Material Related Party Transactions

We engage from time to time in a variety of transactions with related parties. See “Item 7B. Related Party Transactions.”

We sell our products to certain subsidiaries of LG International in regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to subsidiaries of LG International on an aggregate basis amounted to 27.0%, 10.0% and 5.5% in 2002, 2003 and 2004, respectively. We sell our products to these subsidiaries of LG International at a market price determined on an arm’s-length basis.

In addition, we procure a portion of our production equipment and components from LG International’s overseas subsidiaries in Japan, Europe and the United States. Purchase prices we pay to these subsidiaries and other terms of our transactions with them are determined on an arm’s-length basis. Our purchases of equipment and components from subsidiaries of LG International amounted to (Won)740.4 billion, or 22.3% of our total equipment and component purchases, in 2002, (Won)768.2 billion, or 17.5%, in 2003 and (Won)1,652.4 billion (US$1,596.4 million), or 22.4%, in 2004. We also purchase raw materials, components and other materials or services necessary for our production process, construction materials as well as construction and engineering services from LG Electronics and its affiliated companies, including LG Chemical, LG MRO and LG Engineering & Construction Co., Ltd. As of January 2005, LG Engineering & Construction is no longer an affiliated company of the LG Group. Our total purchases of materials, components and services from LG Electronics and its affiliated companies, excluding subsidiaries of LG International, amounted to (Won)548.9 billion, or 16.5% of our total purchases of materials, components and services, in 2002, (Won)1,333.0 billion, or 28.4%, in 2003 and (Won)1,747.2 billion (US$1,688.0 million), or 21.2%, in 2004.

We sell TFT-LCD panels, primarily large-size panels for desktop monitors and televisions, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis. Pricing and other principal terms of the sales to LG Electronics are negotiated on an arm’s-length basis and are substantially the same as those for our non-affiliated end-brand customers. Until 2003, LG Electronics purchased a portion of its large-size panel requirements through LG MRO Co. Ltd., a company that procures and purchases various materials, equipment and services for affiliated companies of LG Electronics. LG Electronics no longer purchases such panels from LG MRO. Sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, including sales through LG MRO, amounted to (Won)691.3 billion, or 19.4% of our sales, in 2002, (Won)1,527.6 billion, or 25.1% of our sales, in 2003 and (Won)1,607.1 billion (US$1,552.5 million), or 19.3% of our sales, in 2004.

We also sell large-size TFT-LCD panels for desktop monitors and televisions to Philips Electronics and its affiliates on a regular basis. Pricing and other principal terms of the sales are negotiated on an arm’s-length basis and are substantially the same as those for our non-affiliated end-brand customers. Sales to Philips Electronics and its affiliates on an invoiced basis, which include sales to Philips Electronics as an end-brand customer and system integrator, amounted to (Won)140.5 billion, or 3.9% of our sales, in 2002, (Won)603.6 billion, or 9.9% of our sales, in 2003 and (Won)1,210.9 billion (US$1,169.9 million), or 14.5% of our sales, in 2004.

We also purchase driver integrated circuits from Philips Electronics’ semiconductor division under a volume and price agreement. These purchases amounted to (Won)25.4 billion, (Won)37.1 billion and (Won)52.3 billion (US$50.5 million) in 2002, 2003 and 2004, respectively.

Taxation

The effective statutory corporate income tax rate currently applicable to us is 16.5% for the first (Won)100 million of our taxable income and 29.7% for our taxable income in excess of (Won)100 million for each fiscal year beginning on or after January 1, 2002. Prior to its amendment in accordance with the Corporation Tax Law enacted in December 2001, the tax rate applicable to us was 17.6% and 30.8%, respectively.

In December 2003, the statutory corporate income tax rate was further amended to 27.5% of taxable income for each fiscal year beginning on or after January 1, 2005. As a result, the effective statutory income tax rate applicable to us will be 14.3% for the first (Won)100 million of our taxable income and 27.5% for our taxable income in excess of (Won)100 million for each fiscal year beginning on or after January 1, 2005. We have calculated our deferred income tax assets as of December 31, 2004 taking into consideration the change in effective tax rate beginning on January 1, 2005.

Tax Exemptions

Under the Special Tax Treatment Control Law of Korea, we are entitled, beginning in August 1999 when we registered Philips Electronics' investment in us, to the following tax exemptions:

- an exemption from corporate income tax in an amount proportional to the percentage of foreign direct equity investment in us for seven years and at one-half of that percentage for three years thereafter;
- an exemption from local taxes, such as registration tax and property tax, in an amount proportional to the percentage of foreign direct equity investment in us for five years and at one-half of that percentage for three years thereafter (the exemption rate may be further increased and the applicable period further extended pursuant to local ordinances);
- 100% exemption for seven years from withholding tax on dividends paid to foreign investors who directly acquire new shares issued by us through a foreign direct investment under the Foreign Investment Promotion Act of Korea and 50% exemption for three years thereafter; and
- 100% exemption for three years from customs duties and value-added tax on capital equipment imported directly for use in our business, up to the amount of the foreign direct equity investment in us.

In 2004, we received a tax benefit of (Won)239.6 billion (US$231.5 million), or 13.8% of income before income taxes, as a result of Philips Electronics' 47.48% weighted average ownership in us before and after our initial public offering. We will lose 0.27% of the tax exemption benefit for each 1% reduction in Philips Electronics' ownership in us, assuming that the income tax rate and qualifying business exemption ratio applicable to us are the same as those in 2005. Losses of portions of this tax exemption could negatively affect our results of operations.

Tax Credits

We are entitled to tax credits relating to certain investment and technology and human resources development under the Special Tax Treatment Control Law. Specifically, we are entitled to a tax credit of 10% for our capital investments made on or before June 30, 2003 and 15% for our capital investments made on or before December 31, 2004, each in proportion to the percentage of equity investment in us other than foreign direct equity investment. In addition, we are entitled to a tax credit of up to 40% of the increase in certain expenses incurred in connection with technology and human resources development over the average of such expenses during the previous four years.

Tax credits not utilized in the fiscal year during which the relevant investment was made may be carried forward over the next five years in the case of capital investments and five years in the case of investments relating to technology and human resources development. As of December 31, 2004, we had available deferred tax assets related to these credits in the amount of (Won)137.8 billion (US$133.1 million), which may be utilized against future income tax liabilities through 2009.

Recognition of Deferred Income Tax Assets

We recognize deferred income tax assets (net of valuation allowance) to the extent that, in the judgment of management, utilization of the related tax benefits before their expiration is more likely than not. Our ability to utilize the future tax benefits related to our deferred tax assets depends on many factors, including an assessment