

Pursuing a future without limits



Jong-Yong Yun
Vice Chairman and Chief Executive Officer

Dear Customers, Partners, and Shareholders,

In retrospect, 2005 was an eventful year both at home and abroad: Many parts of the world struggled with natural disasters including earthquakes and hurricanes. The global economy was hit with record high oil prices of over USD 60 per barrel, while increased competition created predatory pricing in global markets. In the domestic market, we experienced a sharp surge in raw material prices and the appreciation of the Korean won against major global currencies. Despite these challenging business conditions, and driven by the innovations begun in our “New Management Initiatives” of 1993, Samsung Electronics posted annual average operating profits for the last four years of KRW 8 trillion, reaffirming our superb profitability on a world-class level.

The highlights of our achievements in 2005 include with sales of USD 79.6 billion and operating profits of USD 7.48 billion. The operating profit margin of our semiconductor business reached an industry high level of 27% due to the strong sales of high value-added products like our high-density NAND flash memories. In handsets, we shipped over 100 million units thanks to global hits like our blue-black phones, the D500 and D600. In LCDs, the successful ramp-up of our Line 7-1, the S-LCD joint venture line with Sony, enabled the company to enhance its top position in the LCD panel market and to lead the growth of digital TVs.

From world-class company to premier global company

Knowing that the road to becoming a premier global company starts with exceptional human resources, innovative technologies, and high brand value, Samsung Electronics is focusing on these core areas. First, the company aggressively searches for and recruits talented people to strengthen our competitiveness for future technologies. As of the end of 2005, more than 12,000 employees have a master's degree or a doctorate and over 25% of the workforce is involved in R&D efforts.

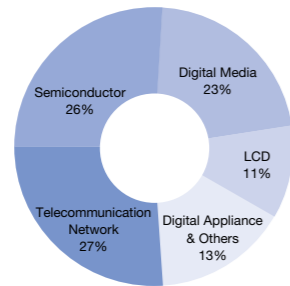
As a result of the company's commitment to recruiting and retaining talented people, it was able to showcase our technology leadership by first to develop 50-nanometer 16Gb NAND flash memory and Mobile WiMAX, next generation wireless communication technology. During the Busan APEC Summit in November 2005, we reinforced our leadership in the global IT industry by successfully demonstrating WiBro technology. Samsung Electronics is also investing heavily in our brand equity through overseas marketing campaigns for our premium products. As a result of such efforts, Samsung is positioned 20th (USD 15 billion in value) in the Interbrand and BusinessWeek annual ranking of The 100 Top Global Brands, and placed 7th among global IT companies, reaffirming our status as one of the world's most valuable brands.

Four strategies for leadership

The global economy for 2006 presents a great deal of risk and opportunity for Samsung Electronics. High oil prices and a weak dollar will continue to put pressure on the company's performance. In addition, the collapse of the four barriers; prices, technologies, regions and added values will continue in the global market, resulting in even fiercer competition. On the other hand, the commercial launch of broad services such as DMB and WiBro, and global sporting events such as the World Cup and Olympic Winter Games, provide great business opportunities. In 2006, with risks, opportunities, hopes and uncertainties coexisting in the marketplace, Samsung Electronics will focus on implementing four strategies to lay down the foundation for becoming a premier global company.

- First, the company will focus on strengthening our current growth engines and cultivating future ones. Samsung Electronics will maintain our market competitiveness in memories, displays, mobile handsets, and digital TV through the timely launch of innovative products that surpass the competition in cost, quality, and design. In businesses such as printers, system LSI, next generation storage, and air control systems, the company will continue to deliver innovative technologies and products to further strengthen our market competitiveness. In addition, the company will channel more resources into the development and commercialization of promising future technologies to ensure continuous growth.

Diversified Business Portfolio



2005 Net sales by business segment, consolidated basis
(Finance segment excluded)

8 Growth Engines

Displays
DTV
Memories
Mobile Communications
Printers
System LSI
Mass Storage
Air Control Systems

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- Second, the company will build our creative leadership based on core technologies and marketing. It is believed that in the increasingly competitive 21st century, only one or two companies who can lead and create markets in each industry will be assured of survival. Therefore, Samsung Electronics will focus on leading and creating markets with the best products and technologies in order to become a premier global company. To realize this goal, the company will first develop leading technologies that will set industry standards, and then commercialize products that will fulfill consumers' unmet needs. In addition, Samsung Electronics will make quick, quality responses to market trends to ensure our market leadership and further the premium brand position that will make Samsung Electronics Brand in the global market.

- Third, the company will continue to optimize our management processes. Last year, Samsung Electronics conducted a company-wide campaign to enhance corporate fundamentals by streamlining management processes and systems. This year, more emphasis will be put on breaking down inefficiencies resulting from discrepancies in forecasts among development, manufacturing, and marketing activities. The company will also focus on a manufacturing plan that minimizes fluctuations in production. Samsung Electronics will support our suppliers and buyers by maximizing the efficiency of SCM (Supply Chain Management) system and processes. And in order to secure the most competitive cost structure, the company will focus on standardizing components and software, along with strengthening the strategic procurement of those standardized parts.
- Lastly, the company will continue our commitment to shareholder-centric policies. The employees of Samsung Electronics know that the biggest catalyst behind the success of Samsung Electronics is the trust and support of our shareholders. In 2006, our employees will continue to focus on generating profits, because that is the most direct way to enhance shareholder and company value.

Uncharted territory: leading the way to the future

Some people call the success of Samsung Electronics a miracle. However, our employees are focused on what can and should be done, rather than on the success of the past. When we were an industry follower playing a catch-up game, the challenges of what to do and how to do it were clearly defined. We were able to succeed with our will and passion alone. Our challenges now, however, are different from those of the past. To become a premier global company, we have to go into uncharted territory and define for ourselves what we need to do and how we need to do it.

In 2006, the employees of Samsung Electronics will continue to pursue a future without limits by facing and overcoming challenges of all kinds. We will continue to be willing and passionate in our work, believing our future is not to be predicted, but to be created. Going forward, I would like to ask for your continued support and advice as we move toward becoming the leading company in the digital convergence era.



Jong-Yong Yun

Vice Chairman and Chief Executive Officer
Samsung Electronics Co., Ltd.