	2005	2004	2005	2004
Current Assets	3,985,163	4,110,643	118,064	101,865	19,407	4,667
Fixed Assets	10,051,277	9,123,598	559,008	517,894	28,458	13,050
Total Assets	14,036,440	13,234,241	677,072	619,759	47,865	17,717
Current Liabilities	5,208,346	4,958,823	203,643	195,202	22,521	3,727
Long-term Liabilities	2,665,451	3,259,251	184,255	155,036	6,674	14
Total Liabilities	7,873,797	8,218,074	387,898	350,238	29,195	3,741
Capital Stock	800,226	783,961	33,512	33,512	10,800	10,800
Capital Surplus	2,107,259	1,907,543	28,265	28,265	3,748	3,748
Retained Earnings	2,511,378	2,063,631	228,322	208,556	4,123	-572
Capital Adjustments	743,780	261,032	-925	-812	-	-
Total Shareholders' Equity	6,162,643	5,016,167	289,174	269,521	18,671	13,976
Sales	23,774,151	24,659,317	427,099	393,246	41,461	-
Operating Income	914,640	1,249,734	40,736	29,624	4,755	-1,041
Income before Income Taxes	741,391	1,860,126	31,001	33,514	4,536	-823
Net Income	702,801	1,545,954	26,469	29,127	4,695	-572
Equity-method Gain to LG Corp.	20,109	297,054	8,539	10,779	2,990	-371
LG Corp.'s Shares	35.2%	36.1%	51.0%	51.0%	64.8%	64.8%

## Sub-subsidiaries

	LG.Philips LCD Co., Ltd. Liquid Crystal Display panels		LG Innotek Co., Ltd. Electronics components		LG Micron Ltd. Electronics components		Hi Plaza Inc. Wholesale and retail electric home appliances		Hi Business Logistics Co., Ltd. Freight transportation service	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	3,196,934	2,638,616	184,899	210,995	213,265	196,314	56,925	102,008	27,729	29,101
Fixed Assets	9,798,981	6,960,077	216,285	200,998	626,493	489,716	120,772	186,364	10,433	4,031
Total Assets	12,995,915	9,598,693	401,184	411,993	839,758	686,030	177,697	288,372	38,162	33,132
Current Liabilities	2,594,282	1,900,765	140,702	178,915	261,249	185,925	48,963	122,583	24,645	25,817
Long-term Liabilities	2,726,036	1,925,286	26,661	26,372	213,019	164,748	13,534	56,895	1,424	1,205
Total Liabilities	5,320,318	3,826,051	167,363	205,287	474,268	350,673	62,497	179,478	26,069	27,022
Capital Stock	1,789,079	1,626,579	43,104	43,104	37,500	37,500	37,200	37,200	3,600	100
Capital Surplus	2,279,250	1,012,271	56,243	56,243	87,413	87,413	62,458	62,458	4,400	4,400
Retained Earnings	3,608,686	3,091,674	138,613	112,243	244,275	214,050	15,542	9,236	4,123	1,610
Capital Adjustments	-1,418	42,118	-4,139	-4,885	-3,698	-3,606	-	-	-30	-
Total Shareholders' Equity	7,675,597	5,772,642	233,821	206,705	365,490	335,357	115,200	108,894	12,093	6,110
Sales	8,890,155	8,079,891	940,014	800,593	745,377	682,574	598,326	666,450	155,882	149,902
Operating Income	447,637	1,640,708	16,140	8,238	61,848	68,261	4,485	4,787	3,264	2,323
Income before Income Taxes	367,281	1,683,067	33,390	18,184	44,949	62,478	8,710	678	3,452	2,306
Net Income	517,012	1,655,445	26,369	20,688	37,725	57,788	6,306	296	2,512	1,614

## Chemicals

LG is the front runner of Korea's chemicals industry, and it strives to achieve the coveted goal of becoming a world power in chemicals...



## Chemicals

Whenever you set a foot on your living room floor,  
whenever you call one of your friends,  
whenever you drive your car on the road...  
at every moment of your life, you are meeting LG  
somewhere. Though you can't see it, you are  
meeting LG's world class chemical technology



### 2005 Performance

In the midst of unfavorable business environment in 2005 including high oil prices and strengthening of the Korean Won, LG Chem was able to increase its sales by 3.8% year-on-year to USD 7.4 billion, although its net income declined by 25% to USD 400.3 million.

The company's chemicals and polymers business enjoys significant amount of synergy created from the vertical integration with LG Daesan Petrochemical, and further strengthened its competitiveness by breaking grounds for construction of VCM and EDC plants in Tianjin, China.

The company's industrial materials business realized a 28% growth in its operating income vs. 2004 through business restructuring and developing high value-added products. The division is also making careful preparations for the future by commencing full scale operation of the HI-MACST<sup>™</sup> plant in the US and focusing on developing high functional industrial products, to counter the effects of unfavorable business environment caused by slowdown in the economy.

The company's information and electronic materials business achieved significant growth in the display sector including polarized light films and light-sensitive materials by posting a growth of 5.4% year-on-year in its sales. Though the battery business was an exception to the growth by experiencing difficulty in the first half of 2005, it has recovered fast in the second half driven by the division's quality improvement efforts fully supported by the entire company, and thanks to the resulting restoration of consumer confidence.

Looking at LG Household and Health Care in 2005, though its business conditions did not improve due to the delayed recovery in the Korean economy, it successfully strengthened its position by restructuring its international businesses and disposing of stagnant businesses (wholesale distribution). Improved competitiveness in its household products business by launching premium brands such as ReEn<sup>™</sup>, Beyond<sup>™</sup>, and Lucky Star<sup>™</sup>. The company's cosmetics business regained profitability as its premium cosmetics brands including "O HUI<sup>™</sup>" and "The History of Fu<sup>™</sup>" posted the highest growth in department stores in Korea, thereby contributing to the company's 30% growth year-on-year in its operating income.

At LG Life Sciences, though its 2005 operating income declined due to reduction in milestone fees caused by delay in license-outs and increase in R&D projects, it produced consistent R&D results including the completion of the second phase in the clinical testing of SR-hGH (slow-releasing human growth hormone). While the company focuses on developing lifestyle drugs including medicines for diabetes treatment in preparation for the aging society, the company's flagship products including Zanidip<sup>™</sup> (for hypertension treatment) and Eutropin (human growth hormone) show steady growths, and Factive<sup>™</sup> (quinoline antibiotics) which was launched in the US market in 2004 solidified its presence in the market by doubling its number of prescriptions.

## 2006 Business Strategies

Targeting sales of USD 11.5 billion in 2006, LG Chem will pursue profitable growth by reinforcing competitiveness in its winning businesses while further strengthening its business structure by concentrating its investments in the high functional, high value-added products and future growth businesses. In its global business, the company will significantly improve its operating income by pursuing globalization based on profitability instead of volume, and proactively broadening its presence in the emerging strategic markets such as India, the Latin America, the Middle East, and Africa in addition to China. LG Chem will increase its R&D investments to 3.4% of sales in order to accelerate the future growth engine businesses such as mid to large size batteries, fuel cells, and new display materials.

In the company's chemicals and polymers business, challenging business environment is expected as the high oil prices are projected to continue and the demand growth is likely to slow down due to the expected retrenchment policies and strengthening of the RMB in China which leads the world's petrochemical market. Responding to this challenging environment, LG Chem plans to sustain its growth by securing fundamental competitiveness in its flagship products including PVCs and ABS. The company is also expecting to benefit from greater synergy coming from the integration with LG Daesan Petrochemical which was merged into the company as of January 1, 2006. In the acrylate business, the company will solidify its profit base by expanding sales of high margin products and secure future growth base by completing, and commencing commercial production from, the 5,000 ton plant for adhesives products - a downstream business. In the engineered plastics business - a specialty product, the company will enhance its product development capability further by establishing a specialized R&D center and leveraging on its existing applied technologies, and, at the same time, develop new materials for use in information and electronics devices to nurture into the company's future growth engine.

In the battery business where the company-wide resources will be concentrated, the company will further solidify its market presence by restructuring the business into a more customer-oriented organization, reinforcing its preventive quality assurance programs, and developing innovative products such as batteries with enhanced safety features and with ultra-large capacity. In the polarized light films business for TFT-LCD panels - one of the company's flagship businesses, dedicated investment, marketing and product development activities are being carried out on the back of the company-wide support with the aim of attaining the global No. 1 position in 2007. In this context, the company is accelerating expansion of the front process capacity for the polarized light films by breaking ground for construction of the 3rd plant in Ochang (Korea) in December 2005 and, in order to strengthen partnership with its customers, is building, or planning to build, the rear process capacity in Nanjing (China), Taiwan, and Wrocław (Poland). The company also plans to nurture the light-sensitive materials and PDP filters as its future profitable products in the information and electronic materials business, in addition to the polarized light films and batteries by leveraging on its superior product development capability, and by aggressively penetrating the global market including Taiwan and Japan.

In the industrial materials business, though challenging business environment is forecasted due to stagnant demand in Korea, the company plans to enhance its product power by developing environmentally friendly and high functional products that exceed the market expectations, and to develop into an integrated building materials provider instead of a simple provider of decorative goods. To this end, the company launched a specialty brand Zi:n™ and plans to secure growth momentum in the building / housing decorative materials by developing the new brand into a powerful premium brand. For global operations, the company plans to penetrate into the advanced markets of the US and Europe by commencing full scale operation of the HI-MACS™ plant in the US where construction was completed in 2005, and to realize high growths of at least 20% per year in China by launching differentiated products tailored to local needs. In addition, the company plans for the future by generating tangible results from the high functional films for use in information and electronics devices and the environmentally friendly particulate filters where the company's R&D efforts have been concentrated.

LG Household and Health Care will continue to make efforts aimed at further strengthening its brand equity and, to this end, to develop premium brands by reinforcing capability in each of its operations including R&D, marketing and distribution. The company will expand its existing diaper business to include feminine products and complete a successful entry into the hygiene paper products market through its joint venture established in 2005 in partnership with Unicharm of Japan.

LG Life Sciences will continue to pursue its primary R&D strategy of focusing on developing new life-style drugs. The company aims to build SR-hGH into another world class new medicine that follows the success of Factive™ through "licensing-out" after successfully completing the third phase of its clinical testing. At the same time, in order to secure stable source of profits and continued growth, the company will reinforce its product portfolio by stepping up its license-in activities and launching related new products. Meanwhile, the company will continue to pursue disposition of its precision chemicals business in order to concentrate more on the medicine business.

## Chemicals

Just as alchemy led the development of civilization during the Middle Ages, LG's chemical technology is advancing the civilization into the future





(Unit : KRW one million)

**Subsidiaries**

	LG Chem Ltd. Chemicals and polymers, industrial materials, and information & electronic materials		LG Household & Health Care Ltd. Cosmetics and household products		LG Life Sciences, Ltd. Pharmaceuticals and agrochemicals		LG MMA Corp. Basic organic compounds materials	
	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	1,436,296	1,656,707	232,210	197,667	165,467	172,197	85,728	82,700
Fixed Assets	4,157,103	4,022,822	386,340	403,512	217,863	224,274	184,751	160,960
Total Assets	5,593,399	5,679,529	618,550	601,179	383,330	396,471	270,479	243,660
Current Liabilities	1,946,910	1,779,045	244,052	253,649	32,650	135,477	51,562	63,778
Long-term Liabilities	1,207,964	1,705,342	20,822	54,136	111,522	15,481	43,538	37,888
Total Liabilities	3,154,874	3,484,387	264,874	307,785	144,172	150,958	95,100	101,666
Capital Stock	365,432	365,432	88,589	88,589	84,066	84,066	24,000	24,000
Capital Surplus	739,612	739,651	97,350	97,346	147,046	147,046	29,041	29,041
Retained Earnings	1,361,989	1,071,707	170,472	111,966	6,831	7,755	122,338	88,953
Capital Adjustments	-28,508	18,352	-2,735	-4,507	1,215	6,646	-	-
Total Shareholders' Equity	2,438,525	2,195,142	353,676	293,394	239,158	245,513	175,379	141,994
Sales	7,425,105	7,127,411	967,837	967,029	213,252	213,636	269,608	223,545
Operating Income	421,714	522,918	70,364	54,287	415	30,617	61,882	54,320
Income before Income Taxes	467,678	719,712	68,874	52,042	-5,388	5,168	60,221	53,792
Net Income	400,258	536,420	71,879	36,502	-924	10,073	45,385	39,799
Equity-method Gain to LG Corp.	55,569	90,048	8,783	601	-19,116	-15,637	22,666	19,200
LG Corp.'s Shares	34.0%	34.0%	34.0%	34.0%	30.4%	30.4%	50.0%	50.0%

**Sub-subsidiaries**

	LG Petrochemical Co., Ltd. Basic petrochemical materials and chemical products		LG Dow Polycarbonate Ltd. Synthetic resin and other plastic materials		SEETEC Co., Ltd. Petrochemical products		LG Daesan Petrochemical, Ltd. Petrochemical products	
	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	469,133	457,904	93,314	55,381	209,737	952,438	537,187	-
Fixed Assets	570,826	519,166	165,840	185,347	293,961	2,453,945	761,507	-
Total Assets	1,039,959	977,070	259,154	240,728	503,698	3,406,383	1,298,694	-
Current Liabilities	205,491	254,966	68,796	46,171	50,306	714,916	152,531	-
Long-term Liabilities	20,736	22,248	48,905	103,991	162,535	497,649	33,153	-
Total Liabilities	226,227	277,214	117,701	150,162	212,841	1,212,565	185,684	-
Capital Stock	226,000	226,000	140,516	140,516	33,257	373,257	170,000	-
Capital Surplus	163,526	163,526	-	-	27,866	804,290	927,399	-
Retained Earnings	424,545	310,675	1,588	-49,299	229,734	1,016,271	15,611	-
Capital Adjustments	-339	-345	-651	-651	-	-	-	-
Total Shareholders' Equity	813,732	699,856	141,453	90,566	290,857	2,193,818	1,113,010	-
Sales	1,988,923	1,765,522	316,612	240,643	358,713	3,000,284	1,631,874	-
Operating Income	241,505	288,510	57,568	31,994	15,703	601,805	43,391	-
Income before Income Taxes	257,729	277,590	51,592	21,121	10,782	525,899	41,504	-
Net Income	192,944	207,644	50,887	21,121	6,394	374,233	15,611	-

LG Daesan Petrochemical, Ltd. was merged into  
LG Chem Ltd. on Jan. 1, 2006

## Telecommunications & Services

LG is delighting its customers...  
through efforts transcending the highest  
barriers and through services exceeding  
the highest expectations





## Telecommunications & Services

LG's technology gives your regards to your friends, goes to your bank on your behalf, plays your favorite music for your ears, and gives you the pleasure of watching TV whenever and wherever you choose to be... LG puts communication with its customers ahead of everything

### 2005 Performance

In 2005, LG TeleCom successfully laid a firm foundation for solid profitability and started a big leap forward for a bigger success. By making proactive efforts to offer differentiated services that exceed customer needs even before they surface and materialize, as is well demonstrated by such innovative services as BankOn™ and MusicOn™, the company beat market expectations by posting revenue of USD 3.5 billion, and built a subscriber base of 6.5 million along with net profit of USD 248.1 million - the highest performance in the history of the company. Further, by increasing the number of prime subscribers who contribute more to the company's revenue, LG TeleCom achieved growth in terms of quality as well as in terms of quantity.

Under the brand theme line of "Change Feels Good!™," the company focuses on offering optimal customer experience, personalized services, and differentiated convergence services, securing strong competitiveness through effective investments in infrastructure and efficient evolution into the next generation telecommunications network.

Dacom's key focuses include strengthening competitiveness of its telephony / Internet / e-biz services, further strengthening its customer-oriented organizational culture, and developing new growth engines. Despite the stagnant fixed-line market, Dacom achieved the highest performance in the history of the company by posting sales of USD 1.1 billion, an operating income of USD 142.2 million, and a net profit of USD 64.6 million, driven by solid performances in the Internet and e-biz sector. In particular, on the back of stronger performance in the Internet services (BoraNet™ high speed Internet access services, domestic leased line services, etc.) and e-biz offerings such as Webhard™ services, e-Credit™ services, and ASP services (program lease services), the company posted 6% growth in its sales year-on-year. Further, driven by its focused business strategies centering upon highly profitable value-added services and its determined efforts to improve cost structure, the company realized a significant improvement in its operating income. In addition, the company's financial structure improved considerably with conversion of convertible bonds and bonds with warrants outstanding into the company's equity.

At the same time, most of the subsidiaries of Dacom, with the only exception of Powercomm, realized both growth in sales and improvement in profitability. However, Powercomm was not exactly an exception to the high performance subsidiaries as it launched retail high speed Internet access services in September of 2005 centering upon the optical LAN service branded "Xpeed™" and secured 260,000 subscribers over such a short period of time.

LG CNS ranked No. 1 in the IT services market in Korea for two consecutive years and made sizeable profits as a result of its focused efforts to strengthen competitiveness in SI and ITO, to differentiate its business model, and to enhance organizational capability. The company further solidified its No. 1 standing in the market by winning such major projects as the next generation systems project for the National Health Insurance Corporation, the pan-government integrated IT center project, the ERP project for KEPCO, and the Basel II project for Korea Exchange Bank. Aside from the existing businesses, the company made determined efforts to enter new business areas based on newly developed platforms including the transit smart card system escalation project, the T-Government project for Gangnam Municipal Office, and the U-City project for Songdo City Office. In global markets, the company successfully won such major projects as the Sportstoto Japan systems project and the Indonesia Police Office systems project.

## Telecommunications & Services

If the telecommunications & services market represents the New World for the 21<sup>st</sup> century...  
LG is the Santa Maria that set sail first with the dream of reaching it!

### 2006 Business Strategies

In 2006, LG TeleCom will realize continued growth by further strengthening its competitiveness, despite the ever intensifying competition in the market. To this end, the company will make committed efforts to become the preferred provider of telecommunications service by developing more competitive service tariffs, offering more convenient and economical services that change lives of its customers for the better, and providing differentiated mobile handsets. In particular, LG TeleCom will establish the success formula by which all the POSs (Point of Services) including the network, the sales force, and the customer service centers listen to every one of its customers and, by offering true one-stop services, transform their complaints into satisfaction to the point of a delivering a moving experience.

Dacom will continue to enhance its competitiveness in the telephony / Internet / e-biz operations and, in order to effectively respond to the trend towards convergence, proactively develop new businesses for the future in conjunction with Powercomm and LG TeleCom. The company will also enhance its "select & focus" strategy by restructuring its subsidiaries. To this end, the company will put focused efforts in the TPS (Triple Play Service) centering upon Powercomm with the aim of achieving 1 million subscribers by the end of 2006. At the same time, the company will dispose of a portion of its stake in CIC Korea - the call center operation - and absorb and integrate Korea Internet Data Center into the company. Further, by transferring its existing high speed Internet access service subscribers to Powercomm, the company will concentrate its capability on making preparations for the future defined by the trend towards convergence.

With business targets of USD 2 billion in sales and USD 117 million in operating income, LG CNS will make further efforts to become the No. 1 company that puts customers ahead of everything on the back of its focus on talent-oriented, quality-based, and future-oriented business management. To this end, the company will secure growth engines for the future by exploring new markets such as escalation of transit smart cards, expansion of U-City, and development of U-Healthcare, and expand business with its prime customers by making proactive proposals that meet their needs even before the needs are felt by the customers. In addition, the company will promote the development centers in China and India in order to offer world class services and reduce costs significantly.



(Unit : KRW one million)

## Subsidiaries

	LG TeleCom, Ltd. Mobile telecommunications service		Dacom Corporation Telephone and broadband telecommunications service		LG CNS Co., Ltd. Total information technology service		LG N-Sys Office and accounting system and solutions service	
	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	1,075,766	820,468	345,743	365,052	373,073	246,529	71,479	55,469
Fixed Assets	2,689,747	2,701,799	1,789,842	1,903,371	191,477	185,937	20,848	20,711
Total Assets	3,765,513	3,522,267	2,135,585	2,268,423	564,550	432,466	92,327	76,180
Current Liabilities	1,295,489	1,291,960	739,424	865,715	265,568	208,043	49,491	41,512
Long-term Liabilities	1,220,417	1,237,081	417,816	606,639	42,525	39,837	7,115	6,174
Total Liabilities	2,515,906	2,529,041	1,157,240	1,472,354	308,093	247,880	56,606	47,686
Capital Stock	1,386,392	1,386,392	320,314	252,136	19,356	19,356	5,000	5,000
Capital Surplus	11,579	11,579	561,125	507,355	18,375	18,375	4,842	4,842
Retained Earnings	-143,743	-391,871	104,457	38,643	220,738	148,567	25,879	18,652
Capital Adjustments	-4,621	-12,874	-7,551	-2,065	-2,012	-1,712	-	-
Total Shareholders' Equity	1,249,607	993,226	978,345	796,069	256,457	184,586	35,721	28,494
Sales	3,509,449	3,209,430	1,133,582	1,068,487	1,584,335	1,462,083	288,711	290,466
Operating Income	359,944	142,036	142,198	139,179	100,505	71,580	10,070	14,196
Income before Income Taxes	276,335	38,806	59,820	38,805	113,011	65,276	13,205	12,238
Net Income	248,128	29,242	64,619	38,805	81,849	47,489	9,726	9,433
Equity-method Gain to LG Corp.	84,715	5,325	32,271	17,660	42,721	19,666	10,643	10,275
LG Corp.'s Shares	37.4%	37.4%	31.3%	39.8%	65.8%	65.8%	100.0%	100.0%

(Unit : KRW one million)

## Subsidiaries

	Serveone B2B		LG Sports Ltd. Professional sports management		LG Management Development Institute Business and management consulting, Corporate training		Konjiam Leisure Co., Ltd. Golf course operations	
	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	222,202	208,218	2,003	2,334	13,522	11,282	15,504	14,113
Fixed Assets	142,463	85,375	10,008	10,836	41,391	42,152	122,139	123,581
Total Assets	364,665	293,593	12,011	13,170	54,913	53,434	137,643	137,694
Current Liabilities	187,210	158,392	9,629	10,725	6,218	6,487	2,925	1,697
Long-term Liabilities	86,584	85,395	786	751	40,094	40,087	117,059	117,232
Total Liabilities	273,794	243,787	10,415	11,476	46,312	46,574	119,984	118,929
Capital Stock	4,000	4,000	3,000	3,000	6,000	6,000	1,000	1,000
Capital Surplus	3,474	3,474	-	-	-	-	18,089	18,088
Retained Earnings	83,404	42,332	-1,404	-1,306	2,601	860	-1,430	-323
Capital Adjustments	-7	-	-	-	-	-	-	-
Total Shareholders' Equity	90,871	49,806	1,596	1,694	8,601	6,860	17,659	18,765
Sales	924,229	501,282	21,596	28,281	48,707	35,431	12,101	12,609
Operating Income	53,297	40,855	225	524	2,121	565	-983	-1,203
Income before Income Taxes	56,410	38,676	-97	-111	2,513	868	-73	-244
Net Income	41,071	27,275	-97	-111	1,741	493	-1,107	-244
Equity-method Gain to LG Corp.	36,549	25,344	5	228	441	400	-1,102	-244
LG Corp.'s Shares	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Konjiam Leisure Co., Ltd. was merged into Serveone on Jan. 1, 2006

## Sub-subsidiaries

	CS Leader, Ltd. Telemarketing services		AIN Tele Service Telemarketing services		TeCas, Ltd. Telemarketing services		V-ENS Co., Ltd. Total automotive development and consulting services		Powercomm Corporation Optical fiber network telecommunications service	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	6,216	4,340	2,973	1,639	2,681	1,509	12,659	5,218	351,874	161,428
Fixed Assets	607	327	350	285	-	-	3,754	3,529	1,215,455	1,210,135
Total Assets	6,823	4,667	3,323	1,924	2,681	1,509	16,413	8,747	1,567,329	1,371,563
Current Liabilities	3,916	2,746	2,046	1,079	1,670	768	8,383	3,858	258,358	226,217
Long-term Liabilities	-	826	1,013	583	724	487	-	-	363,754	244,748
Total Liabilities	3,916	3,572	3,059	1,662	2,394	1,255	8,383	3,858	622,112	470,965
Capital Stock	400	400	200	200	200	200	1,800	1,800	750,000	750,000
Capital Surplus	694	2,310	-	-	-	-	45	45	-	-
Retained Earnings	1,813	1,111	64	62	87	54	6,185	3,044	195,237	150,662
Capital Adjustments	-	-2,726	-	-	-	-	-	-	-20	-64
Total Shareholders' Equity	2,907	1,095	264	262	287	254	8,030	4,889	945,217	900,598
Sales	44,075	33,205	21,639	18,509	13,548	11,521	46,286	31,131	638,430	571,229
Operating Income	1,900	1,131	-86	3	-50	2	4,112	4,674	69,135	130,060
Income before Income Taxes	2,112	1,368	2	55	38	65	4,246	4,347	41,611	87,878
Net Income	1,813	959	2	46	33	54	3,140	3,045	46,075	73,728

Changed name in March, 2006

TeCas, Ltd. was merged into AIN Tele Service on Feb. 4, 2006

## Sub-subsidiaries

	Korea Internet Data Center, Inc. Internet data center		Dacom Crossing Corporation Electric telecommunication line and facility leasing		Dacom Multimedia Internet Corporation Value-added telecommunications services and software		CIC Korea, Inc. Telemarketing services	
	2005	2004	2005	2004	2005	2004	2005	2004
Current Assets	24,509	28,500	8,984	6,417	6,593	6,277	24,716	20,826
Fixed Assets	150,532	156,960	53,279	51,837	5,027	5,645	11,109	8,422
Total Assets	175,041	185,460	62,263	58,254	11,620	11,922	35,825	29,248
Current Liabilities	15,996	38,623	10,664	5,787	2,465	3,058	8,237	6,970
Long-term Liabilities	76,099	76,194	31,315	29,506	656	454	1,027	603
Total Liabilities	92,095	114,817	41,979	35,293	3,121	3,512	9,264	7,573
Capital Stock	50,000	50,000	33,241	33,241	4,742	4,742	3,885	3,885
Capital Surplus	244	244	-	-	3,712	3,712	10,683	10,683
Retained Earnings	32,702	20,399	-12,795	-10,118	283	194	11,993	7,107
Capital Adjustments	-	-	-162	-162	-238	-238	-	-
Total Shareholders' Equity	82,946	70,643	20,284	22,961	8,498	8,410	26,561	21,675
Sales	82,261	72,900	9,302	8,328	16,207	17,363	55,557	45,366
Operating Income	22,237	14,625	-3,047	-3,107	634	-1,943	5,100	4,327
Income before Income Taxes	16,875	8,763	-2,678	-2,777	89	-2,506	5,643	4,594
Net Income	12,303	6,132	-2,678	-2,777	89	-2,506	5,468	3,379

Korea Internet Data Center, Inc. was merged into Dacom Corporation on Mar. 1, 2006



Part 4

Management Discussion

December 31, 2005 and 2004

## Management Discussion

This Management Discussion is prepared based on non-consolidated financial statements of LG Corp.

LG Corp. is a holding company that controls other companies by means of holding their stocks and has 15 subsidiaries and 18 sub-subsidiaries as of the end of December 2005.

### 1. Operating Income & Expense

Account item	(Unit: KRW million)	
	2005	2004
<b>I. Operating revenue</b>	<b>496,104</b>	<b>760,963</b>
1. Gains from equity method	326,315	712,501
2. Rental income	20,348	31,282
3. Dividend income	14,393	16,725
4. Brand royalty income	135,048	455
<b>II. Operating expense</b>	<b>101,789</b>	<b>54,410</b>
1. Losses from equity method	20,217	19,789
2. General administrative expenses	81,572	34,621

LG Corp.'s key operating income sources are categorized into the following:

- Gains from equity method.
- Brand royalty income from licensing of the "LG" brand.
- Rental income from LG Twin Tower tenants.
- Dividend income from companies categorized as investment assets other than those subject to equity method by LG Corp.

#### 1) Gains (or losses) from equity method

As of year-end 2005, companies subject to equity method by LG Corp. include 16 companies.

If an Investor Company ("Investor" hereinafter) directly, or indirectly via other companies under its substantial control, holds 20% or more of voting stocks of an Investee Company ("Investee" hereinafter), the Investee is subject to equity method. Pursuant to provisions in the Fair Trade Act that stipulate 30% or higher stake in public companies and 50% or higher stake in private companies as the criteria to deem an Investee as subsidiary, all subsidiaries of LG Corp. are subject to equity method.

Gains from equity method are calculated based on the Investor's stake ratio in the Investee and the net profit of the Investee.

- If an Investee reports net profits, the Investor increases book value of its investment stocks in the Investee by a sum equivalent to its share of the Investee's net profits and recognizes the sum as "gains from equity method."
- On the other hand, if an Investee reports net losses, the Investor reduces book value of its investment stocks in the Investee by a sum equivalent to its share of the Investee's net losses and recognizes the sum as "losses from equity method."
- If an Investor receives cash dividends from an Investee subject to equity method, the Investor reduces book value of its investment stocks in the Investee by a sum equivalent to the cash dividends.
- However, LG Corp.'s investors may find that their own calculation of the company's gains from equity method do not correspond to the figures presented in its financial statements. This is primarily because of adjustment factors including difference (1) amortization (or reversal), transactions with the Investee, and unrealized gains (or losses).

(1) The difference between the consideration paid by the parent to minority interests and the carrying value of the ownership interests acquired by the parent.

**Definition** : When acquiring shares of a subsidiary that is subject to equity method, the difference between the acquisition price (market price or fair value) and the net asset value on the book of the subsidiary is recognized as investment elimination gain or loss - similar to goodwill or negative goodwill. The generally accepted accounting principles ("GAAP") stipulate that this amount be amortized (-) or reversed (+) over an appropriate period of time with the limit of up to 20 years. The company stipulates that the amount be amortized over 5 years or reversed over 5 to 10 years.

## Management Discussion

### [2005 Gains (or losses) from equity method]

Company	No. of stocks held	Total no. of stocks outstanding	Stake ratio (A)	Net profit (B)	Share of net profit corresponding to stake ratio (C=AXB)	Difference (1) amortization (or reversal) (D)	Difference (1) balance	Other adjustments (E)	2005 Gains (or losses) from equity method (C+D+E)	2004 Gains (or losses) from equity method (C+D+E)	Vs. prior period
LG Electronics Inc.	50,341,430	160,045,166	31.5%	702,801	223,507	- 203,390	352,261	- 8	20,109	297,054	-93.2%
LG Siltron Inc.	3,418,141	6,702,335	51.0%	26,469	13,499	- 4,075	9,170	- 884	8,539	10,779	-20.8%
Lusem Co., Ltd.	1,400,000	2,160,000	64.8%	4,695	3,043	-	-	- 54	2,990	- 371	Turned to profits
<b>Electronics Total</b>				<b>733,965</b>	<b>240,049</b>	<b>- 207,466</b>	<b>361,430</b>	<b>- 946</b>	<b>31,637</b>	<b>307,462</b>	<b>-89.7%</b>
LG Chem Ltd.	21,926,000	73,086,315	30.0%	400,258	120,078	- 64,854	140,517	346	55,569	90,048	-38.3%
LG Household & Health Care Ltd.	5,315,500	17,717,894	30.0%	71,879	21,564	- 10,371	22,471	- 2,410	8,783	601	1361.4%
LG Life Sciences, Ltd.	5,044,114	16,813,206	30.0%	- 924	- 277	- 18,649	55,947	- 189	- 19,116	- 15,637	Continued to report losses
LG MMA Corp.	1,200,000	2,400,000	50.0%	45,385	22,693	-	-	- 26	22,666	19,200	18.1%
<b>Chemicals Total</b>				<b>516,598</b>	<b>164,058</b>	<b>- 93,874</b>	<b>218,935</b>	<b>- 2,281</b>	<b>67,903</b>	<b>94,212</b>	<b>-27.9%</b>
Dacom Corporation	20,063,033	64,062,713	31.3%	64,619	23,304	8,811	- 36,368	156	32,271	17,661	82.7%
LG TeleCom, Ltd.	103,614,396	277,278,430	37.4%	248,128	95,774	- 11,883	7,027	825	84,715	5,324	1491.2%
LG CNS Co., Ltd.	25,470,680	38,711,498	65.8%	81,849	53,854	- 6,675	9,247	- 4,458	42,721	19,666	117.2%
LG N-sys	1,000,000	1,000,000	100.0%	9,726	9,726	-	-	917	10,643	10,275	3.6%
SERWONE	800,000	800,000	100.0%	41,071	41,071	-	-	- 4,523	36,549	25,344	44.2%
Konjiam Leisure Co., Ltd.	200,000	200,000	100.0%	- 1,107	- 1,107	-	-	5	- 1,102	- 244	Continued to report losses
LG Sports Ltd.	600,000	600,000	100.0%	- 96	- 96	101	- 697	-	5	228	-97.7%
LG Development Institute	1,200,000	1,200,000	100.0%	1,741	1,741	- 386	1,157	- 915	441	400	10.3%
<b>Telecommunications and Services Total</b>				<b>445,934</b>	<b>224,268</b>	<b>- 10,031</b>	<b>- 19,633</b>	<b>- 7,993</b>	<b>206,244</b>	<b>78,655</b>	<b>162.2%</b>
LG Hitachi Ltd.	245,000	500,000	49.0%	187	391	-	-	- 77	314	444	-29.3%
<b>Total</b>				<b>1,696,684</b>	<b>628,765</b>	<b>- 311,371</b>	<b>560,732</b>	<b>- 11,296</b>	<b>306,098</b>	<b>480,772</b>	<b>-36%</b>

The 2005 gains from equity method of KRW 306,098 million in the table above represent a sum of the gains from equity method of KRW 326,315 million from operating income and the losses from equity method of KRW 20,217 million from operating expense.

2004 gains (or losses) from equity method are reported as KRW 692,712 million on the company's financial statements but as KRW 480,702 in the table above. It is because of the spin-off of four subsidiaries of GS Holdings, i.e., GS Caltex, GS Home Shopping, GS Retail and GS Sports, which was effected as of July 1, 2004. The gains (or losses) from equity method of the four companies until the first half of 2004 are included in the company's financial statements but excluded from the table above, for the sake of direct comparison between its performance in 2004 and 2005.

If we compare gains (or losses) from equity method for 2004 and 2005 for all of the companies' businesses, with the exception of the telecommunications and services business, there was a decline in 2005. The gains (or losses) from equity method LG Electronics Inc. declined by 89.7% due to sluggish sales and shrinking profits driven by the Korean Won appreciation and those from the chemical business declined 27.9% due to shrinking profits at LG Chem Ltd. despite the 1,361% increase in the gains (or losses) from equity method from LG Household & Health Care Ltd.

However, the telecommunications and services business produced tangible results by increasing its gains (or losses) from equity method by 162.2%.

Worthy of special note is the significantly improved performance of the company's telecommunications subsidiaries.

In particular, LG TeleCom posted growth of 7.2% vs. year-end 2004 and marked 6.51 million subscribers, significantly contributing to LG Corp.'s gains from equity method by expanding net profits on the back of rising average revenue per user (ARPU) and minutes of use (MOU).

Dacom Corporation also realized growth in its gains from equity method to LG Corp. by posting the largest revenues, operating profits and net profits respectively in the entire history of the company.

#### ■ Gains (or losses) from equity method reflected on the financial statements

The purpose of the equity method is to reflect on the investment stocks the Investor's share of any change in the net asset of the Investee.

When gains (or losses) from equity method are calculated on income statements, this figure is then reflected on book value of the Investee stocks on balance sheets categorized as stocks subject to equity method.

## Management Discussion

Company	2004 book value (A)	2005 dividend income (B)	2005 Gains from equity method (C)	Capital adjustments, etc. (D)	2005 book value (E=A-B+C+D)
LG Electronics Inc.	2,151,660	75,512	20,109	192,090	2,288,347
LG Siltron Inc.	150,699	3,418	8,539	- 2,009	153,811
Lusem Co., Ltd.	9,058	-	2,990	-	12,048
Electronics Total	2,311,418	78,930	31,637	190,081	2,454,206
LG Chem Ltd.	858,479	32,889	55,569	- 15,346	865,813
LG Household & Health Care Ltd.	120,713	3,987	8,783	- 149	125,360
LG Life Sciences, Ltd.	148,284	-	- 19,116	- 1,629	127,539
LG MMA Corp.	69,407	6,000	22,666	280	86,353
Chemicals Total	1,196,882	42,876	67,903	- 16,844	1,205,065
Dacom Corporation	271,472	-	32,271	- 33,631	270,112
LG TeleCom, Ltd.	316,844	-	84,715	- 16,833	384,726
LG CNS Co., Ltd.	128,814	6,368	42,721	2,104	167,271
LG N-Sys	23,970	2,500	10,643	614	32,727
SERVEONE	43,543	-	36,549	1,680	81,772
Konjiam Leisure Co., Ltd.	18,766	-	- 1,102	-	17,664
LG Sports Ltd.	896	-	5	-	901
LG Development Institute	8,402	-	441	-	8,843
Telecommunications and Services Total	812,707	8,868	206,244	- 46,067	964,016
LG Hitachi Ltd.	12,751	83	314	24	13,005
<b>Total</b>	<b>4,333,758</b>	<b>130,757</b>	<b>306,098</b>	<b>- 127,194</b>	<b>4,636,292</b>

Gains from equity method reflects changes in the net asset value of the Investee in each business year based on the cost of acquisition of the Investee stocks.

- At the time of acquisition, the Investee stocks are valued at the acquisition cost
- If any change in the Investee's net asset value is attributable to its net profits, the change is reflected as gains from equity method
- If any change in the Investee's net asset value is attributable to increase or decrease in its earned surplus, the change is reflected as increase or decrease in earned surplus carried forward from the prior period
- If any change in the Investee's net asset value is attributable to increase or decrease in its capital surplus or capital adjustments, the change is reflected as gains (capital adjustments) or losses on investment stocks subject to equity method

Gains (or losses) from equity method are calculated as provided in the following:

- Deduct the amount of dividends received in this period from the acquisition cost or the book value of the Investee stocks as of the prior period
- Then add the amount of gains from equity method in this period to the outcome of the above
- Then add or deduct the amounts of earned surplus carried forward from the prior period and capital adjustments, which produces the book value of the investment stocks subject to equity method as of the end of this period

Stocks subject to equity method are not marked to market even if they are marketable listed stocks. Among investment securities, marketable securities are marked to market while non-marketable stocks are reported on the book at the acquisition cost. However, in the case of non-marketable stocks whose value is seriously impaired, impairment is reflected on the value of the stocks concerned.

### 2) Brand royalty income

LG Corp. reserves the legal rights over the brand "LG." Value of a brand is determined separately from intellectual property rights such as patent rights and a brand constitutes an important competitiveness-enhancing factor that contributes to increasing a company's cash flows in the future. Brand value has a material impact on sales by working as a factor to add image and credibility to the fundamental competitiveness of a company's products.

As such, LG Corp. set the vision and core values of the "LG" brand, charged royalty from 2005 to users of the brand, and plan to reinvest part of the brand royalty income with the aim of elevating it into the global No. 1 brand and, thereby, creating a virtuous circle of positive contribution to the brand users.

Basic terms of the brand license agreements are as provided in the following:

- License fee = (Consolidated sales - Consolidated advertising expenses) x 0.2%
- Payable monthly
- 3-year term
- Adjustment factors applicable depending upon the specific form of usage of the brand (whether used by a joint venture, or whether logos are used, etc.)

Brand license fees are calculated and charged monthly based on the amounts of consolidated sales and consolidated advertising expenses as reported on the user's financial statements for the prior period. When the user's performance for the relevant period is fixed in the following year, then the fees is finally reconciled based on the relevant year's actual figures.

In 2005, LG Corp. executed brand license agreements with a total of 25 companies and posted KRW 135,048 million in brand royalty income.

## Management Discussion

Company	Amount received, 2005	Amount reconciled, 2005	Final brand royalty income, 2005
Total	129,342	5,706	135,048

### 3) Rental income

LG Corp. owns 85% of the LG Twin Tower located in 20 Yeoido-dong, Yeongdeungpo-gu, Seoul and, by leasing the building's office spaces and facilities, recorded KRW 20,348 million in lease income in 2005. Guarantee deposits of KRW 176,284 received from tenants are reported on the book. The company plans to increase its lease income by enhancing methods of lease operation.

### 4) Dividend income

Dividends from investment securities other than those subject to equity method are reported as dividend income.

These securities are presented as available-for-sale securities on the company's balance sheets whose value is reported at the market price in the case of stocks allowing marking to market or at the acquisition price in the case of others.

(Unit: KRW million)				
Category	Company	Amount	Book value	
Subsidiary	LG Chem Ltd.	32,889		
	LG Household & Health Care Ltd.	3,987		
	LG Electronics Inc.	75,512		
	LG MMA Corp.	6,000		
	LG N-Sys	2,500		
	LG CNS Co., Ltd.	6,368		
	LG Siltron Inc.	3,418		
	<b>Subtotal</b>	<b>130,674</b>		
	Investment Securities	LG Hitachi Ltd.	83	
		Owens Corning Korea	1,024	22,865
LS Industrial Systems Co., Ltd.		431	23,950	
OTIS-LG Elevator Co., Ltd.		13,096	Disposed	
Korea Management Association Consultants		5	114	
KOENTEC		64	1,148	
<b>Subtotal</b>	<b>14,703</b>			
<b>Total</b>		<b>145,377</b>		

### 5) General administrative expenses

Compared with the prior period, LG Corp.'s general administrative expenses increased significantly in 2005 driven primarily by advertising expenses of KRW 42,703 spent to enhance the "LG" brand.

## Management Discussion

### 2. Non-Operating Income & Expense

Account item	(Unit: KRW million)	
	2005	2004
<b>IV. Non-operating income</b>	376,333	117,120
1. Interest income	11,443	22,934
2. Foreign exchange gains	98	-
3. Gains on disposal of investment securities	291,816	196
4. Reversal of negative goodwill	72,973	93,137
5. Gains on derivative transactions	-	675
6. Reversal of bad debt provisions	-	0
7. Miscellaneous income	3	178
<b>V. Non-operating expense</b>	32,040	176,888
1. Interest expense	23,667	55,114
2. Loss on disposal of investment securities	-	8,549
3. Impairment losses on investment securities	766	84,296
4. Loss on conversion of investment securities	-	16
5. Loss on disposal of investments using the equity method of accounting	-	17,604
6. Impairment losses on equity method investment	7,392	-
7. Losses on derivative transactions	-	1,848
8. Foreign exchange losses	209	-
9. Losses on disposition of tangible assets	2	-
10. Additional payment of income taxes	-	673
11. Contributions	4	24
12. Losses on prior period error correction	-	8,764
13. Miscellaneous expense	0	0

Worthy of note in the company's non-operating income and expense accounts is reversal of negative goodwill.

#### 1) Negative goodwill

Account item	Value on balance sheets		Amount reversed on income statements	
			2005	2004
Negative goodwill	(-)522,974		72,973	93,137

Negative goodwill of KRW (-) 522,974 is reported in the "intangible asset" account of LG Corp.'s balance sheets. This negative goodwill was generated in the course of LGEI's being absorbed into LGCI as of April 1, 2003. Negative goodwill arises when a certain asset is acquired at a price lower than its fair value. That is, when the fair value of the Investor's stake in the discernable assets and liabilities acquired from the Investee exceeds the acquisition cost, the excess (difference) amount is recognized as negative goodwill. The company reverses the amount over a period of 10 years by the straight-line method ending on March 31, 2013. This amount reversed is presented as "reversal of negative goodwill" under non-operating income account on income statements. The amount reversed in 2005 of KRW 72,973 million is smaller than that in 2004 of KRW 93,137 because a portion of the negative goodwill--KRW 348,996 million--was transferred to GS Holdings upon its spin-off on July 1, 2004.

#### 2) Gains on disposition of available-for-sale securities

In 2005, LG Corp. recorded KRW 291,816 million in gains on disposition of available-for-sale securities including: disposition gains of KRW 243,450 million from OTIS-LG Elevator's capital reduction with consideration; KRW 47,499 million from full redemption of commercial papers originally purchased to provide liquidity assistance to LG Card; and, KRW 867 million from disposition of KOENTEC stocks.

### 3. Investment

#### 1) Stocks purchased

Company	Type of stocks	Total no. of stocks outstanding	No. of stocks acquired	Stake ratio acquired	Acquisition price	Acquisition price per stock (KRW)	Remarks
The Korea Economic Daily	Common stock	18,694,842	2,377,380	12.7%	11,887	5,000	Rights offering
Dacom Corporation	BW	-	1,500,000	-	10,443	6,962	
Treasury stocks	Common stocks	172,557,131	768,000	0.45%	19,409	25,272	

The Korea Economic Daily conducted a 50% capital reduction and 200% capital increase (KRW 62.3 billion) in order to counter its declining competitiveness trend caused by increases in its borrowings and the resulting deterioration in its capital structure. LG Corp. participated in the newspaper's capital increase in order to contribute to its business improvement.

In order to enhance its corporate value by increasing synergy with the e-Biz operations, Dacom Corporation pursued and completed merger with KIDC on March 1, 2006 where it already had 90.5% stake. Because of this merger and the expected dilution in the stake ratio, it became inevitable for LG Corp. to acquire additional stake in Dacom Corporation for the purpose of continuing to meet the subsidiary criteria of 30% stake stipulated by the Fair Trade Act.

In order to maintain its stake ratio at 30% or above despite the expected dilution and to minimize capital expenditure required until the merger's completion, LG Corp. acquired bonds with warrants issued by Dacom Corporation instead of directly purchasing Dacom stocks from the market.

## Management Discussion

LG Corp. purchased, and now holds treasury stocks of 768,000 shares in preparation for exercise of 768,000 stock options granted on March 24, 2005. When the stock options are exercised, the company will sell the relevant number of the treasury stocks and give the proceeds to the exerciser(s), thereby minimizing the company's expenditure, especially if its stock price rises significantly going forward.

#### 2) Stocks disposed

Company	Type of stocks	Total no. of stocks outstanding	No. of stocks disposed	Stake disposed	Disposition price	Disposition gains (or losses)	Remarks
KOENTEC	Common stock	5,000,000	82,689	1.65%	1,280	867	
OTIS-LG Elevator	Capital contribution	8,000,000	1,592,000	19.90%	333,000	243,450	Capital reduction with consideration
Owens Corning	Redeemable preferred stock	240,000	240,000	100%	240,000	-	

In the course of the spin-off of GS Holdings, LG Corp. realized disposition gains of KRW 867 million by selling in the market a portion of KOENTEC stocks acquired from LG Chem Ltd., the stocks' original acquirer.

Under a contract executed at the time of the disposition of the elevator business of the former LG Industrial Systems, LG Corp. had an option to sell to OTIS-LG Elevator up to 9.9% stake between 2005 and 2010 and the remaining stake after 2010. After a careful review of the Investee's past performance and future outlook upon receiving a proposal for capital reduction with consideration, the company reached a conclusion that exit at the moment serves its best interest. The sale proceeds were KRW 333,000 million, realizing KRW 243,450 million gains over the book value of KRW 89,550 million.

### 4. Borrowings

Type of borrowing	Year-end 2005		Year-end 2004		Decrease
Corporate bonds	300,000	100.0%	400,000	67.5%	100,000
Short-term borrowings	-	0.0%	192,500	32.5%	192,500
<b>Total</b>	<b>300,000</b>	<b>100.0%</b>	<b>592,500</b>	<b>100.0%</b>	<b>292,500</b>
Loan To Value ratio	7.38%		17.57%		10.19%p.

In 2005, LG Corp. reduced its borrowings by KRW 292,500 million in an effort to improve its financial condition.

Key financial sources for the reduction included proceeds from disposition of capital contribution securities in OTIS-LG Elevator and increased cash flows due to generation of brand royalty income. If calculating the company's net borrowing taking into account the sum of cash, cash equivalents and money market products as of year-end 2005 (KRW 357,408 million), LG Corp. has become a company without any borrowing.

### 5. Others

#### 1) Stock options

On March 24, 2005, LG Corp. granted stock options representing 768,000 shares via a resolution by the board of directors, with the aim of providing appropriate compensation to its officers and strong motivation towards growth of the company. The stock options granted are appreciation stock options that give the exerciser(s) cash corresponding to the difference between the exercise price and the market price at the time of exercise. Expecting a rise in its stock price, the company has purchased and currently holds as treasury stocks 768,000 shares--the same number of stocks represented by the stock options--in order to minimize its expenditure associated with stock options.

Name	Status	Type of stock	Change in quantity			Quantity not exercised	Exercise period	Exercise price	Closing price
			Granted	Exercised	Cancelled				
Kang Yoo-shik	Registered officer	Common stock	370,000	-	-	370,000		24,730	31,600
Kim Jin-hyun	Registered officer	Common stock	12,000	-	-	12,000		24,730	31,600
Kim Yong-jin	Registered officer	Common stock	12,000	-	-	12,000		24,730	31,600
Koo Ja-jung	Registered officer	Common stock	12,000	-	-	12,000		24,730	31,600
Shin Young-soo	Registered officer	Common stock	12,000	-	-	12,000	March 25 2008 -	24,730	31,600
Jung Do-hyun	Registered officer	Common stock	70,000	-	-	70,000	March 24, 2012	24,730	31,600
Shin Yong-sam	Unregistered officer	Common stock	70,000	-	-	70,000		24,730	31,600
Lee Byung-nam	Unregistered officer	Common stock	70,000	-	-	70,000		24,730	31,600
Jung Il-jae	Unregistered officer	Common stock	70,000	-	-	70,000		24,730	31,600
Kim Sang-hun	Unregistered officer	Common stock	70,000	-	-	70,000		24,730	31,600
<b>Total</b>	-	-	768,000	-	-	768,000		-	-

**LG Corp.**  
**Non-Consolidated Balance Sheets**  
 December 31, 2005 and 2004

		(in millions of Korean won)	
Assets	2005	2004	
Current assets			
Cash and cash equivalents	₩ 117,408	₩ 2,478	
Short-term financial instruments	240,000	-	
Short-term investment securities	-	137,152	
Other accounts receivable, net	7,382	343	
Accrued income	1,560	3,373	
Advance payments	1,082	85	
Prepaid expenses	336	2,588	
Total current assets	367,768	146,019	
Long-term financial instruments	6	6	
Investment securities	119,773	145,078	
Equity-method investments	4,636,292	4,359,250	
Guarantee deposits	3,169	1,914	
Long-term prepaid expenses	497	2,085	
Property and equipment, net	188,568	191,762	
Intangible assets, net	(519,689)	(594,501)	
Total assets	₩ 4,796,384	₩ 4,251,613	

		(in millions of Korean won)	
Liabilities and Shareholders' Equity	2005	2004	
Current liabilities			
Short-term borrowings	₩ -	₩ 192,500	
Other accounts payable	20,865	1,401	
Withholdings	1,353	1,661	
Accrued expenses	1,388	1,963	
Income tax payable	73,037	5,865	
Current maturities of debentures	149,926	99,909	
Deferred income tax liabilities	2,016	-	
Total current liabilities	248,585	303,299	
Debentures, net	148,374	296,956	
Long-term Accrued Expenses	1,023	-	
Accrued severance benefits, net	4,565	3,440	
Deferred income tax liabilities	152,746	100,810	
Guarantee deposits received	176,284	174,997	
Total liabilities	731,577	879,502	
Commitments and contingencies			
Shareholders' equity			
Common stock	862,786	862,786	
Preferred stock	16,573	16,573	
Capital surplus			
Paid-in capital in excess of par value	898,266	898,266	
Asset revaluation surplus	339,619	339,619	
Other capital surplus	367,092	367,092	
Retained earnings			
Legal reserve	84,186	79,774	
Other reserves	918,126	1,237,820	
Unappropriated retained earnings	509,709	539,504	
Capital adjustments			
Gain on valuation of investment securities	21,935	4,132	
Gain on valuation of equity-method investments	256,265	68,014	
Loss on valuation of equity-method investments	(189,993)	(142,290)	
Treasury stock	(19,757)	(348)	
Loss on reduction of capital stock	-	(898,831)	
Total shareholders' equity	4,064,807	3,372,111	
Total liabilities and shareholders' equity	₩ 4,796,384	₩ 4,251,613	

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

**LG Corp.**  
**Non-Consolidated Statements of Income**  
 Years Ended December 31, 2005 and 2004

		(in millions of Korean won, except per share amounts)	
	2005	2004	
<b>Operating revenue</b>	₩ 496,104	₩ 760,963	
<b>Operating expenses</b>	101,789	54,410	
Operating income	394,315	706,553	
<b>Non-operating income</b>			
Interest income	11,443	22,934	
Foreign exchange gains	98	-	
Gain on disposal of investment securities	291,816	196	
Gain on derivative transactions	-	675	
Amortization of negative goodwill	72,973	93,137	
Others	3	178	
Total non-operating income	376,333	117,120	
<b>Non-operating expenses</b>			
Interest expense	23,667	55,114	
Foreign exchange losses	209	-	
Loss on disposal of investment securities	-	8,549	
Loss on conversion of investment securities	-	16	
Loss on disposal of investments using the equity-method of accounting	-	17,604	
Impairment loss on investment securities	766	84,296	
Impairment loss on equity-method investments	7,392	-	
Loss on derivative transactions	-	1,848	
Loss on prior period error correction	-	8,764	
Others	6	697	
Total non-operating expenses	32,040	176,888	
Income before income tax	738,608	646,785	
Income tax expense	135,422	71,237	
Net income	₩ 603,186	₩ 575,548	
<b>Per share data (In won)</b>			
Earnings per share	₩ 3,437	₩ 2,672	
Ordinary income per share	₩ 3,437	₩ 2,672	

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

## LG Corp. Non-Consolidated Statements of Appropriations of Retained Earnings

Years Ended December 31, 2005 and 2004

	(in millions of Korean won)	
	2005	2004
<b>Retained earnings before appropriations</b>		
Accumulated deficit carried over from prior year	₩ (88,171)	₩ (21,253)
Changes in retained earnings arising from the use of the equity method accounting	(5,306)	(14,790)
Net income	603,186	575,547
	509,709	539,504
<b>Transfer from other reserves</b>		
Reserve for technological development	-	319,694
<b>Appropriations of retained earnings</b>		
Legal reserve	8,770	4,412
Loss on reduction of capital stock	-	898,831
Cash dividends	87,702	44,126
Reserve for loss on investments	413,237	-
	509,709	947,369
<b>Unappropriated retained earnings(Accumulated deficit) carried forward to subsequent year</b>	₩ -	₩ (88,171)

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

## LG Corp. Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	(in millions of Korean won)	
	2005	2004
<b>Cash flows from operating activities</b>		
Net income	₩ 603,186	₩ 575,547
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,059	6,755
Amortization of discounts on debentures	1,435	5,097
Provision for severance benefits	3,906	1,328
Loss(gain) on disposal of investment securities	(291,816)	8,353
Loss on conversion of investment securities	-	16
Gain on disposal of investments using the equity-method of accounting, net	-	17,604
Loss on valuation of investments using the equity-method of accounting, net	(306,098)	(692,713)
Impairment loss on investment securities	766	84,296
Impairment loss on equity-method investments	7,392	-
Loss on derivative transactions, net	-	1,173
Compensation expenses associated with stock options	1,023	-
Amortization of negative goodwill	(72,973)	(93,137)
Others, net	2	(28,497)
	(49,118)	(114,178)
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in other accounts receivable	(7,039)	50,029
Decrease (increase) in prepaid expenses	2,252	(1,551)
Increase in advance payments	(998)	(85)
Decrease (increase) in accrued income	1,812	(5,038)
Decrease in other current assets	-	8,525
Decrease in deferred income tax, net	52,181	85,580
Decrease (increase) in other accounts payable	19,464	(1,439)
Decrease in accrued expenses	(575)	(4,540)
Increase (decrease) in withholdings	(308)	1,164
Increase in income tax payable	67,172	5,865
Increase (decrease) in guarantee deposits received	1,288	(546)
Transfer-in of severance benefits from affiliated company	538	1,131
Payment of severance benefits	(537)	(708)
Increase in other assets	(3,528)	(5,007)
Dividend income	130,985	236,273
	262,707	369,653
Net cash provided by operating activities	213,589	255,475
<b>Cash flows from investing activities</b>		
Acquisition of short-term financial instruments, net	(240,000)	-
Disposal of investment securities, net	518,932	37,366
Disposal of equity-method investments, net	2,400	130,663
Disposal of derivatives	-	50,091
Disposal of property and equipment	16	-
Acquisition of investment securities	(22,330)	(301,797)
Acquisition of equity-method investments, net	-	(87,319)
Acquisition of property and equipment	(247)	(33,032)
Acquisition of intangible assets	(142)	(993)
Increase in guarantee deposits	(1,254)	(380)
Decrease in cash arising from the spin-off	-	(35,314)
Net cash provided by (used in) investing activities	257,375	(240,715)
<b>Cash flows from financing activities</b>		
Proceeds from (repayment of) short-term borrowings, net	(192,500)	32,500
Repayment of short-term debentures	-	(200,000)
Repayment of current maturities of long-term debt	(100,000)	(490,000)
Proceeds from debentures	-	146,564
Payment of dividends	(44,125)	(61,527)
Proceeds from disposal of treasury stock	-	346,063
Acquisition of treasury stock	(19,409)	(348)
Net cash used in financing activities	(356,034)	(226,748)
Net increase (decrease) in cash and cash equivalents	114,930	(211,988)
<b>Cash and cash equivalents</b>		
Beginning of year	2,478	214,466
End of year	₩ 117,408	₩ 2,478

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



# Consolidated Financial Statements

December 31, 2005 and 2004

## Report of Independent Auditors

### To the Board of Directors and Shareholders of LG Corp.

We have audited the accompanying consolidated balance sheets of LG Corp. ("The Company") and its subsidiaries (collectively "the Group") as of December 31, 2005 and 2004, and 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 consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, including Daecom Corporation and certain other consolidated subsidiaries of LG Electronic Inc., whose statements reflect 23.4% of the Company's consolidated total assets as of December 31, 2005 (2004 : 25.5%), and 31.3% of the Company's consolidated total sales for the year ended December 31, 2005 (2004 : 43.0%). Those 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 these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to the above present fairly, in all material respects, the financial position of LG Corp. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations, the changes in their shareholders' equity and cash flows for the years ended December 31, 2005 and 2004, 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 Notes 1 to the accompanying consolidated financial statements, due to the acquisition of shares and other reasons, 12 subsidiaries including LG Daesan Petrochemical Corp., Ltd. have been consolidated for the first time in 2005. Due to the liquidation and other reasons, six subsidiaries including STIC Ventures Co., Ltd. are excluded from the consolidated financial statements in 2005.

As discussed in Notes 1 and 28 to the accompanying consolidated financial statements, on July 1, 2004, the Company spun-off and newly incorporated GS Holdings Corp. as a holding company. Accordingly, investment securities such as LG Home Shopping Inc., LG-Caltex Oil Corp. and LG Mart Co., Ltd. and certain buildings were transferred to GS Holdings Corp. GS Holdings Corp. and its subsidiaries received an approval from the Fair Trade Commission on the breakaway from the LG Group on January 27, 2005.

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



Seoul, Korea  
April 14, 2006

This report is effective as of April 14, 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 Corp. and Subsidiaries Consolidated Balance Sheets

December 31, 2005 and 2004

	(in millions of Korean won)	
	2005	2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	₩ 4,419,525	₩ 3,649,630
Short-term financial instruments (Note 3)	414,259	369,123
Short-term securities (Note 3)	105,596	517,089
Trade accounts and notes receivable, net (Notes 4 and 23)	6,492,433	5,713,952
Inventories (Notes 5 and 9)	7,248,448	7,010,514
Short-term loans receivable, net (Note 4)	50,716	41,306
Other accounts receivable, net (Note 4)	798,324	1,221,910
Accrued income, net (Note 4)	56,210	148,901
Advance payments, net (Note 4)	88,838	104,011
Prepaid expenses	216,589	185,776
Derivative transaction debit	5,149	175,122
Short-term deferred income tax assets (Note 20)	267,430	-
Others	667,683	454,898
Total current assets	20,831,200	19,592,232
Property, plant and equipment, net (Note 9)	25,130,637	20,779,082
Long-term financial instruments (Note 3)	20,751	19,782
Long-term investment securities (Note 7)	341,134	595,071
Equity-method investments (Note 8)	542,878	1,078,838
Long-term trade accounts and notes receivable, net (Note 4)	196,430	172,637
Guarantee deposits	682,720	709,792
Long-term loans receivable, net (Note 4)	117,833	98,939
Long-term prepaid expenses	427,235	301,457
Deferred income tax assets (Note 20)	571,670	618,711
Derivative transactions debit	4,472	2,613
Intangible assets, net (Notes 2 and 10)	1,455,297	2,334,040
Other investments	37,188	64,214
Total assets	₩ 50,359,445	₩ 46,367,408

	(in millions of Korean won)	
	2005	2004
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings (Note 11)	₩ 6,058,750	₩ 7,142,053
Current maturities of long-term debts (Note 11)	3,585,373	2,347,991
Trade accounts and notes payable (Note 23)	4,774,406	4,419,183
Other accounts payable (Note 23)	3,709,994	3,415,429
Advances from customers	405,522	344,523
Withholdings	200,581	264,477
Accrued expenses	1,811,465	1,878,783
Income tax payable	318,850	335,298
Dividend payable	402	4,940
Unearned income	54,378	48,860
Derivative transaction credit	1,705	57,270
Short-term deferred income tax liabilities (Note 20)	3,676	-
Other current liabilities	326,919	518,830
Total current liabilities	21,252,021	20,777,637
Debentures, net (Note 12)	6,670,881	7,645,440
Long-term debts, net of current portion (Note 12)	2,314,435	1,532,310
Long-term other accounts payable	474,336	475,926
Accrued severance benefits, net (Notes 2 and 14)	531,004	470,665
Guarantee deposits received (Note 23)	199,689	188,746
Deferred income tax liabilities (Note 20)	363,550	274,948
Derivative transaction credit	90,021	75,539
Other long-term liabilities	240,070	247,835
Total liabilities	32,136,007	31,689,046
Commitments and contingencies (Note 15)		
Shareholders' equity (Notes 1 and 16)		
Common stock	862,786	862,786
Preferred stock	16,573	16,573
Capital surplus (Note 17)	2,247,476	1,993,519
Retained earnings (Note 18)	982,221	1,470,139
Capital adjustments (Note 19)	(151,109)	(1,022,377)
Minority interest in consolidated subsidiaries	14,265,491	11,357,722
Total shareholders' equity	18,223,438	14,678,362
Total liabilities and shareholders' equity	₩ 50,359,445	₩ 46,367,408

