
[Table of Contents](#)

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public 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 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.

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.

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. 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 Special Tax Treatment Control Law of Korea (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 depository shares will not be subject to securities transaction tax upon (i) deposit of underlying stock and receipt of depository shares or upon (ii) the surrender of depository shares and withdrawal of originally deposited underlying stock, an issue still remains as to whether, in the case where the depository shares were transferred by one holder to another (which transfer is not subject to securities transaction tax itself), the surrender of depository shares and withdrawal of underlying stock by the subsequent (as opposed to the initial) holder of depository 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 depository 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 depository shares and withdrawal of underlying stock by the holders of depository 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 shares of common stock or ADSs. This summary applies to you only if you hold shares of common stock or ADSs as capital assets for tax purposes. 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 shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

[Table of Contents](#)

- a person that holds 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 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 warrants, 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 warrants, share of common stock or ADS.

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 depositary’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, 2011 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 passive foreign investment company (“PFIC”). 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 for U.S. federal income tax purposes with respect to our 2005 or 2006 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 2007 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 are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified