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We also purchase driver integrated circuits from Philips Electronics’ semiconductor division under a volume and price agreement. These purchases amounted to (Won)37.1 billion, (Won)52.3 billion and (Won)52.2 billion (US$51.7 million) in 2003, 2004 and 2005, respectively.

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 LG International and its subsidiaries on an aggregate basis amounted to 10.0%, 5.5% and 7.4% in 2003, 2004 and 2005, respectively. We sell our products to LG International and its subsidiaries at a market price determined on an arm’s-length basis.

In addition, we procure a portion of our production materials, 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 materials, equipment and components from LG International and its subsidiaries amounted to (Won)768.2 billion, or 17.5% of our total material, equipment and component purchases, in 2003, (Won)1,652.4 billion, or 22.4%, in 2004 and (Won)1,338.1 billion (US$1,324.8 million), or 16.7%, in 2005. We also purchase raw materials, equipment, 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 Chem Ltd., Serveone (formerly LG MRO) and GS Engineering & Construction Co., Ltd. As of January 2005, GS Engineering & Construction is no longer an affiliated company of the LG Group. Our total purchases of materials, equipment, components and services from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to (Won)1,333.0 billion, or 28.4% of our total purchases of materials, equipment, components and services, in 2003, (Won)1,747.2 billion, or 21.2%, in 2004 and (Won)1,258.6 billion (US$1,246.2 million), or 13.7%, in 2005.

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 2005, we received a tax benefit of (Won)35.1 billion (US$34.7 million), or 8.7% of income before income taxes, as a result of Philips Electronics’ 41.33% weighted average ownership in us before and after our follow-on offering. Until 2008, we will lose 0.137% of the tax exemption benefit with respect to 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 2005. 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, 2006, 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, 2005, we had available deferred tax assets related to these credits in the amount of (Won)293.0 billion (US$290.1 million), which may be utilized against future income tax liabilities through 2010.

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 have determined that no valuation allowance was required as of December 31, 2003, 2004 and 2005.

As of December 31, 2005, we had (Won)362.9 billion (US$359.3 million) in net deferred income tax assets, including unused investment tax credits of (Won)293.0 billion (US$290.1 million) that may be used to offset taxable income through 2010.

Recent U.S. GAAP Accounting Pronouncements

In November 2004, the FASB issued FASB Statement No. 151, “Inventory Costs — an amendment of ARB No. 43” (“SFAS 151”), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe adoption of SFAS No. 151 will have a material effect on our consolidated financial position, results of operations or cash flows.