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

## LG Corp. and Subsidiaries Consolidated Statements of Income

Years Ended December 31, 2005 and 2004

	(in millions of Korean won, except per share amounts)	
	2005	2004
<b>Sales (Notes 23 and 27)</b>	₩ 62,046,123	₩ 70,198,020
<b>Cost of sales (Note 23)</b>	48,039,187	51,791,563
Gross profit	14,006,936	18,406,457
<b>Selling and administrative expenses</b>	10,739,915	13,260,383
Operating income	3,267,021	5,146,074
<b>Non-operating income</b>		
Interest income	273,921	281,585
Dividends income	17,103	31,213
Rental income	29,114	24,467
Foreign exchange gains	821,876	1,161,442
Gain on foreign currency translation	193,409	511,863
Gain on disposal of short-term securities	40,475	2,556
Gain on valuation of short-term securities	3,458	1,839
Gain on disposal of investment securities	370,632	726
Gain on valuation of equity-method investments (Note 8)	41,980	228,288
Gain on disposal of equity-method investments	2,509	38,723
Gain on disposal of property, plant and equipment	41,254	31,991
Refund of income taxes	41,808	65,504
Gain on derivative transactions (Note 15)	73,053	124,915
Gain on valuation of derivative instruments (Note 15)	37,856	125,722
Amortization of negative goodwill (Note 10)	117,352	98,211
Others	272,044	379,255
	2,377,844	3,108,300
<b>Non-operating expenses</b>		
Interest expense	1,089,687	936,009
Foreign exchange losses	775,743	1,137,091
Loss on foreign currency translation	113,405	162,711
Donations	35,606	34,239
Loss on valuation of equity-method investments (Note 8)	229,517	126,789
Loss on disposal of short-term securities	10,579	1,112
Loss on valuation of short-term securities	1,797	1,558
Loss on disposal of investment securities	4,372	83,313
Loss on disposal of equity-method investments	971	1,173
Impairment loss on investment securities	10,225	264,642
Loss on disposal of property, plant and equipment	134,328	200,749
Impairment loss on property, plant and equipment	43,061	15,047
Loss on redemption of debentures	9,067	-
Other bad debt expense	6,837	19,883
Loss on derivative transactions (Note 15)	120,735	81,217
Loss on valuation of derivative instruments (Note 15)	23,421	114,449
Additional payment of income taxes	9,296	26,589
Loss on disposal of trade accounts receivable	233,249	161,950
Others	482,091	347,860
	3,333,987	3,716,381
Ordinary income	2,310,878	4,537,993
Extraordinary gains	31,579	-
Income before income taxes	2,342,457	4,537,993
Income tax expense (Note 20)	306,848	999,045
Income after income taxes	2,035,609	3,538,948
Minority interests in income of consolidated subsidiaries, net	1,433,848	2,884,375
Net income	₩ 601,761	₩ 654,573
<b>Per share data (Note 21)</b>		
Earnings per share	₩ 3,429	₩ 3,039
Ordinary income per share	₩ 3,299	₩ 3,039

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

## LG Corp. and Subsidiaries Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2005 and 2004

	(in millions of Korean won)					
	Capital Stock	Consolidated Capital Surplus	Consolidated Retained Earnings	Consolidated Capital Adjustments	Minority Interests	Total
Balance as of January 1, 2004	₩ 1,352,860	₩ 1,989,580	₩ 634,893	₩ (195,231)	₩ 10,150,313	₩ 13,932,415
Gains on disposal of treasury stock	-	113,012	-	-	-	113,012
Additional acquisition of subsidiaries' equity	-	130,128	-	-	-	130,128
Net income	-	-	654,573	-	-	654,573
Minority interest in income of consolidated subsidiaries	-	-	-	-	2,884,375	2,884,375
Dividends to shareholders	-	-	(61,530)	-	-	(61,530)
Changes in retained earnings of equity method investee	-	-	(16,611)	-	-	(16,611)
Appropriation of accumulated deficit	-	(91,106)	91,106	-	-	-
Spin-off	(473,501)	43,505	-	(1,354,813)	(2,307,279)	(4,092,088)
Losses on capital reduction	-	(483,682)	(99,033)	582,715	-	-
Changes in consolidated companies	-	-	-	-	3,575	3,575
Disposal of treasury stock	-	-	-	195,442	-	195,442
Loss on valuation of available-for-sale securities	-	-	-	(84,414)	-	(84,414)
Overseas operations translation adjustments	-	-	-	(49,237)	-	(49,237)
Loss on valuation of investment securities, net	-	-	-	197,731	-	197,731
Changes in minority interest	-	-	-	-	760,808	760,808
Others	-	292,082	266,741	(314,570)	(134,070)	110,183
Balance as of December 31, 2004	₩ 879,359	₩ 1,993,519	₩ 1,470,139	₩ (1,022,377)	₩ 11,357,722	₩ 14,678,362
Balance as of January 1, 2005	₩ 879,359	₩ 1,993,519	₩ 1,470,139	₩ (1,022,377)	₩ 11,357,722	₩ 14,678,362
Net income	-	-	601,761	-	-	601,761
Minority interest in income of consolidated subsidiaries	-	-	-	-	1,433,848	1,433,848
Dividends to shareholders	-	-	(44,126)	-	-	(44,126)
Appropriation of losses on capital reduction	-	-	(898,831)	898,831	-	-
Changes in retained earnings of equity method investee	-	204,657	(128,003)	-	-	76,654
Additional acquisition of subsidiaries' equity, net	-	3,300	-	-	-	3,300
Acquisition of treasury stock	-	-	-	(19,409)	-	(19,409)
Overseas operations translation adjustments	-	-	-	11,297	-	11,297
Loss on valuation of investment securities, net	-	-	-	(23,562)	-	(23,562)
Loss on valuation of available-for-sale securities	-	-	-	10,258	-	10,258
Changes in minority interest	-	-	-	-	1,473,921	1,473,921
Others	-	46,000	(18,719)	(6,147)	-	21,134
	₩ 879,359	₩ 2,247,476	₩ 982,221	₩ (151,109)	₩ 14,265,491	₩ 18,223,438

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

## LG Corp. and Subsidiaries Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	(in millions of Korean won)	
	2005	2004
<b>Cash flows from operating activities</b>		
Net income	₩ 601,761	₩ 654,573
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for severance benefits	429,171	357,047
Depreciation and amortization	4,844,984	4,208,346
Bad debt expense	91,505	86,579
Other bad debt expense	6,837	19,883
Gain on foreign currency translation, net	(26,526)	(448,079)
Loss on disposal of trade accounts receivable	233,249	161,950
Gain on disposal of short-term securities, net	(29,896)	(1,444)
Gain on valuation of short-term securities, net	(1,661)	(281)
Loss (gain) on disposal of investment securities, net	(366,260)	82,587
Gain on disposal of equity-method investments	(1,538)	(37,550)
Impairment loss on investment securities, net	10,225	264,642
Loss (gain) on valuation of equity-method investments	187,537	(101,499)
Loss on disposal of property, plant and equipment, net	93,074	168,758
Impairment loss on property, plant and equipment	43,061	15,047
Amortization of discounts on debentures	121,668	116,212
Loss on redemption of debentures	9,067	-
Amortization of negative goodwill	(117,462)	(98,211)
Loss (gain) on derivative transactions, net	13,470	(52,227)
Gain on valuation of derivative instruments, net	(14,435)	(11,273)
Gain on business transfer	(36,922)	(5,100)
Minority interests in income of consolidated subsidiaries, net	1,433,848	2,884,375
Others, net	308,686	99,819
	7,231,682	7,709,581
<b>Changes in operating assets and liabilities</b>		
Increase in trade accounts and notes receivable	(649,418)	(367,073)
Decrease (increase) in other accounts receivable	337,060	(694,035)
Increase in inventories	(63,816)	(1,292,510)
Decrease (increase) in accrued income	(34,215)	212,134
Decrease in advance payments	20,538	35,317
Increase in prepaid expenses	(22,955)	(30,749)
Increase in other current assets	(88,741)	(141,708)
Increase in long-term prepaid expenses	(142,574)	(76,115)
Increase in long-term trade accounts and notes receivable	(252,479)	(42,966)
Change in deferred income tax, net	(247,351)	214,328
Increase (decrease) in trade accounts and notes payable	209,403	(89,173)
Decrease in other accounts payable	311,315	55,854
Increase (decrease) in advances from customers	59,094	(96,267)
Increase (decrease) in withholdings	(65,280)	97,826
Increase (decrease) in accrued expenses	(97,913)	568,869
Increase (decrease) in income tax payable	(93,810)	99,068
Decrease in unearned income	(35,478)	(28,089)
Increase in other current liabilities	73,421	212,701
Increase (decrease) in long-term trade accounts and notes payable	113	(113)
Increase (decrease) in guarantee deposits received	8,120	(243,637)
Accrued severance benefits transferred from affiliated company	8,815	9,682
Increase in severance insurance deposits	(67,004)	(60,043)
Decrease in contributions to the National Pension Fund	5,502	7,528
Payment of severance benefits	(402,393)	(267,024)
Others	837	(219,384)
	(1,229,209)	(2,135,579)
Net cash provided by operating activities	6,004,234	6,228,575

## LG Corp. and Subsidiaries Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	(in millions of Korean won)	
	2005	2004
<b>Cash flows from investing activities</b>		
Acquisition of short-term financial instruments, net	₩ (10,920)	₩ (37,696)
Disposal (acquisition) of short-term securities, net	279,540	(101,932)
Decrease (increase) in short-term and long-term loans, net	(17,288)	30,893
Disposal (acquisition) of long-term financial instruments, net	(1,055)	122,410
Disposal of investment securities	1,103,747	685,094
Acquisition of investment securities	(551,036)	(1,278,101)
Acquisition of equity-method investments, net	(31,611)	(239,590)
Decrease (increase) in guarantee deposits, net	17,948	(5,142)
Decrease in other investments, net	30,941	33,604
Disposal of property, plant and equipment	281,274	543,315
Acquisition of property, plant and equipment	(7,929,722)	(7,486,467)
Acquisition of intangible assets, net	(188,158)	(121,664)
Disposal of derivatives	32,196	-
Cash flows from merger	34,575	-
Cash flows from business transfer	159,477	-
Net cash used in investing activities	(6,790,092)	(7,855,276)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings, net	(1,175,488)	1,791,998
Payment of dividends	(310,908)	(606,038)
Repayment of current maturities of long-term debts	(2,651,643)	(3,304,709)
Proceeds from debentures	2,972,625	3,317,590
Repayment of debentures	(683,865)	(300,416)
Proceeds from long-term debts	1,284,692	854,953
Repayment of long-term debts	(165,528)	(193,571)
Increase (decrease) in other long-term liabilities, net	(5,687)	8,491
Proceeds from disposal of treasury stock	-	346,063
Acquisition of treasury stock	(19,409)	(348)
Change in overseas operations translation adjustments	(149,335)	(123,228)
Increase in minority interest in consolidated subsidiaries	1,358,301	1,233,923
Increase (decrease) of the cash from consolidated capital transaction	432,489	(17,712)
Net cash provided by financing activities	886,244	3,006,996
<b>Cash flows from changes in the scope of consolidation</b>	69,509	13,456
<b>Cash flows from spin-off</b>	-	(459,267)
Net increase in cash and cash equivalents	769,895	934,484
<b>Cash and cash equivalents</b>		
Beginning of year	3,649,630	2,715,146
End of year	₩ 4,419,525	₩ 3,649,630

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

## LG Corp. 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 Corp. and its 137 subsidiaries in 2005, and its 133 subsidiaries (collectively 'the Group') in 2004.

#### The Holding Company

As a holding company, LG Corp. ('the Company'), formerly known as LG Chem Investment Ltd. (LGCI), merged with LG Electronics Investment Ltd. (LGEI) and the real estate and investment division of LG MRO on March 1, 2003. On March 4, 2003, the Company changed its name from LG Chem Investment Ltd. to LG Corp.

On July 1, 2004, the Company spun-off and newly incorporated GS Holdings Corp. as a holding company. Accordingly, investment securities such as LG Home Shopping Inc., LG-Caltex Oil Corp. and LG Mart Co., Ltd. and certain buildings were transferred to GS Holdings Corp. As a result, transactions occurred after the spin-off date were recorded on the financial statements of the Company and GS Holdings Corp. separately. GS Holdings Corp. and its subsidiaries received an approval from the Fair Trade Commission on the breakaway from the LG Group on January 27, 2005.

In February 1970, the Company's shares were listed on the Korea Stock Exchange.

As of December 31, 2005, the Company has an outstanding capital stock of ₩ 879,359 million, including preferred stock of ₩ 16,573 million, as a result of the several issuances of new shares of stock, mergers and spin-off transactions.

#### Consolidated Companies

Consolidated subsidiaries and equity method investees as of December 31, 2005 and 2004, are as follows:

Consolidated Subsidiaries	Percentage of Ownership (%)		Number of Shares owned	
	2005	2004	2005	2004
<b>Domestic subsidiaries</b>				
LG Electronics Inc.	35.24	36.06	50,341,430	50,341,430
LG Chem Ltd.	34.03	34.03	21,926,000	21,926,000
LG Telecom Ltd.	37.37	37.37	103,614,396	103,614,396
Dacom Corporation	31.32	39.79	20,063,033	20,063,033
LG Household & Health Care Ltd.	34.03	34.03	5,315,500	5,315,500
LG Life Science Co., Ltd.	30.43	30.43	5,044,114	5,044,114
Siltron Inc.	51.00	51.00	3,418,141	3,418,141
LG CNS	65.80	65.80	25,470,680	25,470,680
Serveone	100.00	100.00	800,000	800,000
LG MMA Corp.	50.00	50.00	1,200,000	1,200,000
LG N Sys	100.00	100.00	1,000,000	1,000,000
Lusem Co., Ltd.	64.81	64.81	1,400,000	1,400,000
Konjiam Leisure Co., Ltd.	100.00	100.00	200,000	200,000
LG Management Development Institute	100.00	100.00	1,200,000	1,200,000
LG Sports Ltd.	100.00	100.00	600,000	600,000
LG Philips LCD Co., Ltd. 9	37.90	44.57	135,625,000	145,000,000
LG Innotek Co., Ltd.	69.80	69.80	6,017,400	6,017,400
Hi Plaza Inc.	100.00	100.00	7,440,000	7,440,000
LG Micron Ltd.	36.00	36.00	2,699,702	2,699,702
Hi Business Logistics	100.00	100.00	720,000	20,000
STIC Ventures Co., Ltd. 6	-	94.00	-	2,820
LG Petrochemical Co., Ltd.	40.00	40.00	18,080,000	18,080,000
LG Dow Polycarbonate Ltd.	50.00	50.00	7,025,785	7,025,785
LG Daesan Petrochemical Corp., Ltd. 10	100.00	-	34,000,000	-
Dacom Multimedia Internet, Inc.	88.06	88.06	8,351,406	8,351,406
Korea Internet Data Center, Inc.	90.47	90.47	9,047,306	9,047,306
ClC Korea	48.80	48.80	379,142	379,142
DACOM Crossing Co., Ltd.	51.00	51.00	3,390,582	3,390,582
Powercomm Corporation	45.43	45.43	68,145,834	68,145,834
VENS	100.00	100.00	360,000	360,000
<b>Overseas Subsidiaries</b>				
LG Electronics Alamaba, Inc. (LGEAI)	100.00	100.00	266	266
LG Electronics Almaty Kazak Co., Ltd. (LGEAK) 1	100.00	100.00	-	-
LG Electronics Antwerp Logistics N.V. (LGEAL)	100.00	100.00	10,000	10,000
LG Electronics Australia Pty., Ltd. (LGEAP)	100.00	100.00	2,685,000	2,685,000
Arcelic-LG Klima Sanayi Ve Ticarte A.S. (LGEAT)	50.00	50.00	144,000	144,000
LG Electronics Da Amazonia Ltda. (LGEAZ) 1	100.00	100.00	-	-
LG Electronics Colombia, Ltda. (LGECEB) 1	100.00	100.00	-	-
LG Electronics (China) Co., Ltd. (LGECH) 1	100.00	100.00	-	-

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

	Percentage of Ownership (%)		Number of Shares owned	
	2005	2004	2005	2004
LG Electronics Canada, Inc. (LGECL)	100.00	100.00	42,900	42,900
LG Electronics Inc. Chile Limitada (LGECL) 1	100.00	100.00	-	-
LG Electronics CZECH S.R.O. (LGECCZ) 1	100.00	100.00	-	-
LG Electronics Deutschland.GmbH. (LGEDG) 1	100.00	100.00	-	-
PT LG Electronics Display Devices Indonesia (LGEDI)	100.00	100.00	41,240	41,240
LG Electronics Egypt Cairo S.A.E (LGECC) 2	100.00	100.00	13,510	13,510
LG Electronics Egypt S.A.E. (LGECCG)	84.00	83.97	120,960	120,910
Eic Properties Pte. Ltd.	38.20	38.20	13,052,940	13,052,940
LG Electronics Espana S.A. (LGEES)	100.00	100.00	219,390	219,390
LG Goldstar France S.A.R.L. (LGEFS)	100.00	100.00	69,848	69,848
LG Electronics Gulf FZE (LGEFG)	100.00	100.00	29	29
LG Electronics HK Ltd. (LGEHK)	100.00	100.00	6,752,817	2,852,825
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.(LGEHN) 1	70.00	49.00	-	-
LG Electronics Hellas S.A. (LGEHS)	100.00	100.00	1,000,000	1,000,000
Huizhou LG Electronics Inc. (LGEHZ) 1	80.00	80.00	-	-
LG Electronics India (PVT.) Ltd. (LGEIL)	100.00	100.00	112,649,459	112,649,459
PT LG Electronics Indonesia (LGEIN)	100.00	100.00	40,700	40,700
LG Electronics Italy S.P.A. (LGEIS)	100.00	100.00	18,785,000	18,785,000
LG Electronics JIT EUROPE B.V (LGEJE)	100.00	100.00	180	180
LG Electronics Japan Inc. (LGEJP)	100.00	100.00	1,380,000	1,380,000
Kunshan LGMS Computer Co., Ltd. (LGEKS) 1	100.00	100.00	-	-
LG Electronics Mlawa Sp.zo.o (LGEMA)	100.00	100.00	278,027	278,027
LG Electronics Morocco SARL (LGEML)	100.00	100.00	315,213	315,213
LG-Meca Electronics Haiphong,Inc. (LGEHM) 1,7	-	70.00	-	-
LG Electronics Magyar KFT. (LGEKM) 1	100.00	100.00	-	-
LG Electronics Monterrey Mexico S.A. de C.V (LGEML)	100.00	100.00	48,338	27,094
LG Electronic Romania S.R.L(LGERO)	100.00	100.00	5	5
LG Electronics Mexico S.A. DECV (LGEML)	100.00	100.00	134,601	134,601
LG Mitr Electronics Co., Ltd. (LGEML)	100.00	87.74	5,076,000	4,453,800
LG Electronics Mexicali S.A.de C.V. (LGEML)	100.00	100.00	513,625	513,625
LG Electronics North of England Ltd. (LGENE) 6	-	100.00	-	9,000,000
LG Electronics (Nanjing) Plasma Co., Ltd. (LGENP) 1	100.00	100.00	-	-
Nanjing LG-Toutru Color Display System Co., Ltd. (LGENT) 1	70.00	70.00	-	-
LG Electronics Philippine Inc. (LGEPI)	100.00	100.00	739,036	739,036
LG Electronics Polska Sp.Z.o.o. (LGEPL)	100.00	100.00	28,366	28,366
NanJing LG Panda Appliances Co., Ltd. (LGEPN) 1	70.00	70.00	-	-
LG Electronics Peru S.A. (LGEPR)	100.00	100.00	22,436,822	23,507,492
LG Electronics Panama S.A. (LGEPS)	100.00	100.00	21,000	21,000
LG Electronics Portugal S.A. (LGEPT) 1	100.00	100.00	-	-
Qingdao LG Langchao Digital Communication Co., Ltd. 1	60.00	60.00	-	-
LG Electronics Qinhuangdao Inc. (LGEQH) 1	100.00	100.00	-	-
LG Electronics (China) Research and Development Center Co., Ltd. (LGERD) 1	100.00	100.00	-	-
LG Electronics Russia Inc. (LGERI)	95.00	95.00	2,290	2,290
LG Electronics Raynosa, S.A.de C.V. (LGEYS)	100.00	100.00	70,576,292	70,576,292
LG Electronics S.A.(PTY) Ltd. (LGEYS)	100.00	100.00	80,000,000	18,500,000
LG Electronics Service Europe Netherlands B.V. (LGESE)	100.00	100.00	6,544	6,544
Shanghai LG Electronics Co., Ltd. (LGESE) 1	70.00	70.00	-	-
LG Electronics De Sao Paulo Ltda (LGESE) 1	100.00	100.00	-	-
LGE Sweden AB (LGESE)	100.00	100.00	44,357	44,345
LG Electronics (Shenyang) Inc. (LGESE) 1	78.87	78.87	-	-
LG Electronics Tianjin Appliances Co., Ltd. (LGETA) 1	80.00	80.00	-	-
LG Electronics Thailand Co.,Ltd. (LGETH)	100.00	100.00	6,138,995	2,050,000
Taizhou LG Electronics Refrigeration Co., Ltd (LGETR) 1	100.00	100.00	-	-
LG Electronics Taistar Taiwan Co., Ltd (LGETT)	100.00	100.00	52,892,542	52,892,542
LG Electronics United Kingdom Ltd. (LGEUK)	100.00	100.00	192,000	192,000
LG Electronics USA Inc. (LGEUS)	100.00	100.00	32,884	32,884
LG Electronics Vietnam Co., Ltd. (LGEVN) 1	100.00	100.00	-	-
LG Electronics Wales Ltd. (LGEWA)	100.00	100.00	2,042,202	2,042,202
Langchao LG Digital Mobile Communication Co., Ltd(LGEYT) 1	54.00	51.00	-	-

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

	Percentage of Ownership (%)		Number of Shares owned	
	2005	2004	2005	2004
LG Srithai Electronics Co., Ltd. (LGICTH) <b>8</b>	-	60.00	-	45,600
LGMSK Computer Holdings Co.Ltd. (LGMSK) <b>1,6</b>	-	100.00	-	-
LG Electronics MobileComm U.S.A., Inc. (LGEMU)	100.00	100.00	10,000	10,000
LG Electronics (M) SND. BHD (LGEMU) <b>3</b>	100.00	-	37,700	-
LG Electronics Singapore Pte Ltd. (LGESL) <b>3</b>	100.00	-	11,083,999	-
LG Electronics Overseas Trading FZE <b>3</b>	100.00	-	1	-
LG Soft India PVT Ltd. (LGS)	100.00	100.00	9,946,000	9,946,000
Zenith Electronics Co. (Zenith)	100.00	100.00	2,000	2,000
Beijing Lucky Goldstar Building Development Co., Ltd. <b>1</b>	100.00	49.50	-	-
LG Holdings (HK) Ltd.	50.00	50.00	70,000,000	70,000,000
LG Innotek Huizhou Inc.(LGITHZ) <b>1</b>	100.00	100.00	-	-
PT. LG Innotek Indonesia(LGITIN)	100.00	100.00	5,000	2,000
LG Innotek USA Inc.(LGITUS)	100.00	100.00	10,000	10,000
LG Innotek Yantai Co. Ltd.(LGITYT) <b>1</b>	100.00	100.00	-	-
LG.Philips LCD America Inc.	100.00	100.00	5,000,000	5,000,000
LG.Philips LCD Japan Co., Ltd.	100.00	100.00	1,900	1,900
LG.Philips LCD Germany GmbH	100.00	100.00	960,000	960,000
LG.Philips LCD Taiwan Co., Ltd.	100.00	100.00	11,550,000	11,549,994
LG.Philips LCD Nanjing Co., Ltd. <b>1</b>	100.00	100.00	-	-
LG.Philips LCD Hongkong Co.,Ltd.	100.00	100.00	115,000	115,000
LG.Philips LCD Shanghai Co., Ltd <b>1</b>	100.00	100.00	-	-
LG.Philips LCD Poland Sp, zo.o <b>3</b>	100.00	-	500	-
LG Micron(FUJIAN) Electronics Co., Ltd. <b>1</b>	80.00	80.00	-	-
LG Vina Chemical Co.	40.00	40.00	1,520,000	1,520,000
LG India Holdings Inc. <b>5</b>	100.00	100.00	126,746,122	126,746,122
Tianjin LG-Dagu Chemical Co., Ltd. <b>1</b>	75.00	75.00	-	-
Tianjin LG New Building Materials Co., Ltd. <b>1</b>	81.47	93.61	-	-
Tianjin LG Window & Door Ltd. <b>1</b>	90.00	100.00	-	-
Ningbo LG-Yongxing Chemical Co., Ltd. <b>1</b>	75.00	75.00	-	-
LG Chem Hongkong, Ltd.	100.00	100.00	300,000	300,000
LG Chemical America Inc.	100.00	100.00	3,420	3,420
LG Solid Source LLC <b>1</b>	51.00	51.00	-	-
LG Chemical(Guangzhou) <b>1</b>	100.00	100.00	-	-
LG Chem Trading <b>1,4</b>	100.00	-	-	-
LG Chem Information & Electronics Materials <b>1,4</b>	79.01	-	-	-
LG Chem Industrial Materials <b>4</b>	100.00	-	6,160	-
LG Chem Taiwan, Ltd. <b>4</b>	100.00	-	1,972,220	-
LG Chem Display Materials Co., Ltd. <b>1,3</b>	90.00	-	-	-
Tianjin LG Bohai Chemical Co., Ltd. <b>1,3</b>	39.17	-	-	-
DACOM America, Inc.	100.00	100.00	4,840,000	4,840,000
Beijing LG Household Chemical Co., Ltd.	78.00	78.00	8,915,400	8,915,400
Hangzhou LG Cosmetics Co., Ltd.	81.71	81.71	5,720,000	5,720,000
LG Vina Cosmetics J/V Co., Ltd.	60.00	60.00	2,700,000	2,700,000
LG Household & Health Care International Trading (Shanghai) Co., Ltd. <b>4</b>	100.00	-	750,000	-
LG Siltron America, Inc.	100.00	100.00	3,000,000	3,000,000
LG CNS China Inc.	100.00	100.00	29,198,150	29,198,150

#### Equity-Method Investees

	2005	2004	2005	2004
Domestic Equity-Method Investees				
LG Hitachi Ltd.	49.00	49.00	245,000	245,000
Owens Corning Korea	-	29.18	-	1,620,220
Owens Corning Korea (Preferred stock)	-	100.00	-	240,000
LG IBM PC Co., Ltd.	-	49.00	-	2,381,400
Hankuk Electric Glass Co., Ltd.	20.00	20.00	1,614,675	1,614,675
LG-Nortel Co., Ltd. <b>8</b>	50.00	-	999,999	-
Paju Electric Glass Co., Ltd.	40.00	-	1,440,000	-
Hyundai Petrochemical Co., Ltd. <b>10</b>	-	50.00	-	37,325,680

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

	Percentage of Ownership (%)		Number of Shares owned	
	2005	2004	2005	2004
SEETEC Co., Ltd. <b>10</b>	50.00	-	3,325,680	-
LG Lucoat	-	20.00	-	311,609
<b>Overseas Equity-Method Investees</b>				
HLDS (Japan)	49.00	49.00	14,700	14,700
LG.Philips Displays Holdings B.V (Holland) <b>9</b>	50.00	50.00	34,090	34,090
V.K.X. (Vietnam) <b>1,8</b>	-	40.00	-	-
LG Electronics Argentina S.A (Argentina) (LGEAR) <b>1</b>	100.00	100.00	-	-
LG Electronics (M) Sdn.Bhd (Malaysia)(LGEML) <b>1</b>	100.00	100.00	-	-
LG Electronics Egypt Cairo S.A.E (LGEEC) <b>2</b>	100.00	-	13,510	-
LGENE(England)	100.00	-	9,000,000	-
Hi Logistics China Company Limited (China) <b>1</b>	100.00	-	-	-
Hi Logistics Europe B.V.( Holland)	100.00	-	12,000	-
SLD TELECOM Pte. Ltd. (Vietnam)	42.74	42.74	62,458,000	58,944,000
LGICTH (Thailand) <b>8</b>	-	-	-	-
Guangzhou LG-TOPS Communication Technologies Co. Ltd. <b>1</b>	-	40.00	-	-
Vodavi Technology Inc.(America) <b>8</b>	-	-	-	-
LG Pasig(Philippine)	38.00	-	38	-
LGITPL(Poland) <b>1</b>	100.00	-	-	-
LG Chem Europe Sarl	100.00	100.00	2,000,000	2,000,000
LG Chem (China) Investment co., Ltd. <b>1</b>	100.00	100.00	-	-
Ningbo LG-Yongxing Latex Co., Ltd. <b>1</b>	75.00	75.00	-	-
Compact Power	81.00	61.00	2,076,924	1,564,103
LG Chemical (Hunan) Phosphor <b>1</b>	-	100.00	-	-
M.Dohmen S.A. <b>1</b>	49.00	49.00	-	-
LG Chem (Tianjin) Engineering Plastics Co., Ltd. <b>1</b>	90.00	-	-	-
LG Chem Europe GmbH <b>1</b>	100.00	-	-	-
LG Chem Brasil, Ltd. <b>1</b>	100.00	-	-	-
LG Poland SP, ZO.O. <b>1</b>	100.00	-	-	-
Ningbo Bond International Trade <b>1</b>	90.00	90.00	-	-
Lojit Investment Co., Ltd.	24.25	24.25	349,220	349,220
Broadbandsolutions Inc.	-	34.42	-	14,000,000
Cognis Rika	20.00	20.00	35,000,000	35,000,000
LG BMI	100.00	100.00	2,400,000	2,400,000
LG Life Science India Pvt, Ltd.	100.00	100.00	2,502,062	2,502,062
Langchao-LG IS Co.,Ltd. <b>1</b>	49.00	49.00	-	-
LG CNS Malaysia Sdn.Bhd.	100.00	100.00	1,000,000	1,000,000
LG System Philippines,Inc.	100.00	100.00	298,083	298,083
Echon-LG C&S Co.,Ltd. <b>1</b>	-	45.00	-	-
LG CNS Eroupe B.V.	100.00	100.00	5,000	5,000
LG CNS America Inc.	100.00	100.00	100	100
INTEC-LG CNS Inc.	51.00	51.00	5,049	3,060
LG CNS global Pvt. Ltd.	100.00	100.00	4,614,500	4,614,500
LG CNS Brasil Services De T.I. Ltd.	100.00	-	1,150,000	-
PT LG CNS Indonesia	100.00	-	7,000	-
Serveone (Nanjing) Co., Ltd. <b>1</b>	100.00	-	-	-

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

**2** As of December 31, 2005, these companies were reclassified from being consolidated subsidiaries to equity-method investees.

**3** These subsidiaries were newly incorporated with paid-in capital over ₩ 7,000 million and consolidated for the first time in 2005.

**4** As its total assets exceeded ₩ 7,000 million as of December 31, 2004, these subsidiaries are included in scope of consolidation for the year 2005.

**5** The fiscal year end for LG India Holdings Inc. is March 31. In preparing the consolidated financial statements, the unaudited financial statements as of and for the year ended December 31, 2005, were used.

**6** In 2005, this subsidiary was liquidating or liquidated, and was excluded from consolidated subsidiaries of the Company in 2005.

**7** In 2005, this subsidiary was merged with LG Electronics Vietnam Co., Ltd., and were excluded from consolidated subsidiaries of the Company in 2005.

**8** In 2005, the securities were transferred to LG-Nortel Co., Ltd., and were excluded from consolidated subsidiaries of the Company in 2005 (Note 8).

**9** LG.Philips LCD Co., Ltd. is consolidated since it belongs to LG Group as defined by Monopoly Regulation and Fair Trade Act of the Republic of Korea. LG Philips Displays Holdings B.V., which does not belong to LG Group, is classified as an equity-method investment.

**10** Hyundai Petrochemical Co., Ltd.(HPCL) was acquired by a consortium consisting of LG Chem Ltd. and Honam Petrochemical Corp. in 2003. Due to the spin-off on January 1, 2005, and swapping on April 30, 2005, LG Chem Ltd. has 100% ownership of LG Daesan Petrochemical Corp. and 50% ownership of SEETEC Co., Ltd. as of December 31, 2005 (Note 8).

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### The Summary of Significant Financial Data

A summary of significant financial data of the controlling company and its subsidiaries included in the accompanying consolidated financial statements as of December 31, 2005 and 2004, are as follows:

#### As of and for the year ended December 31, 2005

Company	(in millions of Korean won)			
	Total Assets	Shareholders' Equity	Sales	Net Income (Loss)
LG Corp.	₩ 4,796,384	₩ 4,064,807	₩ 496,104	₩ 603,186
LG Electronics Inc.	14,036,440	6,162,643	23,774,151	702,801
LG Chem Ltd.	5,593,399	2,438,525	7,425,104	400,258
LG Telecom Ltd.	3,765,514	1,249,607	3,509,449	248,128
Dacom Corporation	2,135,585	978,346	1,133,582	64,619
LG Household & Health Care Ltd.	618,550	353,676	967,837	71,879
LG Life Science Co., Ltd.	383,330	239,158	213,252	(924)
Siltron Inc.	677,072	289,174	427,099	26,469
LG CNS	564,550	256,457	1,584,335	81,849
Serveone.	364,665	90,871	924,229	41,071
LG MMA Corp.	270,479	175,379	269,608	45,385
LG N Sys	92,327	35,721	288,711	9,726
Lusem Co., Ltd.	47,865	18,671	41,461	4,695
LG Philips LCD Co., Ltd.	12,995,915	7,675,597	8,890,155	517,012
LG Petrochemical Co., Ltd.	1,039,959	813,732	1,988,923	192,944
Others	21,776,247	6,661,728	46,930,861	281,098
Elimination and equity pick-up	(18,798,836)	(13,280,654)	(36,818,738)	(2,688,435)
	₩ 50,359,445	₩ 18,223,438	₩ 62,046,123	₩ 601,761

#### As of and for the year ended December 31, 2004

Company	(in millions of Korean won)			
	Total Assets	Shareholders' Equity	Sales	Net Income
LG Corp.	₩ 4,349,107	₩ 3,460,282	₩ 836,714	₩ 644,286
LG Electronics Inc.	13,234,241	5,016,167	24,659,317	1,545,954
LG Philips LCD Co., Ltd.	9,598,693	5,772,642	8,079,890	1,655,445
Dacom Corporation	2,268,423	796,070	1,068,487	38,805
LG Telecom Ltd.	3,406,994	985,058	3,209,430	22,638
LG Mart Co., Ltd. <sup>1</sup>	-	-	1,079,851	11,113
LG Chem Ltd.	5,679,529	2,195,141	7,127,411	536,420
LG-Caltex Oil Corp. <sup>1</sup>	-	-	6,754,553	358,023
LG Household & Health Care Ltd.	601,140	293,356	952,586	36,641
LG Petrochemical Co., Ltd.	978,627	701,899	1,793,346	207,644
LG Home Shopping Inc. <sup>1</sup>	-	-	252,971	19,949
Others	21,490,061	5,829,907	58,852,232	599,484
Elimination and equity pick-up	(15,239,407)	(10,372,160)	(44,468,768)	(5,021,829)
	₩ 46,367,408	₩ 14,678,362	₩ 70,198,020	₩ 654,573

<sup>1</sup> Due to the spin-off on July 1, 2004, sales and net income for the six-month period from January 1, 2004 to June 30, 2004 of these companies are reflected in the consolidated financial statements.

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

#### Basis of Consolidated Financial Statement Presentation

The controlling company and its subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language, in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Group that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying 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 Group's financial position, results of operations, or cash flows, is not presented in the accompanying consolidated financial statements.

#### 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 Group on January 1, 2004, the Group adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 15, 16 and 17 became applicable to the Group on January 1, 2005, the Group adopted these standards in its financial statements as of and for the year ended December 31, 2005.

#### Elimination of Investment and Capital Accounts

The investment account of the controlling company is eliminated against the corresponding capital accounts of its consolidated subsidiaries.

The Company records differences between the investment account and corresponding capital accounts of subsidiaries as goodwill. The goodwill is amortized over the relevant years not to exceed 20 years using the straight-line method. The differences between the investment account and the corresponding capital account for equity method investees at the date of acquisition of the investment are amortized over the relevant years not to exceed 20 years using the straight-line method. Such amortization is included in gain (loss) on investment in equity method investees.

#### Elimination of Intercompany Unrealized Income

Unrealized income included in inventories, property, plant and equipment, and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized income arising from sales by the controlling company to the consolidated subsidiaries is fully eliminated and charged to the equity of the controlling company. Unrealized income arising from sales by the consolidated subsidiaries to the controlling company or between consolidated subsidiaries is charged to the equity of the controlling company to the extent of the controlling company's percentage of ownership.

#### Gain (Loss) on Investment in Equity-Method Investees

Gain or loss on investment in equity-method investees is recognized considering the net income or loss of the equity method investee companies to the extent of the controlling company's percentage of ownership and the elimination of unrealized income arising from intercompany transactions.

#### Translation of Foreign Currency Financial Statements

Accounts and records of the overseas subsidiaries are maintained in foreign currencies. For presentation in the accompanying consolidated financial statements, the financial statements of the overseas subsidiaries have been translated at exchange rates as of the balance sheet date for the balance sheets and average exchange rate for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in the capital adjustment account, a component of shareholders' equity.

#### 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 Group may undertake in the future, actual results may differ from those estimates.

#### The Spin-Off

On July 1, 2004, the Company spun-off GS Holdings Corp. according to the spin-off plan which was approved by the shareholders on May 28, 2004. Principal accounting methods related to the spin-off are as follows :

- (1) Assets and liabilities were transferred to the newly incorporated company at book values.
- (2) Some amounts of accounts under shareholders' equity directly related to transferred assets and liabilities were transferred to the newly incorporated company.
- (3) Losses from reduction of capital were offset against additional paid in capital corresponding to the rate of reduced capital and the remaining amounts after the offset were recorded as capital adjustments.

Operating results of GS Holdings Corp. and its subsidiaries for six-month period from January 1, 2004 to June 30, 2004, were reflected in the consolidated statements of income for the year ended December 31, 2004.

#### Revenue Recognition

Revenues from sales of finished products and merchandise are recognized when most of the risks and benefits associated with the possession of goods are substantially transferred to the buyer. Revenues from installation services contract is recognized using the percentage-of-completion method.

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

#### Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts based on the aggregate estimated realizable value of the receivables.

#### Inventories

Inventories are stated at the lower of cost or market value, with cost being determined by the moving-average method or the weighted-average method, except for materials-in-transit for which cost is determined by 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 created to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which cause 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 said reversal is a deduction from cost of sales. As of December 31, 2005, ₩135,404 million is recorded as valuation loss.

#### Securities

In accordance with SKFAS No. 8, Investments in Securities, investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Trading securities are classified as current assets, and available-for-sale securities and held-to-maturity securities are classified as long-term investments, except for those securities that mature or are certain to be disposed of within one year, which are classified as current assets.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the weighted-average method. Debt securities, which the Group 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, 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 operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or the adjusted cost of debt securities after the amortization of discounts or premiums.

#### Equity-Method Investments

In the consolidated financial statements of the Group, investments in business entities, over which the Group exercises significant control or influence over the operating and financial policies of such entities, are recorded using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the changes in the Group's proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the net book value of the investee. Unrealized profit arising from intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. The Group's proportionate unrealized profit arising from sales between the Group and its equity-method investees or sales between equity-method investees is eliminated. However, unrealized profit arising from sales by the Group to its consolidated subsidiaries is fully eliminated.

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

The difference between the Group's initial proportionate ownership in the net fair value and the net book value of the investee, which is the net of the fair value and the net book value of the recognizable assets and liabilities, is amortized according to the investee's accounting policy for the related assets and liabilities.

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rate for income statements. Any resulting translation gain or loss is accounted for as overseas operation translation debit or credit under the capital adjustments, a component of shareholders' equity.

#### Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property, plant and equipment are stated at cost, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

	Useful Lives
Buildings	15 - 60 years
Structures	5 - 50 years
Machinery and equipment	2 - 50 years
Others	2 - 20 years

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or extend the useful lives of the related assets, are capitalized.

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

The Group 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 unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

#### Intangible Assets

Intangible assets, consisting of intellectual property rights, industrial property rights, technology rights, goodwill and software costs, are stated at cost, net of accumulated amortization. Amortization of intangible assets is computed using the straight-line method over the following estimated useful lives:

	Useful Lives
Goodwill	5 - 10 years
Negative goodwill	10 years
Development costs	3 - 10 years
Intellectual property rights	5 - 10 years
Others	3 - 25 years

Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. Capitalized development costs are amortized over 3 to 10 years using the straight-line method.

The excess of cost over the fair market value of the net assets of purchased subsidiaries is amortized over the relevant years not to exceed 20 years using the straight-line method.

For the year ended December 31, 2005, the Group recorded ₩2,055,787 million of research and development costs as current expenses.

#### Lease Transactions

The Group accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreements. Machinery and equipment acquired under financing lease agreements are recorded as property, plant and equipment at cost and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under financing leases, net of accrued interest, as determined by the total lease payments in excess of the cost of the leased machinery and equipment. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Instead, the related lease rentals are charged to expense as incurred.

#### Revaluation of Receivables

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

#### Premiums or Discounts on Debentures

The Group accounts for the difference between the face amount and issued amount of debentures as an addition to or deduction from debentures. Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

#### Foreign Currency Translation

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

#### Accrued Severance Benefits

Employees and directors with at least a year of service are entitled to receive a lump-sum payment upon termination of their employment, 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.

Accrued severance benefits are funded at approximately 57.7 % as of December 31, 2005 (2004: 57.9 %), through group severance insurance plans, and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

#### Long-Term Accounts Receivable and Payable

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

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### Product Warranty

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

### Impairment Loss

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets for which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

### Income Taxes

The Group 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 tax assets are recognized when it is more likely that such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the year.

Deferred income tax assets (liabilities) for temporary differences are classified into current assets (current liabilities) or investments (non-current liabilities) according to the classification of the assets (liabilities) on balance sheet, to which the temporary differences are related. For temporary differences that are not related to the assets (liabilities) on balance sheet, the deferred income tax assets (liabilities) are classified into current or non-current assets (liabilities) according to the expected reversal date of the temporary differences.

### Stock Option Plan

Compensation cost 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.

### Derivative Financial Instruments

The Group utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized in current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows risk, which are recorded as a capital adjustment.

### Sale of Accounts and Notes Receivable

The Group 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.

### Treasury Stock

The Group records acquisition cost of treasury stock as capital adjustments. Loss on disposal of treasury stock, net of gain on disposal of treasury stock which is accounted for as other capital surplus, is recorded in other capital adjustments and will be disposed of in accordance with the guidelines which are applicable for the disposition of accumulated deficit.

### Reconciliation of the differences in accounting policies

The Company makes adjustments to the financial statements of consolidated subsidiaries which capitalize interest expense during the year ended December 31, 2005. Details are as follows:

	(in millions of Korean won)		
	Net Asset before Adjustments	Adjustments	Net Asset after Adjustments
LG Chem Ltd.	₩ 2,438,525	₩ (13,356)	₩ 2,425,169
LG Household & Health Care Ltd.	353,676	(3,463)	350,213
LG MMA Corp.	175,379	(300)	175,079
Serveone.	90,871	(131)	90,740
Siltron Inc.	289,174	(6,165)	283,009
LG Telecom Ltd.	1,249,607	(95,294)	1,154,313
LG Petrochemical Co., Ltd.	813,732	(2,040)	811,692
LG Philips LCD Co., Ltd.	7,675,597	(55,507)	7,620,090
LG Holdings (HK) Ltd.	141,612	(21,370)	120,242
Beijing LG Building Dev.	127,832	(3,174)	124,658

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 3. Restricted Bank Deposits

As of December 31, 2005 and 2004, certain bank deposits are pledged as collaterals for various loans from banks and other financial institutions as follows (Notes 11 and 12)

	(in millions of Korean won)	
	2005	2004
Cash and cash equivalents	₩ 81,764	₩ -
Short-term financial instruments	56,582	173,299
Long-term financial instruments	19,746	18,556
	₩ 158,092	₩ 191,855

### 4. Receivables and Allowances for Doubtful Accounts

Receivables and related allowances for doubtful accounts as of December 31, 2005 and 2004, consist the following:

	2005				2004			
	Original Amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value	Original Amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value
Trade accounts and notes receivable	₩ 6,875,553	₩ 383,120	₩ -	₩ 6,492,433	₩ 6,108,832	₩ 394,880	₩ -	₩ 5,713,952
Short-term loans receivable	53,636	2,920		50,716	55,448	14,142		41,306
Other accounts receivable	854,902	56,578	-	798,324	1,277,063	55,153	-	1,221,910
Accrued income	56,740	530	-	56,210	151,035	2,134	-	148,901
Advance payments	94,837	5,999	-	88,838	113,580	9,569	-	104,011
Long-term trade accounts and notes receivable	220,768	12,841	11,497	196,430	217,568	36,410	8,521	172,637
Long-term loans receivable	119,577	1,744	-	117,833	100,405	1,466	-	98,939
	₩ 8,276,013	₩ 463,732	₩ 11,497	₩ 7,800,784	₩ 8,023,931	₩ 513,754	₩ 8,521	₩ 7,501,656

### 5. Inventories

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

	(in millions of Korean won)	
	2005	2004
Finished goods and merchandise	₩ 3,427,210	₩ 4,279,675
Work-in-process and finished sub-assemblies	768,738	655,493
Raw materials and supplies	1,559,890	1,851,802
Materials-in-transit	1,243,148	85,863
Others	249,462	137,681
	₩ 7,248,448	₩ 7,010,514

### 6. Short-term Investments

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

	(in millions of Korean won)					
	Acquisition Cost		Book Value		Fair Value or Net Asset Value	
	2005	2004	2005	2004	2005	2004
<b>Trading Securities</b>						
Beneficiary certificates	₩ 60,000	₩ 61,488	₩ 60,487	₩ 63,083	₩ 60,487	₩ 63,083
Others	-	89	-	89	-	89
	60,000	61,577	60,487	63,172	60,487	63,172
<b>Available-For-Sales Securities</b>						
LG Card CP	-	298,507	-	236,255	-	236,255
Bond LG Card	-	189,500	-	137,152	-	137,152
DS Landmark CP.	38,614	-	38,613	-	38,613	-
Governmental bonds	12	-	12	-	12	-
Others	6,475	80,463	6,476	80,504	6,476	80,504
	45,101	568,470	45,101	453,911	45,101	453,911
<b>Held-to-Maturity Securities</b>						
Governmental bonds	8	-	8	-	8	-
Others	-	6	-	6	-	6
	8	6	8	6	8	6
	₩ 105,109	₩ 630,053	₩ 105,596	₩ 517,089	₩ 105,596	₩ 517,089

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

#### 7. Long-term Investments

Long-term investment securities as of December 31, 2005 and 2004, consist the following

	(in millions of Korean won)	
	2005	2004
Available-for-sale securities	₩ 231,962	₩ 482,617
Held-to-maturity securities	109,172	112,454
	₩ 341,134	₩ 595,071

Available-for-sale securities as of December 31, 2005 and 2004, consist the following:

	(in millions of Korean won)							
	Percentage of Ownership	Acquisition Cost		Book Value		Fair Value or Net Asset Value		
		2005.12.31	2005	2004	2005	2004	2005	2004
<b>Available-For-Sale Securities - marketable equity securities</b>								
Hanaro Telecom Inc.	% 1.17	₩ 65,932	₩ 84,236	₩ 36,695	₩ 64,197	₩ 36,695	₩ 64,197	
KRTnet corporation	3.56	927	927	2,095	1,724	2,095	1,724	
Tube Media Co., Ltd.	-	-	142	-	604	-	604	
Hutchison Telephone	-	-	3,462	-	3,622	-	3,622	
ADP Engineering Co., Ltd.	7.03	75	-	7,992	-	7,992	-	
Nara Mold & Die Co., Ltd.	12.57	812	812	5,087	2,918	5,087	2,918	
IDS.	4.22	608	-	4,946	-	4,946	-	
Odicorp Co., Ltd.	8.83	318	318	1,556	1,568	1,556	1,568	
Digital Device Inc.	0.98	229	-	215	-	215	-	
Hana bank	0.01	685	685	534	299	534	299	
iPass Inc.	-	238	-	238	-	238	-	
Korea Enterprise Technology Inc.	1.55	387	800	1,148	2,792	1,148	2,792	
LS industrial systems	2.87	16,806	16,806	23,950	15,507	23,950	15,507	
Vodavi Technology Inc. 1	-	-	2,928	-	6,761	-	6,761	
		₩ 87,017	₩ 111,116	₩ 84,456	₩ 99,992	₩ 84,456	₩ 99,992	

#### Available-For-Sale Securities - Non-marketable equity securities

Rotis Inc.	% 10.61	₩ 7,029	₩ 7,029	₩ -	₩ -	₩ -	₩ 55
Social Development and Policy Research	0.83	5	5	-	-	-	-
OTIS-LG Elevator 2	-	-	89,550	-	89,550	-	105,427
Owens Corning Korea 3	29.18	21,843	-	22,865	-	24,201	-
Korea Economic Daily	13.60	13,608	1,721	12,756	869	13,845	928
Dreamwiz Inc.	5.83	11,111	11,111	528	1,294	461	833
Korea Management Association Consultants	1.88	114	114	114	114	166	136
KyongNam Shinmun Co., Ltd.	0.06	30	30	30	30	5	5
Standard Lazer System Co., Ltd.	-	250	250	-	-	-	-
Msoltech	10.00	635	635	-	-	-	-
Eron Technologies Corporation	0.49	138	138	-	138	-	138
Temco, Inc.	13.04	1,200	1,200	-	1,200	-	1,200
LG fund for small and medium Enterprises	-	-	2,500	-	2,500	-	2,435
Silicon Works	-	-	501	-	501	-	504
E2OPEN.COM	3.64	15,694	15,694	-	-	-	-
Erlang Technology Inc.	6.90	1,129	1,129	-	-	-	-
Monet Mobile Networks	1.90	1,299	1,299	-	-	-	-
Neopoint Inc.	-	-	1,604	-	-	-	-
TU Media Corporation	2.98	6,500	6,500	6,500	6,500	3,158	5,765
COMMIT Incorporated	13.47	4,990	4,990	4,990	4,990	4,990	4,990
Korea Information Certificate Authority Inc.	36.04	4,698	4,698	4,698	4,698	5,127	4,309
Association of Electronics Environment	9.35	1,852	1,852	1,852	1,339	1,230	-
CMEA II Venture Fund	6.93	3,849	3,966	1,377	1,234	1,377	1,144
SUNPOWER.INC	10.35	1,257	1,257	1,257	1,257	169	231
NARA M Tech, Inc.	19.90	597	-	597	-	597	-

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

	(in millions of Korean won)							
	Percentage of Ownership	Acquisition Cost		Book Value		Fair Value or Net Asset Value		
		2005.12.31	2005	2004	2005	2004	2005	2004
AL Tech Inc.	% 8.19	₩ 589	₩ 589	₩ 589	₩ 589	₩ 247	₩ 272	
Newco Display Inc.	7.41	400	400	400	400	400	400	
Innopla Co., Ltd.	19.90	245	245	245	245	750	854	
Manager Society, Inc.	3.70	200	200	200	200	5	14	
Castec Korea Co., Ltd.	5.00	182	182	182	182	766	859	
Netgenetech Co., Ltd.	7.50	176	176	176	176	215	35	
ADS Technologies Co., Ltd.	15.00	150	-	150	-	150	-	
Digital World Corporation	1.25	180	180	130	180	130	180	
EIC	9.20	2,298	2,298	870	2,298	870	1,010	
HASIU	12.10	576	576	576	576	564	657	
Techwin Co., Ltd.	19.90	279	139	279	139	1,550	902	
LG Mozel Ltd.	9.75	195	195	195	195	377	353	
AP Gas Power Corp.	1.00	95	95	93	95	93	95	
Chemizen. Com Ltd.	2.62	300	300	10	10	10	10	
LG Environment Strategy Institute	6.00	9	9	9	9	10	13	
LG Lucoat Powder Coatings Ltd. 4	13.30	1,036	-	-	-	574	-	
N&L Marble	22.73	539	539	-	539	114	275	
Compact Power 1	-	-	3,731	-	454	-	-	
LG Chem (China) Investment Co.,Ltd. 1	-	-	6,253	-	6,253	-	6,253	
LG CHEM EUROPE Sari 1	-	-	5,631	-	2,321	-	1,820	
LG Chem Industrial Materials 1	-	-	17,845	-	17,845	-	14,955	
LG Chem Information & Electronics Materials 1	-	-	41,679	-	41,679	-	36,304	
LG Chem Taiwan 1	-	-	2,291	-	2,291	-	2,009	
LG Chem Trading 1	-	-	3,503	-	1,723	-	1,822	
LG Chemical (Hunan) Phosphor1	-	-	1,793	-	1,793	-	2,021	
LG Holdings HK 1	-	-	30,494	-	30,494	-	26,531	
Ningbo LG Yongxing Latex Co., Ltd. 1	-	-	3,162	-	3,162	-	3,921	
Chiro Bio, Inc.	5.00	10	10	-	1	-	-	
Oscient Pharmaceuticals Corp.	3.00	3,578	4,387	5,358	11,034	5,358	11,034	
Most 4th Venture Investment	0.50	100	100	100	100	102	104	
Daedock Bio, Inc.	4.50	500	500	34	53	34	29	
LG Life Sciences Poland 7	100.00	17	17	17	17	17	17	
Dream Biogen Co., Ltd.	0.20	7	7	3	7	3	5	
Elitra Pharmaceuticals, Inc. 6	-	-	5,585	-	-	-	-	
LG Household & Health Care R&D (Shanghai) 7	100.00	1,494	1,494	160	1,494	200	370	
Newcore	0.01	11	11	11	11	41	11	
Nasan Clef	0.01	85	-	-	-	-	-	
LG Household & Health Care International Trading (Shanghai)	-	-	837	-	837	-	739	
LG HAI 7	100.00	1,013	1,013	-	46	-	64	
Korea Construction Financial Cooperative	-	264	116	264	116	264	116	
Korea Specially Contractor Financial Cooperative	-	61	61	61	61	61	61	
Silicon Genesis Corporation	1.43	968	968	-	-	-	-	
SI 123.com	1.67	20	20	20	20	12	14	
Broadbandsolutions Inc.5	-	-	500	-	500	-	263	
Others	-	80,888	91,797	71,572	78,180	62,360	72,522	
		₩ 194,293	₩ 387,701	₩ 139,268	₩ 323,052	₩ 130,712	₩ 316,244	
<b>Available-For-Sale Securities - Debt securities</b>								
Governmental Bonds	-	₩ 2,237	₩ 3,410	₩ 2,237	₩ 3,325	₩ 2,237	₩ 3,325	
Commercial papers issued by LG Card Co., Ltd 8	-	-	101,493	-	52,800	-	52,800	
Convertible bonds issued by NeoDis Co., Ltd.	-	2,204	2,204	2,204	2,204	2,204	2,204	
Convertible bonds issued by Pentamicro Inc.	-	131	-	131	-	131	-	
Caspian bank	-	1,013	1,044	1,013	1,044	1,013	1,044	
Others	-	4,629	500	2,653	200	2,653	200	
		10,214	108,651	8,238	59,573	8,238	59,573	
		₩ 291,524	₩ 607,468	₩ 231,962	₩ 482,617	₩ 223,406	₩ 475,809	

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

- For the year ended December 31, 2005, the investment was reclassified as equity-method investment.
- The Company sold its investments in OTIS LG Elevator Co. Ltd. on October 21, 2005, for ₩ 333,000 million. The gain on disposal of investment amounted to ₩ 243,450 million.
- In accordance with SKFAS No.15, the Company reclassified this investment from equity-method investment to available-for-sale securities since the Company could no longer exercise significant control over the investee during the current year.
- The Company disposed of 104,236 shares of LG Lucoat Powder Coatings Ltd. in 2005. As a result of this disposal, the Company's percentage of ownership for LG Lucoat Powder Coatings Ltd. decreased from 20.00% to 13.30%, causing the Company to reclassify this investment as available-for-sale securities as of December 31, 2005.
- The subsidiaries owned a total of 23.96% of Broadbandsolutions Inc.'s total stocks (Powercomm Corporation : 12.78%, Dacom Corporation : 9.58%, LG CNS : 1.60%). Since the Company could exercise significant control over the investee, it was reclassified to an equity-method investee during the current year. In 2005, the subsidiaries sold this equity-method investment and recognized gains on disposal of ₩ 262 million.
- On November 30, 2005, this company was liquidated.
- Excluded from an equity-method investee since its total assets decreased to less than ₩ 7,000 million.
- The commercial papers of LG Card co., Ltd. which were classified as available-for-sale for the prior year were converted into securities of LG Card and sold in 2005.

Held-to-maturity securities as of December 31, 2005 and 2004, consist the following

	(in millions of Korean won)	
	2005	2004
Subordinated bonds	₩ 107,203	₩ 111,196
Government bond	314	236
Others	1,655	1,022
	₩ 109,172	₩ 112,454

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

	(in millions of Korean won)	
	Available-for-sale securities	Held-to-maturity securities
<b>Maturity</b>		
One year or less	₩ 45,101	₩ 8
Over one year to five years	8,199	109,128
Over five years	39	44

### 8. Equity-method investments

Equity-method investments as of December 31, 2005 and 2004, consist the following:

	(in millions of Korean won)							
	Percentage of Ownership	Acquisition Cost		Book Value		Fair Value or Net Asset Value		
		2005.12.31	2005	2004	2005	2004	2005	2004
<b>Domestic</b>								
LG Hitachi Ltd.	% 49.00	₩ 6,060	₩ 6,060	₩ 13,005	₩ 12,751	₩ 12,851	₩ 13,135	
Owens Corning Korea	29.18	-	21,843	-	22,865	-	23,662	
Hankuk Electric Glass Co., Ltd.	20.00	119,282	119,282	111,087	142,685	121,295	140,549	
LG-Nortel Co., Ltd. 1	50.00	153,254	-	130,560	-	146,674	-	
LG IBM PC Co., Ltd. 2	-	-	11,907	-	16,522	-	16,689	
Hyundai Petrochemical Co., Ltd. 1	-	-	302,563	-	585,372	-	1,097,023	
Seetec Co., Ltd. 1	50.00	36,643	-	44,663	-	145,429	-	
Others		24,400	2,666	24,156	2,628	24,083	2,628	
		339,639	464,321	323,471	782,823	450,332	1,293,686	
<b>Overseas</b>								
HLDS (Japan)	49.00	7,684	7,684	30,643	30,823	22,410	22,350	
LG. Philips Displays Holding B.V.(Netherlands)	50.00	1,509,997	1,509,997	-	147,345	(224,358)	129,524	
V.K.X (Vietnam) 3	-	-	1,736	-	-	-	2,040	
SLD Telecom Pte. Ltd (Vietnam) 4	42.74	72,194	68,487	49,760	52,279	49,254	51,711	
M.Dohmen S.A.	49.00	43,203	43,203	18,306	21,299	18,306	21,299	
Langchao-LG IS Co., Ltd.	49.00	3,615	3,615	3,100	2,955	3,100	2,955	
Others		187,279	36,852	117,598	39,250	176,194	32,925	
		1,823,972	1,671,574	219,407	296,015	44,906	262,804	
		₩ 2,163,611	₩ 2,135,895	₩ 542,878	₩ 1,078,838	₩ 495,238	₩ 1,556,490	

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

- Hyundai Petrochemical Co., Ltd. (HPCL) was acquired by a consortium consisting of LG Chem Ltd. and Honam Petrochemical Corp. in 2003. On January 1, 2005, HPCL spun off its petrochemical business to the newly established LG Daesan Petrochemical Corporation (LGPC) and Lotte Daesan Petrochemical, Ltd. (LDPC). The remaining businesses of HPCL are maintained by the continuing company, SEETEC Co., Ltd. (formerly Hyundai Petrochemical Co., Ltd.). The spin off resulted in LG Chem Ltd. owning 50% of LGPC, LDPC and SEETEC Co. Ltd. On April 30, 2005, LG Chem Ltd. swapped its 50% ownership in LDPC for Honam Petrochemical's 50% ownership in LGPC. As of December 31, 2005, LG Chem Ltd. has 100% ownership of LGPC and 50% ownership of SEETEC Co., Ltd.
- LG Electronics Inc. and IBM Korea Inc. dissolved their joint venture company, LG IBM PC Co., Ltd. and on January 1, 2005, LG Electronics Inc. absorbed a portion of the PC division from dissolved joint venture.
- In 2005, LG Electronics Inc. contributed the securities of LGICTH, V.K.X, GNTel Co., Ltd. and Vodavi Technology Inc. as investment in kind to the joint venture between LG Electronics Inc. and Nortel Corporation. In return, LG Electronics Inc. received shares of the joint venture, LG-Nortel Co., Ltd.
- LG Electronics Inc. purchased additional shares of these subsidiaries in 2005.

