

corporations are subject to a 40.0% ceiling on the acquisition of shares by foreigners in the aggregate and a ceiling on the acquisition of shares by a single foreign investor pursuant to the articles of incorporation of such corporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor of not less than 10.0% of the issued shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Act, which is, in general, subject to the report to, and acceptance, by the Ministry of Commerce, Industry and Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company. A foreigner who has acquired shares of our common stock in excess of this ceiling may not exercise his voting rights with respect to the shares of our common stock exceeding the limit.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

The securities companies and asset management companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these securities companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

#### **Item 10.E.      *Taxation***

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the convertible notes, bonds, shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws. In this section, all references to "convertible notes" mean our 0.25% Convertible Notes due 2007 and all references to "bonds" mean our 7.50% Notes due 2006 and 7.625% Notes due 2007.

#### **Korean Taxation**

The following summary of Korean tax considerations applies to you as long as you are not:

- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base.

## **Convertible Notes or Bonds**

### *Tax on Interest*

In principle, interest paid to a non-resident by a Korean company is subject to withholding of Korean income or corporation tax unless exempted by relevant laws or tax treaties. However, the Special Tax Treatment Control Law of Korea (the "STTCL") exempts interest on convertible notes or bonds denominated in a foreign currency (excluding payments to a Korean corporation or resident other than to its overseas permanent establishment) from Korean income and corporation tax. The residence tax referred to below is also therefore eliminated. Therefore, under the STTCL, you may be exempt from any Korean withholding tax on convertible notes or bonds.

### *Tax on Capital Gains*

Korean tax laws currently exclude from Korean taxation gains made by a non-resident without a permanent establishment in Korea from the sale of convertible notes or bonds to non-residents (unless the sale is to the non-resident's permanent establishment in Korea). In addition, capital gains earned by non-residents in Korea from the transfer of convertible notes or bonds taking place outside of Korea are currently exempt from taxation by virtue of the STTCL, provided that the offering of the convertible notes or bonds is deemed to be an overseas issuance under the STTCL.

In the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11.0% of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and the transaction cost of the relevant Korean securities) 27.5% of the gain made. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Korean securities. If you are a resident of the United States for the purposes of the income tax treaty currently in force between Korea and the United States ("US-Korea Tax Treaty"), you are generally entitled to an exemption from Korean taxation in respect of any capital gain realized on a disposition of convertible notes or bonds, regardless of whether the disposition is to a Korean resident or made within Korea. In order to obtain the benefit of a tax exemption available under applicable tax treaties on or after July 1, 2002, you should submit to the purchaser or the securities company, as applicable, the application for the exemption prior to the time of the payment, together with a certificate of your tax residence issued by a competent authority of your resident country. However, this requirement will not apply to the exemption under Korean tax laws.

There is no liability for tax on capital gains in respect of the delivery of shares of common stock following the conversion of the convertible notes. The Korean tax authority has interpreted that the acquisition cost of such shares which are subsequently sold is to be calculated as the acquisition cost of the relevant convertible notes.

### *Inheritance Tax and Gift Tax*

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of death the deceased was domiciled in Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. Taxes are currently imposed at the rate of 10% to 50% if the value of the relevant property is above a certain limit and the tax amount varies according to the value of the relevant property and the identity of the parties involved. Under Korean inheritance and gift tax laws, convertible notes or bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned.

### *Shares or ADSs*

#### *Dividends on Shares of Common Stock or ADSs*

Unless an applicable tax treaty provides otherwise, we will deduct Korean withholding tax from dividends paid to you either in cash or shares at a rate of 27.5%. If you are a resident of a country that has entered into a

tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax under such a treaty. For example, if you are a qualified resident of the United States for purposes of the US-Korea Tax Treaty (the "Treaty") and you are the beneficial owner of a dividend, a reduced withholding tax rate of 16.5% generally will apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. In the case of ADSs, evidence of tax residence may be submitted to us through the depository. In addition, on or after July 1, 2002, in order to obtain the benefit of a tax exemption available under applicable tax treaties, you should submit an exemption application prior to the time of the dividend payment, together with a certificate of your tax residence issued by a competent authority of your resident country. Excess taxes withheld may be recoverable if you subsequently produce satisfactory evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be a deemed dividend subject to Korean tax.

