companies, excluding LG International and its subsidiaries, amounted to (Won)1,747.2 billion, or 21.2% of our total purchases of materials, equipment, components and services, in 2004, (Won)1,258.6 billion, or 13.7%, in 2005 and (Won)1,551.1 billion (US$1,667.8 million), or 16.5%, in 2006.

Taxation

The effective statutory corporate income tax rate currently applicable to us is 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. Prior to its amendment in accordance with the Corporation Tax Law enacted in December 2003, the tax rate applicable to us was 16.5% and 29.7%, respectively. 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 the first seven taxable years following such investment and at one-half of that percentage for the three taxable 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 the first five taxable years following such investment and at one-half of that percentage for the three taxable years thereafter (the exemption rate may be further increased and the applicable period further extended pursuant to local ordinances);
- a reduction, in an amount proportional to the percentage of the foreign direct equity investment in us for the first seven taxable years and at one-half of that percentage for three years thereafter, in withholding on dividends to foreign investors who directly acquired new shares issued by us through a foreign direct investment under the Foreign Investment Promotion Act of Korea; and
- 100% exemption for three taxable 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 2006, as we recorded a net loss, we did not receive an income tax benefit as a result of Philips Electronics' 32.87% weighted average ownership in us in 2006. Until 2008, we will lose 0.1375% of the tax exemption benefit with respect to net income generated from our TFT-LCD business for each 1% reduction in Philips Electronics' ownership in us, assuming that the income tax rate applicable to us is the same as that in 2006. After 2008, we will no longer be eligible to receive this income tax exemption. 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, 15% for our capital investments made on or before December 31, 2004, 10% for our capital investments made on or before December 31, 2005 and 7% for our capital investments made on or before December 31, 2007, 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, 2006, we had available deferred tax assets related to these credits in the amount of (Won)436.5 billion (US$469.3 million), of which (Won)159.5 billion (US$171.5 million) is unrealizable tax credits related to deferred tax assets and (Won)277.0 billion (US$297.8 million) may be utilized against future income tax liabilities through 2011.

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 of our ability to generate taxable income, the overall industry outlook and the outlook for the Korean economy. We value our deferred income tax assets on an ongoing basis, and make valuation allowances if, in our assessment, current results suggest that it is more likely than not that a portion or all of our deferred income tax assets will not be realized before their expiration. We determined that no valuation allowance was required as of December 31, 2004 and 2005. Conversely, we have determined that valuation allowance was required as of December 31, 2006.

As of December 31, 2006, we had (Won)610.1 billion (US$656.0 million) in net deferred income tax assets, including unused investment tax credits of (Won)436.5 billion (US$469.3 million), of which (Won)159.5 billion (US$171.5 million) consists of unrealizable tax credits related to deferred tax assets and (Won)277.0 billion (US$297.8 million) may be used to reduce tax payable through 2011.

Recent U.S. GAAP Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued FAS No. 155, "*Accounting for Certain Hybrid Financial Instruments*" ("FAS No. 155"), which amends FAS No. 133, "*Accounting for Derivatives Instruments and Hedging Activities*" ("FAS No. 133") and FAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*" ("FAS No. 140"). FAS No.155 amends FAS No. 133 to narrow the scope of the exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. FAS No. 155 also amends FAS No.140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. FAS No. 155 is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006. We are currently evaluating the impact of this new standard but believe that it will not have a material impact on our financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*" ("FIN 48"). FIN 48 is applicable to all income tax positions accounted for under FASB Statement No. 109, "*Accounting for Income Taxes*." FIN 48 addresses the determination of whether tax benefits (whether permanent or temporary) claimed or expected to be claimed on a tax return should be recorded in the financial statements. It provides a two-step structured approach to accounting for uncertainty in income taxes that provides specific guidance on recognition, measurement, and other aspects of reporting and disclosing uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We assess tax positions taken in the financial statements and evaluate quarterly for realizability on a more likely than not basis. We do not believe that the adoption of FIN 48 will have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating the impact of SFAS 157, but do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB No. 87, 88, 106 and 132(R)*" ("SFAS 158"). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on the company's balance sheet, and changes in the funded status be reflected in comprehensive income, effective fiscal years ending after December 15, 2006. The standard also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for fiscal years ending after December 15, 2008. The adoption of SFAS 158 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS 159 permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under U.S. GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a significant impact on our consolidated financial position, results of operations or cash flows.