Changes in equity-method investments for the years ended December 31, 2005 and 2004, are as follows:

Investee	(in millions of Korean won)					
	January 1, 2005	Acquisition	Increase (Decrease) in changes of consolidated companies	Valuation Gain (Loss)	Other Increase (Decrease)	December 31, 2005
<b>Domestic</b>						
LG Hitachi Ltd.	₩ 12,751	₩ -	₩ -	₩ 314	₩ (59)	₩ 13,006
Owens Corning Korea	22,865	-	-	-	(22,865)	-
Hankuk Electric Glass Co., Ltd.	125,082	-	-	(10,873)	(3,122)	111,087
LG IBM PC Co., Ltd.	16,522	-	-	(2,489)	(14,033)	-
LG-Nortel Co., Ltd	-	153,254	-	(22,462)	(232)	130,560
Hyundai Petrochemical Co., Ltd.	585,372	-	-	-	(585,372)	-
Seetec Co., Ltd.	-	36,643	-	8,031	(11)	44,663
Others	48,495	-	-	(4,384)	(26,508)	17,603
	811,087	189,897	-	(31,863)	(652,202)	316,919
<b>Overseas</b>						
HLDS (Japan)	30,823	-	-	7,836	(8,016)	30,643
LG. Philips Displays Holding B.V. (Netherlands)	147,345	-	-	(150,239)	2,894	-
V.K.X (Vietnam)	2,064	-	-	117	(2,181)	-
SLD Telecom Pte. Ltd (Vietnam)	52,279	-	-	(4,563)	2,044	49,760
M.Dohmen S.A.	21,299	-	-	(1,731)	(1,262)	18,306
Langchao-LG IS Co., Ltd.	2,955	-	-	159	(14)	3,100
Others	10,986	89,417	3,076	(7,253)	27,924	124,150
	267,751	89,417	3,076	(155,674)	21,389	225,959
	₩ 1,078,838	₩ 279,314	₩ 3,076	₩ (187,537)	₩ (630,813)	₩ 542,878

(in millions of Korean won)

Investee	(in millions of Korean won)					
	January 1, 2004	Acquisition	Increase (Decrease) in changes of consolidated companies	Valuation Gain (Loss)	Other Increase (Decrease)	December 31, 2004
<b>Domestic</b>						
LG Hitachi Ltd.	₩ 12,449	₩ -	₩ -	₩ 444	₩ (142)	₩ 12,751
Owens Corning Korea	21,140	-	-	1,725	-	22,865
LG IBM PC Co., Ltd.	14,548	-	-	6,376	(4,402)	16,522
Hi Logistics System(HLS)	4,500	-	(4,500)	-	-	-
Hankuk Electric Glass Co., Ltd.	136,373	-	-	7,301	(18,592)	125,082
Hyundai Petrochemical Co., Ltd.	378,290	-	-	207,050	32	585,372
LG Lucoat	2,340	-	(2,340)	-	-	-
Others	15,220	-	-	228	(12,820)	2,628
	584,860	-	(6,840)	223,124	(35,924)	765,220
<b>Overseas</b>						
HLDS (Japan)	33,007	-	-	5,342	(7,526)	30,823
LG. Philips Displays Holding B.V. (Netherlands)	-	287,675	-	(121,800)	(18,530)	147,345
LGEUR (Ukraine)	1,041	-	-	-	-	1,041
V.K.X (Vietnam)	2,328	-	-	18	(282)	2,064
SLD Telecom Pte. Ltd (Vietnam)	25,190	39,486	-	(3,591)	(8,806)	52,279
M.Dohmen S.A.	41,116	-	-	(18,889)	(928)	21,299
Langchao-LG IS Co., Ltd.	3,277	-	-	109	(431)	2,955
Others	216,603	(6,927)	(214,018)	17,186	42,968	55,812
	322,562	320,234	(214,018)	(121,625)	6,465	313,618
	₩ 907,422	₩ 320,234	₩ (220,858)	₩ 101,499	₩ (29,459)	₩ 1,078,838

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 9. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean won)								
2005								
	Land	Buildings	Structures	Machinery	Vehicles	Construction-in-progress	Others	Total
Beginning balance	₩ 2,161,316	₩ 3,995,414	₩ 578,854	₩ 9,594,138	₩ 34,510	₩ 2,911,237	₩ 1,503,613	₩ 20,779,082
Acquisitions and capital expenditure	25,899	189,531	25,482	604,078	11,181	6,327,991	745,560	7,929,722
Disposal and transfer-in (out)	136,841	1,306,587	67,083	4,401,117	5,806	(6,449,929)	106,969	(425,526)
Depreciation	-	(172,722)	(47,364)	(3,385,558)	(12,070)	-	(677,981)	(4,295,695)
Other changes <sup>1</sup>	(73,165)	247,281	130,724	1,216,424	2,794	(317,819)	(63,185)	1,143,054
Ending balance	2,250,891	5,566,091	754,779	12,430,199	42,221	2,471,480	1,614,976	25,130,637
Ending accumulated depreciation	₩ -	₩ (1,250,537)	₩ (299,638)	₩ (14,122,400)	₩ (58,101)	₩ -	₩ (2,025,556)	₩ (17,756,232)

<sup>1</sup> Increase (decrease) due to changes in consolidated companies and fluctuation in foreign exchange rates.

(in millions of Korean won)								
2004								
	Land	Buildings	Structures	Machinery	Vehicles	Construction-in-progress	Others	Total
Beginning balance	₩ 3,404,818	₩ 4,543,105	₩ 1,359,181	₩ 8,284,042	₩ 217,978	₩ 2,313,370	₩ 3,357,099	₩ 23,479,593
Acquisitions and capital expenditure	359,214	982,449	48,444	5,976,540	23,143	2,056,629	935,576	10,381,995
Disposal and transfer-in (out)	(129,755)	(129,583)	(6,181)	(397,345)	(186,733)	(1,251,693)	(1,699,482)	(3,800,772)
Depreciation	-	(157,587)	(54,872)	(2,751,108)	(12,173)	-	(541,629)	(3,517,369)
Other changes	99,617	(127,745)	(19,108)	(32,327)	(4,010)	144,363	(89,472)	(28,682)
Decrease from spin-off	(1,572,578)	(1,115,225)	(748,610)	(1,485,664)	(3,695)	(351,432)	(458,479)	(5,735,683)
Ending balance	₩ 2,161,316	₩ 3,995,414	₩ 578,854	₩ 9,594,138	₩ 34,510	₩ 2,911,237	₩ 1,503,613	₩ 20,779,082
Ending accumulated depreciation	₩ -	₩ (691,535)	₩ (247,560)	₩ (11,522,472)	₩ (53,258)	₩ -	₩ (1,721,851)	₩ (14,236,676)

As of December 31, 2005 property, plant and equipment, up to a maximum of ₩ 2,056,070 million (2004: ₩ 2,324,522 million) are pledged as collateral for various loans from banks and other financial institutions (Notes 11 and 12).

As of December 31, 2005, the value of the Group's land, located in the Republic of Korea as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩ 2,802,098 million (2004 : ₩ 2,130,455 million).

As of December 31, 2005, inventories and property, plant and equipment are insured against fire and other casualty losses up to ₩ 66,267,246 million(2004:₩ 62,317,130 million).

### 10. Intangible Assets

Changes in intangible assets for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean won)							
2005							
	Intellectual Property rights	Development costs	Goodwill	Negative goodwill	Others	Total	
Beginning balance	₩ 338,863	₩ 307,266	₩ 1,490,667	₩ (603,009)	₩ 800,253	₩ 2,334,040	
Increase due to changes of consolidated companies	115,620	(4,803)	(38,014)	(393,034)	(52,691)	(372,922)	
Increase	99,896	85,638	8,916	-	53,030	247,480	
Amortization	(89,372)	(74,407)	(324,946)	117,462	(60,564)	(431,827)	
Disposal and impairment							
Other changes	(109,781)	(60,849)	(90,424)	-	(2,745)	(263,799)	
Decrease from spin-off	12,688	(944)	(15,332)	(764)	(53,323)	(57,675)	
Ending balance	₩ 367,914	₩ 251,901	₩ 1,030,867	₩ (879,345)	₩ 683,960	₩ 1,455,297	

(in millions of Korean won)							
2004							
	Intellectual Property rights	Development costs	Goodwill	Negative goodwill	Others	Total	
Beginning balance	₩ 442,828	₩ 379,484	₩ 2,008,027	₩ (1,042,327)	₩ 842,257	₩ 2,630,269	
Increase due to changes of consolidated companies	-	-	24,598	-	2,106	26,704	
Increase	1,978	13,568	-	-	108,272	123,818	
Amortization	(91,833)	(90,977)	(337,668)	98,211	(170,479)	(592,746)	
Disposal and impairment	(43,089)	(52,292)	(728)	-	(4,434)	(100,543)	
Other changes	39,744	57,749	(33,902)	(10,387)	57,998	111,202	
Decrease from spin-off	(10,765)	(266)	(169,660)	351,494	(35,467)	135,336	
Ending balance	₩ 338,863	₩ 307,266	₩ 1,490,667	₩ (603,009)	₩ 800,253	₩ 2,334,040	

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 11. Short-Term Borrowings and Current Maturities of Long-Term Debts

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

(in millions of Korean won)			
	Annual Interest Rates (%)	2005	2004
Bank overdrafts	-	₩ 86,929	₩ 152,745
Won currency short-term borrowings	3.45 ~ 6.55	251,285	364,985
Foreign currency short-term borrowings	LIBOR+1.0 and others	1,290,957	1,428,939
Notes discounted and commercial papers	3.60 ~ 5.82	267,625	669,280
Usance and D/A	5.12	60,434	18,549
Negotiation trade bills <sup>1</sup>	-	3,735,476	3,934,868
Others	4.00 ~ 6.53	366,044	572,687
		₩ 6,058,750	₩ 7,142,053

<sup>1</sup> The Group negotiates trade bills, accrued from internal transactions between consolidated subsidiaries, through banks. The amount above has not yet matured as of December 31, 2005.

See Notes 3 and 9 for collateral arrangements on these loans. Repayments of the above borrowings are guaranteed by financial institutions (Note 15).

Current maturities of long-term debts as of December 31, 2005 and 2004, are as follows:

(in millions of Korean won)		
	2005	2004
Debentures	₩ 3,189,986	₩ 1,993,926
Less: Discount on debentures	(12,056)	(23,454)
	3,177,930	1,970,472
Long-term debts	407,443	377,519
	₩ 3,585,373	₩ 2,347,991

### 12. Long-term Debts

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

#### Debentures

(in millions of Korean won)			
	Annual Interest Rates (%)	2005	2004
Won currency bonds	3.3 ~ 8.8	₩ 7,528,600	₩ 7,330,000
Foreign currency bonds	LIBOR+0.45 ~ 1.90	1,355,901	1,556,893
Convertible bonds	0.0 ~ 4.0	1,039,751	865,636
		9,924,252	9,752,529
Add : Redemption premium		134,439	72,120
Less : Discounts on debentures		(66,482)	(107,674)
Conversion right adjustment		(131,342)	(77,609)
Current maturities		(3,189,986)	(1,993,926)
		₩ 6,670,881	₩ 7,645,440

#### Long-term debts

(in millions of Korean won)			
	Annual Interest Rates (%)	2005	2004
Won currency	3.0 ~ 7.0	₩ 704,670	₩ 671,092
Foreign currency	LIBOR+0.6 and others	2,017,208	1,238,737
		2,721,878	1,909,829
Less: Current maturities		(407,443)	(377,519)
		₩ 2,314,435	₩ 1,532,310

See Notes 3 and 9 for collateral arrangements on these loans. Repayments of the above borrowings are guaranteed by financial institutions (Note 15).

Annual maturities of long term debts, excluding discount on debentures, as of December 31, 2005, are as follows:

(in millions of Korean won)		
Year ending December31,	Long-term debts	Debentures
2007	₩ 968,283	₩ 2,348,046
2008	924,626	1,362,040
2009	235,934	1,102,600
2010 and thereafter	185,592	1,921,580
	₩ 2,314,435	₩ 6,734,266

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

#### 13. Leases

As of December 31, 2005, the Group has recorded its capital leases amounting to ₩ 162,609 million (2004:₩ 176,995 million) as property, plant and equipment. Related depreciation expenses for the year ended December 31, 2005, amounted to ₩ 31,679 million (2004: ₩ 37,023 million).

As of December 31, 2005, future lease payments under capital lease agreements are as follows:

(in millions of Korean won)	
Year ending December 31,	Lease Expenses
2006	₩ 60,821
2007	29,743
	90,564
Less: Unearned interest	(4,595)
Current maturities	(57,342)
	₩ 28,627

As of December 31, 2005, future lease payments under operating lease agreements are as follows:

(in millions of Korean won)	
Year ending December 31,	Lease Expenses
2006	₩ 76,177
2007	39,922
2008	5,694
2009 and thereafter	531
	₩ 122,324

#### 14. Accrued Severance Benefits

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

(in millions of Korean won)		
	2005	2004
Beginning balance	₩ 1,182,926	₩ 1,303,339
Payment	(402,393)	(267,024)
Transfer from related companies	8,815	9,882
Increase due to changes in consolidated scope	89,749	245
Provision	429,171	357,047
Others	1,556	3,040
Decrease by spin-off 1	-	(223,603)
Ending balance	1,309,824	1,182,926
Less : Deposits for severance benefits	(22,497)	(27,180)
Contribution to the National Pension Fund	(756,323)	(685,081)
Ending balance	₩ 531,004	₩ 470,665

1 Due to the Group's spin-off on July 1, 2004, accrued severance benefits amounting to ₩ 223,603 million were transferred to GS Holdings Corp. and its subsidiaries.

#### 15. Commitments and Contingencies

As of December 31, 2005, the Group is a party to various technical assistance agreements with various foreign companies.

As of December 31, 2005, the Group has been named as the defendant and plaintiff in various foreign and domestic legal actions arising from the normal course of business. The Group's management believes that the actions against the Group pending as of December 31, 2005, in aggregate, will not have a material adverse impact on the Group's operations or financial position.

As of December 31, 2005, LG Household & Health Care Ltd. is named as a defendant in patent infringement case. On February 14, 2003, the court issued an unfavorable judgment against the Company with punitive damages of approximately ₩ 59,158 million.

On November 23, 2005, the Seoul High Court ruled in favor of LG Household & Health Care Ltd.'s appeal with respect to a lower court's judgment handed down on February 14, 2003, regarding the infringement case against LG Household & Health Care Ltd. which involved approximately ₩ 59,158 million in punitive damages. Due to the Seoul High Court's ruling, LG Household & Health Care Ltd. reversed in 2005 the litigation reserve amounting to ₩ 35,619 million and recognized an extraordinary gain of ₩ 31,579 million after deducting related litigation expenses. As of report date, an appeal by the plaintiff on the Seoul High Court's ruling is pending at the Supreme Court of Korea.

In relation to the patent infringement case filed by Nissan Chemical, Ltd., where LG Life Science Co., Ltd. was named as a defendant, the Seoul High Court issued an unfavorable judgment against LG Life Science Co., Ltd. with punitive damages of approximately ₩ 2,900 million on December 23, 2005. LG Life Science Co., Ltd. recorded the amount as other payables as of December 31, 2005, which were fully paid to Nissan Chemical, Ltd. on January 5, 2006. LG Life Science Co., Ltd. is also named as a defendant in another lawsuit related to the patent infringement case with Monsanto in which a favorable judgment of the Patent Court of Korea was handed down on January 12, 2006, for the patent revocation suit of formulation and patent rights suit.

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

As of December 31, 2005, the Company has a joint guarantee for obligations existing before the spin-off, which were assumed by LG Chem, Ltd. and LG Household & Health Care Ltd. as of April 1, 2001, assumed by LG Electronics Inc. as of April 1, 2002, and assumed by LG Life Sciences, Ltd. on August 1, 2002.

As of December 31, 2005, LG Mart, LG MRO and Konjiam Leisure Co., Ltd. have a joint guarantee for obligations existing before the spin-off.

As of December 31, 2005, the Group has guarantees up to ₩ 4,256 million on indebtedness of the other companies, except for equity-method investees, and has received guarantees approximating ₩ 120,322 million from various banks in relation to the contracts.

As of December 31, 2005, the Group has provided several notes and checks to financial institutions and customers as collaterals in relation to various borrowings and guarantees of indebtedness.

As of December 31, 2005, certain property, plant and equipment and short-term and long-term financial instruments of the Group are pledged as collaterals for various loans up to ₩ 2,031,070 million, including US ₩ 243 million, EUR 360 million and JPY 150 million from banks and other financial institutions. In addition, various receivables and investments are also provided as collaterals to banks and other financial institutions.

As of December 31, 2005, the Group has bank overdraft facility agreements with various banks amounting to ₩752,500 million and has made agreements with several banks in relation to the opening of letters of credit.

As of December 31, 2005, domestic companies are contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩ 820,405 million and for trade receivables transferred to the special purpose companies amounting to ₩ 209,760 million.

In accordance with the resolution of the Board of Directors on July 5, 2004, the Company entered into a LG brand license agreement with companies including LG Electronics Inc. The brand royalties are recorded as operating revenue.

As of December 31, 2005, the Group's foreign exchange forward contracts and interest rate swaps are as follows:

Foreign exchange forward contracts :

Type of contract	(in millions of Korean won)				
	Amount		Gain or loss		Capital adjustments
	Currency	Amount	Gains	Losses	Gains (Losses)
Forward	US\$	548			
	EUR	54	₩ 4,428	₩ 6,885	₩ (2,227)
	JPY	2,605			
Future	US\$	3,401			
	EUR	104	26,081	1,514	9,667
	KRW	370,919			
Option	US\$	420	1,378	326	-
	US\$	930	5,663	10,697	-
Swap	KRW	442,830			
			₩ 37,550	19,422	₩ 7,440

Interest rate swap contracts :

(in millions of Korean won)					
Amount		Annual interest rate (%)		Gain or loss	Capital adjustments
Currency	Amount	Receipts	Disbursement 1		
KRW	100,000	6.58%	CD floating rate	₩ -	₩ (445)
KRW	20,000	4.66%	CD floating rate		
US\$	10	3.89%	CD floating rate		
KRW	20,000		CD floating rate	3.31%	262
US\$	9		CD floating rate	3.39%	
US\$	100	5.00%-Contigent Spread	4.04%	2,842	-
				₩ 3,104	₩ (445)

1 CD : Final price offered at bid-earning rate of 91-day CD published by The Korea Securities Dealers Association one business day prior to the last interest payment day.

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

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

As of December 31, 2004, the Group's foreign exchange forward contracts and interest rate swaps were as follows:

Foreign exchange forward contracts :

Type of contract	Amount		Gain or loss		Capital adjustments
	Currency	Amount	Gains	Losses	Gains (Losses)
	(in millions of Korean won)				
Forward	US\$	377			
	EUR	37	₩ 11,159	₩ 4,263	₩ -
	JPY	575			
Future	US\$	1,722			
	EUR	11	68,298	35	55,287
	KRW	1,600,104			
Option	US\$	360	14,316	1,422	-
Swap	KRW	1,130,030			
	US\$	1,209	31,568	105,824	34,175
	BRL	30			
			₩ 125,341	₩ 111,544	₩ 89,462

Interest rate swap contracts :

Amount	Annual interest rate (%)		Gain or loss	Capital adjustments
	Receipts <sup>1</sup>	Disbursement <sup>2</sup>		
	(in millions of Korean won)			
₩ 100,000	6.58%	CD floating rate	₩ -	₩ (3,811)
₩ 20,000	7.00%	CD floating rate	348	-
₩ 50,000	4.05+(CMS3X2)	(CDX2)+7.15	-	(388)
			₩ 348	₩ (4,199)

<sup>1</sup> CMS3 : Three-year maturity KRW interest swap mid-market interest rate published by Reuters one business day prior to the last interest payment day.

<sup>2</sup> CD : Final price offered at bid-earning rate of 91- day CD published by The Korea Securities Dealers Association one business day prior to the last interest payment day.

#### 16. Capital Stock

Changes in capital stock for the years ended December 31, 2005 and 2004, are as follows:

	Common Stock			Preferred stock	Paid-in capital in excess of par value
	Amount	Gain or loss	Capital adjustments		
January 1, 2004	₩ 1,327,362	₩ 25,498	₩ 1,381,948		
July 1, 2004.		Spin - off (464,576)	(8,925)	(483,682)	<sup>1</sup>
December 31, 2004	862,786	16,573	898,266		
December 31, 2005	₩ 862,786	₩ 16,573	₩ 898,266		

<sup>1</sup> Due to the Company's spin-off dated on July 1, 2004, common stock and preferred stock were reduced by ₩ 464,576 million and ₩ 8,925 million, respectively. In addition, losses from reduction of capital amounting to ₩ 1,382,513 million were incurred. The loss on capital reduction amounting to ₩ 483,682 million was offset against additional paid-in capital, while the remaining balance was appropriated using the same manner as appropriation of accumulated deficit, eliminating all loss on capital reduction.

#### 17. Capital Surplus

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on October 1, 1998, January 1, 1993, and January 1, 1981, based primarily on the current replacement costs. The revaluation increment, net of revaluation taxes was credited to revaluation surplus. This surplus is not available for the payment of dividends but may be transferred to capital stock or used to offset accumulated deficit, if any, with the ratification of the shareholders.

#### 18. Retained Earnings

##### Legal Reserve

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. Subject to the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

##### Other Reserves

The Company is required to appropriate, as a reserve for the improvement of its financial structure, an amount equal to at least 50% of the net gain from the disposal of property, plant and equipment and 10% of net earnings for each year until the Company's net worth equals 30% of total assets. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to reduce accumulated deficit, if any.

## LG Corp. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve is not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

#### 19. Capital Adjustments

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

	2005	2004
(in millions of Korean won)		
Overseas operations translation debit	₩ (26,076)	₩ (36,693)
Loss on valuation of investment securities	(62,897)	(78,123)
Treasury stock	(19,757)	(348)
Losses on capital reduction	-	(898,831)
Other capital adjustments	(42,379)	(8,382)
	₩ (151,109)	₩ (1,022,377)

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

	Common Stock	Preferred Stock
January 1, 2004	22,485,359 shares	2,490,445 shares
Acquisition <sup>1</sup>	23,789 shares	6,810 shares
Disposal	(22,485,359) shares	(2,490,445) shares
December 31, 2004	23,789 shares	6,810 shares
Acquisition <sup>2</sup>	768,000 shares	-
December 31, 2005	791,789 shares	6,810 shares

<sup>1</sup> Due to the Company's spin-off on July 1, 2004, the new stocks of the Company were re-listed on the Korea Stock Exchange on August 5, 2004. Treasury stocks acquired during the current year are odd-lot stocks resulting from the re-listing which are to be sold afterwards.

<sup>2</sup> Treasury stocks are acquired and held until stock options are exercised in order to hedge the Company's future expenses.

Due to the Company's spin-off dated on July 1, 2004, common stock and preferred stock were reduced by ₩ 464,576 million and ₩ 8,925 million, respectively. In addition, losses from reduction of capital amounting to ₩ 1,382,513 million were incurred. The loss on capital reduction amounting to ₩ 483,682 million was offset against additional paid-in capital and the remaining balance was appropriated using the same manner as appropriation of accumulated deficit, eliminating all loss on capital reduction (Note 28).

#### 20. Income Taxes

Income taxes for the years ended December 31, 2005 and 2004, consist of the following:

	2005	2004
(in millions of Korean won)		
Current income tax	₩ 616,220	₩ 644,897
Income tax directly added to capital surplus	(182,003)	(15,471)
Decrease due to changes in consolidated companies	(2,327)	-
Changes in deferred income tax assets(liabilities) in tax credits carried forward	(239,297)	12,878
Changes in deferred income tax assets(liabilities) in temporary differences	175,324	183,963
Others	(61,069)	172,778
Income taxes	₩ 306,848	₩ 999,045

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Components of deferred income tax assets (liabilities) as of December 31, 2005 and 2004, are as follows:

	2005					
	Beginning Balance	Increase	Decrease	Ending Balance	Current	Non-current
Accrued severance benefits	₩ 190,046	₩ 51,115	₩ 38,195	₩ 202,966	₩ -	₩ 202,966
Severance insurance plans	(155,413)	(52,234)	(37,333)	(170,314)	-	(170,314)
Allowance for doubtful accounts	265,553	167,531	161,187	271,897	266,711	5,186
Accrued interest income	(7,139)	(9,646)	(5,978)	(10,807)	(10,807)	-
Research and development costs	(23,785)	-	(16,875)	(6,910)	-	(6,910)
Present value discount	120	-	51	69	69	-
Depreciation	(44,402)	(69,825)	11,585	(125,812)	-	(125,812)
Gain on valuation of equity-method investments	(1,046,846)	(675,963)	(338,799)	(1,384,010)	-	(1,384,010)
Gain on foreign currency translation	888	-	662	226	226	-
Reserves for technology development	(277,178)	(94,320)	(27,250)	(344,248)	(61,639)	(282,609)
Tax credits carried forward	399,313	275,215	6,958	667,570	-	667,570
Others	667,489	919,323	(540,978)	2,127,790	871,475	1,256,315
Equity 1	228,669	(349,309)	(15,111)	(105,529)	-	(105,529)
	197,315	₩ 161,887	₩ (763,686)	1,122,888	1,066,035	56,853
Gain on valuation of equity-method investments 2				980,637	106,929	873,708
Tax credits carried forward 2				62,972	-	62,972
Equity 2				(42,688)	-	(42,688)
Total	₩ -			₩ 121,968	₩ 959,107	₩ (837,139)
Deferred income tax assets(liabilities)	₩ 197,315				₩ 263,754	₩ 208,120

(in millions of Korean won)

1 As the Company adopted SKFAS No. 16, Deferred Income Tax, in 2005, the accumulated temporary differences for equity were included in the list of accumulated temporary differences.

2 As of December 31, 2005, the accumulated temporary differences that may not be realized in the future were excluded in the calculation of deferred income taxes.

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable value. Deferred income tax assets are recognized to the extent that it is almost certain that such deferred income tax assets will be realized.

The statutory income tax rate, including resident tax surcharges, applicable to LG Corp. 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 13.1% (2004: 22.0%).

### 21. Earnings Per Share

Basic ordinary income per share and earnings per share represent the ordinary income and net income of one share of common stock. In the calculation of the number of outstanding common shares, the issued shares of common stock by conversion of convertible bonds were regarded as issued at the beginning of the year. 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 ordinary income per share and earnings per share for the years ended December 31, 2005 and 2004, are calculated as follows:

	2005	2004
Net income	₩ 601,761,426,480	₩ 654,572,667,540
Preferred stock dividends	(1,819,326,850)	(992,360,100)
Additional income available for preferred stock	(9,688,539,534)	(11,505,036,257)
Net income available for common stock (A)	590,253,560,096	642,075,271,183
Extraordinary gains and losses	30,984,812,613	-
Effect on corporate income tax by extraordinary gains and losses	(8,520,823,468)	-
Ordinary income available for common stock (B)	567,789,570,951	642,075,271,183
Weighted average number of common shares outstanding(C) 1	172,125,002 shares	211,261,592 shares
Basic earnings per share (A/C)	₩ 3,429	₩ 3,039
Ordinary income per share (B/C)	₩ 3,299	₩ 3,039

1 Treasury stock is deducted from outstanding common stock.

Diluted earnings per share and diluted ordinary income per share for the years ended December 31, 2005 and 2004, are identical to basic earnings per share and basic ordinary income per share for the years ended December 31, 2005 and 2004, since there are no diluted securities outstanding as of the said balance sheet dates.

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 22. Dividends

Details of dividends for the years ended December 31, 2005 and 2004, are as follows:

	2005	2004
Shares entitled to dividends		
Common stock	171,765,342 shares	172,533,342 shares
Preferred stock	3,307,867 shares	3,307,867 shares
Dividend per share (cash)		
Common stock	₩ 500 (10%)	₩ 250 (5%)
Preferred stock	550 (11%)	300 (6%)
Dividend amount		
Common stock	₩ 85,883 million	₩ 43,133 million
Preferred stock	1,819 million	993 million
	₩ 87,702 million	₩ 44,126 million

Dividend payout ratio for the years ended December 31, 2005 and 2004, are as follows:

	2005	2004
Total dividends (A)	₩ 87,702	₩ 44,126
Net income (B)	603,186	575,548
Dividend payout ratio ((A)/(B))	14.54%	7.67%

(in millions of Korean won)

Dividend yield ratio for the years ended December 31, 2005 and 2004, are as follows:

	2005		2004	
	Common shares	Preferred shares	Common shares	Preferred shares
Dividend per share (A)	500	550	250	300
Market price as of the balance sheet date (B)	31,600	21,200	16,900	11,200
Dividend yield ratio ((A)/(B))	1.58%	2.59%	1.48%	2.68%

(in Korean won)

### 23. 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 Company and its consolidated subsidiaries:

	(in millions of Korean won)			
	Sales	Purchases	Receivables	Payable
LG Electronics Inc.	₩ 74,532	₩ 21	₩ 569	₩ 66,822
LG Chem Ltd.	20,616	-	1,140	35,478
Dacom Corporation	-	5	29,800	-
LG Philips LCD Co., Ltd.	11,219	-	1,692	10,970
LG CNS	3,806	1,173	259	3,245
Serveone	1,096	3,466	-	5,072
LG Sports Ltd.	25	8,160	99	-
Others	18,160	334	3,512	12,398
2005 Total	₩ 129,454	₩ 13,159	₩ 37,071	₩ 133,985
2004 Total	₩ 141,101	₩ 78,256	₩ 31,682	₩ 100,411

#### Transactions between consolidated subsidiaries:

	(in millions of Korean won)			
Company	Counterpart	Sales	Receivables	
LG Electronics Inc.	LG Telecom Ltd. and others	₩ 17,591,492	₩ 3,673,298	
LG Chem Ltd.	LG Petrochemical Co., Ltd. and others	2,562,723	211,204	
Dacom Corporation	Powercomm Corporation and others	180,023	24,817	
LG Household & Health Care Ltd.	LG Chem Ltd. and others	112,775	17,995	
Others		4,348,513	447,621	
2005 Total		₩ 24,795,526	₩ 4,374,935	
2004 Total		₩ 30,209,138	₩ 6,252,736	

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### Transactions between the Group and equity method investees:

(in millions of Korean won)					
Company	Counterpart	Sales	Purchases	Receivables	Payable
LG Electronics Inc.	HLDS (Japan) and others	₩ 2,449,166	₩ 2,380,688	₩ 433,590	₩ 408,348
LG Chem Ltd.	SEETEC Co., Ltd. and others	26,336	33,262	3,435	3,913
LG Household & Health Care Ltd.	Cognis Rika	-	752	-	-
Others		22,668	6,768	4,237	-
2005 Total		₩ 2,498,170	₩ 2,421,470	₩ 441,262	₩ 412,261
2004 Total		₩ 2,101,140	₩ 2,048,162	₩ 242,847	₩ 227,479

### Guarantees of the Controlling Company on the indebtedness of its consolidated subsidiaries, equity method investees and other related parties:

(in millions of Korean won)			
	2005	2004	
LG Electronics Inc.	₩ 2,148,347	₩ 1,974,300	
LG Chem Ltd.	204,241	250,028	
LG Household & Health Care Ltd.	6,448	7,450	
Others	7,598	1,879	
	₩ 2,366,634	₩ 2,233,657	

### 24. Stock Option Plan

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 details of the stock options are as follows for the years ended December 31, 2005:

	LG Corp.	LG Electronics Inc.	LG Chem Ltd.	LG Philips LCD.
<b>Grant date</b>	March 24, 2005, the resolution of the Board of Directors	March 22, 2005, the resolution of the Board of Directors	March 25, 2005, the resolution of the Board of Directors	April 7, 2005, the resolution of the Board of Directors
<b>Grant method</b>	To compensate the difference between market price of the stock and exercise price of the option	To compensate the difference between market price of the stock and exercise price of the option	To compensate the difference between market price of the stock and exercise price of the option	To compensate the difference between market price of the stock and exercise price of the option
<b>Exercisable period</b>	Within 4 years from the day after 3 years from grant date.	Within 4 years from the day after 3 years from grant date.	Within 4 years from the day after 3 years from grant date.	Within 4 years from the day after 3 years from grant date.
<b>Number of shares granted</b>	768,000 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.	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.	221,000 shares <sup>1</sup> . 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.	410,000 shares <sup>2</sup> . 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.
<b>Exercise price</b>	₩ 24,730 per share	₩ 71,130 per share	₩ 42,530 per share	₩ 44,050 per share <sup>3</sup>
<b>Exercisable condition</b>	For executives and employees who have worked for the Company for more than two years from grant date	For executives and employees who have worked for the Company for more than two years from grant date	For executives and employees who have worked for the Company for more than two years from grant date	For executives and employees who have worked for the Company for more than two years from grant date

<sup>1</sup> In 2005, 347,000 shares of stock options were forfeited due to the early termination of employment of the grantee employees.

<sup>2</sup> As of December 31, 2005, the number of shares of LG.Philips LCD Co., Ltd. to be exercised is 410,000 shares as 40,000 shares of stock options were canceled due to the retirement of an executive officer.

<sup>3</sup> The exercise price of LG.Philips LCD Co., Ltd. decreased from ₩ 44,260 to ₩ 44,050 per share due to the additional issuance of common stock in 2005.

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Compensation expense for the year ended December 31, 2005, consists of the following:

(in millions of Korean won)	
	Amount
LG Corp.	₩ 1,023
LG Electronics Inc.	5,799
LG Chem Ltd.	1,042
LG Philips LCD. <sup>1</sup>	-
	₩ 7,864

<sup>1</sup> LG.Philips LCD Co., Ltd. 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.

### 25. Assets and Liabilities Denominated in Foreign Currencies

As of December 31, 2005 and 2004, monetary assets and liabilities denominated in foreign currencies consist of the following:

	Foreign Currency (in thousands)		Korean won equivalent (in millions)	
	2005	2004	2005	2004
Cash and cash equivalents	US\$ 58,299	US\$ 19,726	₩ 427,441	₩ 321,279
	EUR 129,506	EUR 117,258		
	JPY 708,449	JPY 77,075		
	CNY 543,489	CNY 218,818		
	GBP 4,744	GBP 10,492		
Trade accounts and notes receivable	US\$ 1,068,365	US\$ 899,339	₩ 3,534,494	₩ 3,453,615
	EUR 385,319	EUR 421,035		
	JPY 5,087,871	JPY 12,218,070		
	CNY 2,523,087	CNY 2,386,875		
	GBP 10,583	GBP 47,475		
Other accounts receivable	US\$ 158,475	US\$ 225,387	₩ 672,142	₩ 723,537
	EUR 146,872	EUR 130,946		
	JPY 7,483,442	JPY 2,948,999		
	CNY 1,161,185	CNY 1,293,640		
	INR 25,335,082	INR 136,384		
Trade accounts and notes payable	US\$ 687,577	US\$ 581,973	₩ 2,392,021	₩ 2,149,502
	EUR 250,870	EUR 132,505		
	JPY 18,171,721	JPY 8,854,238		
	CNY 6,790,530	CNY 6,191,908		
	GBP 4,196	GBP 4,911		
Other accounts payable	US\$ 211,330	US\$ 175,374	₩ 473,390	₩ 347,312
	EUR 20,411	EUR 22,977		
	JPY 286,675	JPY 17,000		
	CNY 157,343	CNY 235,686		
	THB 347,737	THB 201,196		

### 26. Supplemental Cash Flow Information

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

(in millions of Korean won)		
	2005	2004
Reclassification of construction-in-progress to property, plant and equipment	₩ 6,449,929	₩ 1,251,693
Reclassification of current maturities of long-term debts	407,442	377,519
Reclassification of current maturities of debentures	3,142,692	1,979,211
Reclassification of long-term receivables of receivables	235,774	-
Increase in assets due to the merger	-	2,411,361
Decrease in assets due to spin-off	-	626,552
Decrease in debts due to spin-off	-	483,682
Conversion of foreign convertible bonds into common stocks	317,794	1,351

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 27. Segment Information

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

(in millions of Korean won)

	2005						
	Electronics	Chemicals	Communications	Others	Total	Consolidated Adjustment	Total
Sales							
External	₩ 74,611,668	₩ 15,669,051	₩ 5,452,060	₩ 3,132,082	₩ 98,864,861	₩ (36,818,738)	₩ 62,046,123
Inter-segment	(29,718,902)	(3,561,821)	(387,530)	(3,150,485)	(36,818,738)	36,818,738	-
	₩ 44,892,766	₩ 12,107,230	₩ 5,064,529	₩ (18,403)	₩ 62,046,123	₩ -	₩ 62,046,123
Operating income	₩ 1,757,870	₩ 974,771	₩ 568,022	₩ 245,429	₩ 3,546,092	₩ (279,071)	₩ 3,267,021
Assets	44,554,141	10,795,108	7,754,066	6,054,966	69,158,281	(18,798,836)	50,359,445

(in millions of Korean won)

	2004						
	Electronics	Chemicals	Communications	Others	Total	Consolidated Adjustment	Total
Sales							
External	₩ 79,681,474	₩ 12,933,201	₩ 5,029,175	₩ 17,022,938	₩ 114,666,788	₩ (44,468,768)	₩ 70,198,020
Inter-segment	(36,765,204)	(2,979,583)	(375,470)	(4,348,511)	(44,468,768)	44,468,768	-
	₩ 42,916,270	₩ 9,953,618	₩ 4,653,705	₩ 12,674,427	₩ 70,198,020	₩ -	₩ 70,198,020
Operating income	₩ 3,216,333	₩ 1,067,629	₩ 412,833	₩ 681,577	₩ 5,378,372	₩ (232,298)	₩ 5,146,074
Assets	39,849,968	9,041,002	7,338,273	5,377,571	61,606,814	(15,239,406)	46,367,408

Financial data by geographic area as of December 31, 2005 and 2004, are as follows:

(in millions of Korean won)

	2005								
	Domestic <sup>1</sup>	China	Asia	North America	Europe	Others	Total	consolidated Adjustment	Total
Sales									
External	₩ 47,428,117	₩ 15,226,511	₩ 9,369,072	₩ 11,943,160	₩ 12,074,805	₩ 2,823,196	₩ 98,864,861	₩ (36,818,738)	₩ 62,046,123
Inter-segment	(24,585,065)	(6,761,496)	(1,296,021)	(1,725,000)	(1,857,756)	(593,400)	(36,818,738)	36,818,738	-
	₩ 22,843,052	₩ 8,465,015	₩ 8,073,051	₩ 10,218,160	₩ 10,217,049	₩ 2,229,796	₩ 62,046,123	₩ -	₩ 62,046,123
Operating income	₩ 3,218,180	₩ 90,940	₩ 94,436	₩ 25,837	₩ (4,971)	₩ 121,670	₩ 3,546,092	₩ (279,071)	₩ 3,267,021
Assets	46,463,277	3,230,521	1,690,457	1,936,037	3,483,927	12,354,062	69,158,281	(18,798,836)	50,359,445

(in millions of Korean won)

	2004								
	Domestic <sup>1</sup>	China	Asia	North America	Europe	Others	Total	consolidated Adjustment	Total
Sales									
External	₩ 62,604,500	₩ 13,794,825	₩ 13,104,762	₩ 10,444,188	₩ 11,454,520	₩ 3,263,993	₩ 114,666,788	₩ (44,468,768)	₩ 70,198,020
Inter-segment	(33,275,765)	(6,619,570)	(1,421,981)	(1,473,733)	(1,677,719)	-	(44,468,768)	44,468,768	-
	₩ 29,328,735	₩ 7,175,255	₩ 11,682,781	₩ 8,970,455	₩ 9,776,801	₩ 3,263,993	₩ 70,198,020	₩ -	₩ 70,198,020
Operating income	₩ 5,097,167	₩ 82,244	₩ 68,424	₩ 47,719	₩ 11,463	₩ 71,355	₩ 5,378,372	₩ (232,298)	₩ 5,146,074
Assets	45,751,643	4,968,647	1,868,167	2,461,200	5,344,923	1,212,234	61,606,814	(15,239,406)	46,367,408

<sup>1</sup> Domestic sales include the exports made based on local letters of credit.

### 28. Spin - Off

In accordance with a resolution of the Board of Directors dated April 13, 2004 and a resolution of the shareholders dated May 28, 2004, the Company was spun-off on July 1, 2004, and GS Holdings Corp, which is to engage in the business of oils, retails and home shopping, was newly incorporated. The Company transferred a part of its buildings and its investment securities including LG Home Shopping Inc., LG-Caltex Corp. and LG Retail to GS Holdings Corp.

The related accounting procedures on the spin-off are as follows:

(1) The Spin-off method

In accordance with the provisions in the Commercial Code Article 530-2 and 530-12, LG Corp. established GS Holdings Corp. and transferred its assets and liabilities to GS Holdings Corp. GS Holdings Corp. owned shares of LG Home Shopping Inc., LG-Caltex Corp. and LG Retail and was the holding company of those subsidiaries.

The Company issued new shares of GS Holdings Corp. based on its net asset value and allocated them to its shareholders based on their old shareholdings. Accordingly, common shares of 92,915,378 and preferred shares of 1,784,826 of the newly established GS Holdings Corp. were issued and allocated to the shareholders of LG Corp.

## LG Corp. and Subsidiaries Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(2) Assets and Liabilities transferred to the newly incorporated company

Assets and liabilities based on the resolution of the shareholders dated May 28, 2004, were transferred to GS Holdings Corp. after the adjustment reflecting the change of them from the date of the shareholders's meeting to the date of the spin-off.

(3) Employee and Severance Benefits

Accrued severance benefits for the employees of LG Corp., who were transferred to GS Holdings Corp., were likewise transferred to GS Holdings Corp.

(4) The Company's responsibility

LG Corp. and GS Holdings Corp. have joint responsibility for the liabilities of the Company before the spin-off.

### 29. Subsequent Events

On January 4, 2006, the foreign currency convertible bonds issued by LG Electronics Inc. (face value : US\$ 22 million) were converted to 376,692 shares of common stock, which were then listed on the Korea Stock Exchange on January 13, 2006.

As approved by the Board of Directors on October 13, 2005, LG Chem Ltd. entered into a merger contract with LG Daesan Polychemicals Co., Ltd. on October 19, 2005. As this merger was considered small scale under the Commercial Code of Korea, LG Chem Ltd. did not need the approval of the shareholders. Instead, the Board of Directors approved of the merger contracted on November 16, 2005. On January 1, 2006, LG Chem Ltd. merged with LG Daesan Polychemicals Co. Ltd., increasing its current assets and liabilities by ₩ 173,105 million. A negative goodwill of ₩ 353,752 million is also expected to be recorded. The merger was officially announced by the Board of Directors on January 3, 2006.

In accordance with the resolution of the Board of Directors dated December 13, 2005, Dacom Corporation decided to acquire Korea Internet Data Center, Inc. and to enter into the merger contract with Korea Internet Data Center, Inc on a basis of 1:1.2986 acquisition ratio as of March 1, 2006. The Company is planning to Register on March 6, 2006. From December 31, 2005 to January 31, 2006, the convertible bonds amounting to ₩ 75,321 million were converted into 8,734,593 shares of common stock. As a result, capital and capital surplus increased by ₩ 43,673 million and ₩ 31,645 million, respectively.

Serveone entered into the merger contract with Konjiam Leisure Co., Ltd. on November 29, 2005, and acquired Konjiam Leisure Co., Ltd. on January 1, 2006.

### 30. Reclassification of prior year financial statement presentation

Certain amounts in the 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 had no effect on previously reported net income or shareholders' equity.



# The LG Way

LG is ahead of others on the right way that every company eventually has to take for the benefit of its valued customers