#### *Capital Gains*

Capital gain from a sale of shares of common stock will generally be exempt from Korean taxation if you have owned, together with certain related parties, less than 25.0% of our total issued shares during the year of sale and the five calendar years before the year of sale, and the sale is made through the Stock Market Division of the Korea Exchange. Capital gain earned by a non-Korean holder from a sale of ADSs outside of Korea are exempt from Korean taxation by virtue of the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

If you are subject to tax on capital gain from a sale of ADSs, or shares of common stock that you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the ADSs representing the shares of common stock, although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty that exempts tax on capital gain, the amount of Korean tax imposed on such capital gains will be the lesser of 11.0% of the gross realization proceeds or, subject to the production of satisfactory evidence of the acquisition cost and the transaction costs of the ADSs, 27.5% of the net capital gain.

If you sell your shares of common stock or ADSs, the purchaser or, in the case of a sale of shares of common stock on the Stock Market Division of the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% of the gross realization proceeds and to make payment thereof to the Korean tax authorities, unless you establish your entitlement to an exemption of taxation under an applicable tax treaty or produce satisfactory evidence of your acquisition cost and the transaction costs for the shares of common stock or ADSs. In order to obtain the benefit of an exemption of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company (or through the depository), as the case may be, prior to the first payment, an exemption application, together with a certificate of your tax residence issued by a competent authority of your residence country. This requirement will not apply to exemptions under Korean tax law. Excess taxes withheld may be recoverable if you subsequently produce satisfactory evidence that you were entitled to have taxes withheld at a lower rate.

#### *Inheritance Tax and Gift Tax*

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. Taxes are currently imposed at the rate of 10% to 50% if the value of the relevant property is above a certain limit and vary according to the identity of the parties involved.

Under Korean Inheritance and Gift Tax Law, shares issued by a Korean corporation are deemed located in Korea irrespective of where they are physically located or by whom they are owned. It remains unclear whether, for Korean inheritance and gift tax purposes, a non-resident holder of ADSs will be treated as the owner of the shares underlying the ADSs. If such non-resident is treated as the owner of the shares, the heir or donee of such non-resident (or in certain circumstances, the non-resident as the donor) will be subject to Korean inheritance or gift tax at the same rate as described above.

#### *Securities Transaction Tax*

If you transfer shares of common stock on the Stock Market Division of the Korea Exchange, you will be subject to securities transaction tax at a rate of 0.15% and an agriculture and fishery special tax at a rate of 0.15%, calculated based on the sales price of the shares. If you transfer shares of common stock and your transfer is not made on the Stock Market Division of the Korea Exchange you will generally be subject to the securities transaction tax at a rate of 0.5% and will generally not be subject to the agriculture and fishery special tax. Transfers of ADSs will not be subject to either the securities transaction tax or the agriculture and fishery special tax.

Although a tax ruling has been issued to the effect that a foreign holder of depositary shares will not be subject to securities transaction tax upon (i) deposit of underlying stock and receipt of depositary shares or upon (ii) the surrender of depositary shares and withdrawal of originally deposited underlying stock, an issue still remains as to whether, in the case where the depositary shares were transferred by one holder to another (which transfer is not subject to securities transaction tax in itself), the surrender of depositary shares and withdrawal of underlying stock by the subsequent (as opposed to the initial) holder of depositary shares will be treated as a taxable event for the purpose of the securities transaction tax. The Korean tax authorities issued another ruling indicating that securities transaction tax would be imposed "when depositary shares which were issued upon deposit with an overseas depository of stock issued by a Korean company are later converted into the underlying stock," except in the circumstances mentioned in the previously discussed ruling issued by the Korean tax authorities. This ruling, however, is silent on certain essential points such as the party responsible for the payment of the tax as well as the amount of tax due in such event. As a result, it remains uncertain under Korean tax law whether the surrender of depositary shares and withdrawal of underlying stock by the holders of depositary other than an initial holder will not trigger the securities transaction tax.

#### **United States Federal Income Taxation**

This summary describes the material U.S. federal income tax consequences to you, if you are a U.S. holder (as defined below), of owning our convertible notes, bonds, shares of common stock or ADSs. This summary applies to you only if you hold convertible notes, bonds, shares of common stock or ADSs as capital assets for tax purposes and, in the case of the convertible notes, only if you purchased such convertible notes in the applicable initial offering at their issue price. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds convertible notes, bonds, shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds convertible notes, bonds, shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of convertible notes, bonds, shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a “U.S. holder” if you are a beneficial owner of a convertible note, bond, warrant, share of common stock or ADS that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- subject to U.S. federal income tax on a net income basis with respect to income from the convertible note, bond, warrant, share of common stock or ADS.

### **Convertible Notes**

#### *Stated Interest*

Payments of stated interest on the convertible notes will generally be subject to U.S. federal income taxation as ordinary income at the time such payments are accrued or received, in accordance with your method of tax accounting.

#### *Premium*

If you purchase a convertible note at a cost greater than the convertible note’s remaining redemption amount (i.e., the total of all future payments to be made on the convertible note other than payments of stated interest), you will be considered to have purchased the convertible note at a premium, and you may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the convertible note. If you make this election, it generally will apply to all debt instruments that you hold at the time of the election, as well as any debt instruments that you subsequently acquire. In addition, you may not revoke the election without the consent of the Internal Revenue Service. If you elect to amortize the premium, you will be required to reduce your tax basis in the convertible note by the amount of the premium amortized during your holding period. Convertible notes purchased at a premium will not be subject to the original issue discount rules described above. If you do not elect to amortize premium, the amount of premium will be included in your tax basis in the convertible note. Therefore, if you do not elect to amortize premium and you hold the convertible note to maturity, you generally will be required to treat the premium as capital loss when the convertible note matures.

#### *Market Discount*

If you purchase a convertible note at a price that is lower than the convertible note’s remaining redemption amount, by 0.25% or more of the remaining redemption amount, multiplied by the number of remaining whole years to maturity, the convertible note will be considered to bear “market discount” in your hands. In this case, any gain that you realize on the disposition of the convertible note generally will be treated as ordinary interest income to the extent of the market discount that accrued on the convertible note during your holding period. In addition, you may be required to defer the deduction of a portion of the interest paid on any indebtedness that you incurred or continued to purchase or carry the convertible note. In general, market discount will be treated as accruing ratably over the term of the convertible note, or, at your election, under a constant yield method.

You may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the convertible note as

ordinary income. If you elect to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If you do make such an election, it will apply to all market discount debt instruments that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the Internal Revenue Service.

#### *Conversion*

For U.S. federal income tax purposes, if you elect to convert a convertible note into shares of common stock or ADSs pursuant to the conversion right incorporated in the terms of the convertible note, you generally will realize no gain or loss from the conversion. Your basis in the shares of common stock or ADSs received upon such a conversion generally will be equal to your adjusted basis in the convertible notes so converted, and your holding period for such shares of common stock and ADSs generally will include the period during which you held such convertible notes.

#### *Adjustment of the Conversion Price*

The conversion ratio of the convertible notes is subject to adjustment under certain circumstances. Adjustments that have the effect of increasing the proportionate interest of a holder of the convertible notes in our assets or earnings (for example, an adjustment following the distribution of property by us to our shareholders) can give rise to deemed dividend income to those holders; similarly, a failure to adjust the conversion ratio to reflect a stock dividend or other event increasing the proportionate interest of the holders of the outstanding shares of common stock or ADSs can in some circumstances give rise to deemed dividend income to those holders.

#### *Sale, Exchange or other Disposition*

Except as described above under “– Conversion,” you will generally recognize gain or loss on a sale, exchange or other disposition of a convertible note (including pursuant to any cash settlement) in an amount equal to the difference between the amount realized on such sale, exchange or other disposition (less any accrued stated interest, which will be taxable as ordinary interest income) and your adjusted basis in the convertible note (or, in the case of cash settlement in respect of less than all of the shares of common stock or ADSs into which the convertible notes may be converted, the amount of such basis allocable to the cash settlement amount). Initially, your tax basis in a convertible note generally will equal the cost of the convertible note to you. Your basis will increase by any amounts that you are required to include in income under the rules governing market discount, and will decrease by the amount of any amortized premium and any payments other than stated interest made on the convertible note. Gain or loss that you recognize on a sale, exchange or other disposition of a convertible note generally will be capital gain or loss, and will be long-term capital gain or loss if the convertible note was held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

#### *Foreign Tax Credit Considerations*

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from payments of interest or in respect of a conversion of the convertible notes into shares of common stock or ADSs, so long as you have owned the convertible notes (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the date on which the right to receive payment of such interest or payment in respect of such conversion arises. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law.

As discussed above, your conversion of convertible notes into shares of common stock or ADSs generally will not be a taxable event for U.S. federal income tax purposes (and, thus, no U.S. federal income tax will be imposed on any gains realized by you on such a conversion transaction). Consequently, any Korean withholding tax imposed on a conversion of convertible notes into shares of common stock or ADSs would be treated for U.S. federal income tax purposes as being imposed on "general limitation" income. Such treatment may affect your ability to utilize any available foreign tax credit in respect of such Korean tax.

The calculation of foreign tax credits and, if you elect to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on your particular circumstances. You should consult your own tax advisers regarding the creditability and deductibility of such taxes.

### ***The Bonds***

#### ***Stated Interest***

Payments of stated interest on the bonds will generally be subject to U.S. federal income taxation as ordinary income at the time such payments are accrued or received, in accordance with your method of tax accounting.

#### ***Original Issue Discount***

If you invest in a bond, you generally will be subject to the special tax accounting rules for "original issue discount" obligations provided by the Internal Revenue Code and certain U.S. Treasury regulations. The difference between the issue price and the stated redemption price at maturity of the bonds will be the "original issue discount." The aggregate "issue price" of the bonds is the total principal amount thereof less the fair market value of the warrants at the time of the issuance. The "stated redemption price at maturity" will include all payments under the bonds other than payments of stated interest. You should be aware that, as described in greater detail below, if you invest in a bond, you generally will be required to include original issue discount in ordinary gross income for U.S. federal income tax purposes as it accrues, although you may not yet have received the cash attributable to that income.

In general, and regardless of whether you use the cash or the accrual method of tax accounting, if you are the holder of a bond, you will be required to include in ordinary gross income the sum of the "daily portions" of original issue discount on that bond for all days during the taxable year that you own the bond. The daily portions of original issue discount on a bond are determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that period. Accrual periods may be any length and may vary in length over the term of a bond, so long as no accrual period is longer than one year and each scheduled payment of principal or interest occurs on the first or last day of an accrual period. The amount of original issue discount on a bond allocable to each accrual period is determined by:

(i) multiplying the "adjusted issue price" (as defined below) of the bond at the beginning of the accrual period by a fraction, the numerator of which is the annual yield to maturity (defined below) of the bond and the denominator of which is the number of accrual periods in a year; and

(ii) subtracting from that product the amount payable as stated interest allocable to that accrual period.

The "adjusted issue price" of a bond at the beginning of any accrual period will generally be the sum of its issue price (including any accrued interest) and the amount of original issue discount allocable to all prior accrual periods, reduced by the amount of all payments other than any stated interest payments on the bond in all prior accrual periods. All payments on a bond (other than stated interest) will generally be viewed first as payments of previously accrued original issue discount (to the extent of the previously accrued discount), with payments considered made from the earliest accrual periods first, and then as a payment of principal. The "annual yield to maturity" of a bond is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value on the issue date of all payments on the bond to equal the issue price. As a result of this "constant yield" method of including original issue discount income, the amounts you will

be required to include in your gross income if you invest in a bond generally will be lower in the early years and higher in the later years than amounts that would be includible on a straight-line basis.

You generally may make an irrevocable election to include in income your entire return on a bond (i.e., the excess of all remaining payments to be received on the bond, including payments of stated interest, over the amount you paid for the bond) under the constant yield method described above. If you purchase bonds at a premium or market discount and if you make this election, you will also be deemed to have made the election (discussed below under the "Premium" and "Market Discount") to amortize premium or to accrue market discount currently on a constant yield basis in respect of all other premium or market discount bonds that you hold.

If you purchase a bond at a cost less than its remaining redemption amount (i.e., the total of all future payments to be made on the bond other than payments of stated interest), you generally will also be required to include in gross income the daily portions of original issue discount, calculated as described above. However, if you acquire a bond at a price greater than its adjusted issue price, you will be entitled to reduce your periodic inclusions of original issue discount to reflect the premium paid over the adjusted issue price.

#### *Premium*

If you purchase a bond at a cost greater than the bond's remaining redemption amount, you will be considered to have purchased the bond at a premium, and you may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the bond. If you make this election, it generally will apply to all debt instruments that you hold at the time of the election, as well as any debt instruments that you subsequently acquire. In addition, you may not revoke the election without the consent of the Internal Revenue Service. If you elect to amortize the premium, you will be required to reduce your tax basis in the bond by the amount of the premium amortized during your holding period. Bonds purchased at a premium will not be subject to the original issue discount rules described above.

If you do not elect to amortize premium, the amount of premium will be included in your tax basis in the bond. Therefore, if you do not elect to amortize premium and you hold the bond to maturity, you generally will be required to treat the premium as capital loss when the bond matures.

#### *Market Discount*

If you purchase a bond at a price that is lower than the bond's adjusted issue price, by 0.25% or more of the adjusted issue price, multiplied by the number of remaining whole years to maturity, the bond will be considered to bear "market discount" in your hands. In this case, any gain that you realize on the disposition of the bond generally will be treated as ordinary interest income to the extent of the market discount that accrued on the bond during your holding period. In addition, you may be required to defer the deduction of a portion of the interest paid on any indebtedness that you incurred or continued to purchase or carry the bond. In general, market discount will be treated as accruing ratably over the term of the bond, or, at your election, under a constant yield method.

You may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the bond as ordinary income. If you elect to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If you do make such an election, it will apply to all market discount debt instruments that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the Internal Revenue Service.

#### *Sale, Exchange and Retirement of the Bonds*

You will generally recognize gain or loss on a sale, exchange or other disposition of a bond in an amount equal to the difference between the amount realized on such sale, exchange or other disposition (less any accrued stated interest, which will be taxable as ordinary interest income) and your adjusted basis in the bond. Initially, your tax basis in a bond generally will equal the cost of the bond to you. Your basis will increase by



any amounts that you are required to include in income under the rules governing original issue discount and market discount, and will decrease by the amount of any amortized premium and any payments other than stated interest made on the bond. (The rules for determining these amounts are discussed above.) Except as discussed above with respect to market discount, gain or loss recognized on a sale, exchange or other disposition of a bond generally will be capital gain or loss, and will be long-term capital gain or loss if the bond was held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

#### *Foreign Tax Credit Considerations*

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from payments of interest, so long as you have owned the bonds (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the date on which the right to receive payment of such interest arises. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law.

The calculation of foreign tax credits and, if you elect to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on your particular circumstances. You should consult your own tax advisers regarding the creditability and deductibility of such taxes.

#### *The Shares of Common Stock and ADSs*

In general, if you hold ADSs, you will be treated as the holder of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

#### *Dividends*

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to the ADSs and common stock will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the ADSs and common stock will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, (a) a passive foreign investment company ("PFIC") or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company ("FPHC") or foreign investment company ("FIC"). The income tax treaty between Korea and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to our 2003 or 2004 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2005 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities