

LG Display Co., Ltd.  
Form 20-F  
June 23, 2009  
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As filed with the Securities and Exchange Commission on June 23, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-32238

## **LG Display Co., Ltd.**

(Exact name of Registrant as specified in its charter)

**LG Display Co., Ltd.**

(Translation of Registrant's name into English)

**The Republic of Korea**

(Jurisdiction of incorporation or organization)

**West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu**

**Seoul, Republic of Korea 150-721**

(Address of principal executive offices)

**Jinjun Lee**

**West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu**

**Seoul, Republic of Korea 150-721**

**Telephone No.: +82-2-3777-1005**

**Facsimile No.: +82-2-3777-0797**

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

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| <b>Title of each class</b>  | <b>Name of each exchange on which registered</b> |
|---|--|
| American Depositary Shares, each representing one-half of one share of Common Stock | New York Stock Exchange                          |
| Common Stock, par value (Won)5,000 per share  | New York Stock Exchange*                         |

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**357,815,700 shares of common stock, par value (Won)5,000 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **x Yes** " No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. " Yes **x No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **x Yes** " No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). " Yes " No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer " Non-accelerated filer "

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by  
the International Accounting Standards Board " Other "

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. " Item 17 " Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes **x No**



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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this annual report, the terms we, us, our and LG Display refer to LG Display Co., Ltd. and, unless otherwise indicated or required by context, our consolidated subsidiaries.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

All references to Korean Won, Won or (Won) in this annual report are to the currency of the Republic of Korea, all references to U.S. dollars or US\$ are to the currency of the United States, all references to Japanese Yen, Yen or ¥ are to the currency of Japan, all references to RMB or Chinese Renminbi are to the currency of the People's Republic of China, all references to NT\$ are to the currency of Taiwan, all references to HK\$ are to the currency of the Hong Kong Special Administrative Region of the People's Republic of China, all references to Euro or € are to the currency of the European Union, all references to PLN are to the currency of the Republic of Poland, and all references to SG\$ are to the currency of Singapore.

Any discrepancies in any table between the totals and the sums of the amounts listed are due to rounding.

Effective January 1, 2008, we have reclassified certain of our accounts, and we have made the corresponding reclassifications to our 2006 and 2007 accounts in our consolidated financial statements and related notes included in this annual report to conform them to the 2008 presentation.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2008, which was (Won)1,262.0 = US\$1.00.



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**FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this annual report. Our forward-looking statements contain information regarding, among other things, our financial condition, future plans and business strategy. Words such as contemplate, seek to, anticipate, believe, estimate, expect, intend, plan and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect management's present expectations and projections about future events and are not a guarantee of future performance. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

the cyclical nature of our industry;

our dependence on introducing new products on a timely basis;

our dependence on growth in the demand for our products;

our ability to compete effectively;

our ability to successfully expand our capacity;

our dependence on key personnel;

general economic and political conditions, including those related to the TFT-LCD industry;

possible disruptions in commercial activities caused by events such as natural disasters, terrorist activity and armed conflict;

fluctuations in foreign currency exchange rates; and

those other risks identified in the Risk Factors section of this annual report.

Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events discussed in the forward-looking statements in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

**Table of Contents****PART I****Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable

**Item 3. KEY INFORMATION****Item 3.A. Selected Financial Data**

The selected consolidated financial and operating data set forth below have been presented on a historical cost basis for all periods presented. The selected consolidated balance sheet data as of December 31, 2007 and 2008 and the selected consolidated statement of operations data for the years ended December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements and related notes included in this annual report. These audited financial statements and the related notes have been prepared under accounting principles generally accepted in the United States.

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

**Consolidated statement of operations data**

|   | 2004        | 2005  | Year Ended December 31, |              | 2008         | 2008 <sup>(9)</sup>                                       |
|---|-------------|---|-------------------------|--------------|--------------|---|
|   |             |   | 2006                    | 2007         |              | (in millions of<br>US\$, except for<br>per share<br>data) |
|   |             | (in billions of Won, except for per share data) |                         |              |              |   |
| Sales   | (Won) 8,325 | (Won) 10,076                                    | (Won) 10,624            | (Won) 14,352 | (Won) 16,274 | US\$ 12,895   |
| Cost of sales                                       | 6,246       | 9,070   | 10,910                  | 12,072       | 13,609       | 10,783  |
| Gross profit (loss)                                 | 2,079       | 1,006   | (286)                   | 2,280        | 2,665        | 2,112   |
| Selling, general and administrative expenses        | 319         | 528   | 596                     | 802          | 896          | 710   |
| Antitrust fine <sup>(1)</sup>                       |             |   |                         |              | 535          | 424   |
| Operating income (loss)                             | 1,760       | 478   | (882)                   | 1,478        | 1,234        | 978   |
| Foreign currency exchange gain (loss), net          | 19          | (24)  | 52                      | 71           | (243)        | (192)   |
| Other income (expense)                              | (18)        | (73)  | (53)                    | 75           | (161)        | (127)   |
| Earnings (loss) before income tax expense (benefit) | 1,742       | 405   | (935)                   | 1,553        | 1,073        | 851   |
| Income tax expense (benefit)                        | 38          | (137)   | (242)                   | 209          | 168          | 133   |
| Net income (loss)                                   | 1,704       | 542   | (693)                   | 1,344        | 905          | 718   |
| Earnings (loss) per share                           | 5,586       | 1,596   | (1,936)                 | 3,755        | 2,529        | 2.00  |
| Diluted earnings (loss) per share                   | 5,586       | 1,596   | (1,936)                 | 3,708        | 2,497        | 1.98  |
| Dividends declared per share                        |             |   |                         | 750          | 500          | 0.40  |
|   | 305         | 339   | 358                     | 358          | 358          | 358   |

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|   |     |     |     |     |     |     |
|---|-----|-----|-----|-----|-----|-----|
| Weighted average shares outstanding - basic (in millions) |     |     |     |     |     |     |
| Weighted average shares outstanding diluted (in millions) | 305 | 339 | 358 | 365 | 369 | 369 |

**Consolidated balance sheet data**

|  | 2004         | 2005         | As of December 31,<br>2006 2007<br>(in billions of Won) |              | 2008         | 2008 <sup>(9)</sup><br>(in millions of US\$) |
|--|--------------|--------------|---|--------------|--------------|--|
| Cash and short-term financial instruments      | (Won) 1,361  | (Won) 1,579  | (Won) 954   | (Won) 1,981  | (Won) 3,408  | US\$ 2,700                                   |
| Accounts receivable, net                       | 954          | 1,333        | 971   | 2,437        | 2,051        | 1,625  |
| Inventories                                    | 804          | 690          | 1,052   | 824          | 1,137        | 901  |
| Total current assets                           | 3,399        | 3,847        | 3,154   | 5,754        | 7,021        | 5,563  |
| Property, plant and equipment, net             | 6,564        | 9,234        | 9,485   | 7,592        | 9,296        | 7,366  |
| Total assets                                   | (Won) 10,262 | (Won) 13,617 | (Won) 13,496  | (Won) 13,845 | (Won) 17,512 | US\$ 13,876                                  |
| Short-term borrowings                          | 483          | 309          | 250   | 5            | 601          | 476  |
| Trade accounts payable                         | 583          | 694          | 949   | 995          | 988          | 783  |
| Other accounts payable <sup>(2)</sup>          | 1,016        | 1,475        | 1,249   | 615          | 2,044        | 1,619  |
| Total current liabilities                      | 2,574        | 3,145        | 3,247   | 2,449        | 4,793        | 3,798  |
| Long-term debt, including current installments | 2,206        | 3,293        | 3,856   | 3,453        | 3,513        | 2,784  |
| Total liabilities                              | (Won) 4,599  | (Won) 6,043  | (Won) 6,622   | (Won) 5,596  | (Won) 8,461  | US\$ 6,704                                   |
| Capital stock                                  | (Won) 1,627  | (Won) 1,789  | (Won) 1,789   | (Won) 1,789  | (Won) 1,789  | US\$ 1,418                                   |
| Total stockholders equity                      | (Won) 5,663  | (Won) 7,574  | (Won) 6,874   | (Won) 8,249  | (Won) 9,051  | US\$ 7,172                                   |

**Table of Contents****Other Financial Data**

|  | 2004   | 2005        | Year Ended December 31,<br>2006 |             | 2007        | 2008       | 2008 <sup>(9)</sup>                           |
|--|--|-------------|---------------------------------|-------------|-------------|------------|---|
|  | (in billions of Won, except for percentages) |             |                                 |             |             |            | (in millions of US\$, except for percentages) |
| Gross margin <sup>(3)</sup>                              | 25.0%  | 10.0%       | (2.7)%                          | 15.9%       | 16.4%       | 16.4%      |   |
| Operating margin <sup>(4)</sup>                          | 21.1%  | 4.7%        | (8.3)%                          | 10.3%       | 7.6%        | 7.6%       |   |
| Net margin <sup>(5)</sup>                                | 20.5%  | 5.4%        | (6.5)%                          | 9.4%        | 5.6%        | 5.6%       |   |
| EBITDA <sup>(6)</sup>                                    | (Won) 3,014                                  | (Won) 2,223 | (Won) 1,814                     | (Won) 4,500 | (Won) 3,521 | US\$ 2,790 |   |
| Capital expenditures                                     | 3,886  | 4,166       | 3,076                           | 1,577       | 2,749       | 2,178      |   |
| Depreciation and amortization <sup>(7)</sup>             | 1,235  | 1,761       | 2,609                           | 2,798       | 2,509       | 1,987      |   |
| Net cash provided by operating activities <sup>(8)</sup> | 2,743  | 2,109       | 1,866                           | 3,309       | 4,525       | 3,586      |   |
| Net cash used in investing activities                    | (3,893)                                      | (4,198)     | (3,067)                         | (2,382)     | (4,290)     | (3,400)    |   |
| Net cash provided by (used in) financing activities      | 2,009  | 2,308       | 577                             | (682)       | (138)       | (109)      |   |

- (1) Antitrust fine represents a fine to the U.S. Department of Justice, a further discussion of which is included under Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.
- (2) Other accounts payable primarily consist of accounts payable relating to the purchase of non-current assets.
- (3) Gross margin represents gross profit (loss) divided by sales.
- (4) Operating margin represents operating income (loss) divided by sales.
- (5) Net margin represents net income (loss) divided by sales.
- (6) EBITDA is defined as net income (loss) plus: interest expense (income); income tax expense (benefit); depreciation; amortization of intangible assets; and amortization of debt issuance cost. EBITDA is a key financial measure used by our senior management to internally evaluate the performance of our business and for other required or discretionary purposes. Specifically, our significant capital assets are in different stages of depreciation, and because we do not have separate operating divisions, our senior management uses EBITDA internally to measure the performance of these assets on a comparable basis. We also believe that the presentation of EBITDA will enhance an investor's understanding of our operating performance as we believe it is commonly reported and widely used by analysts and investors in our industry. It also provides useful information for comparison on a more comparable basis of our operating performance and those of our competitors, who follow different accounting policies. For example, depreciation on most of our equipment is made based on a four-year useful life while most of our competitors use different depreciation schedules from our own. EBITDA is not a measure determined in accordance with U.S. GAAP. EBITDA should not be considered as an alternative to operating income, cash flows from operating activities or net income, as determined in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to similarly titled measures reported by other companies. A reconciliation of net income (loss) to EBITDA is as follows:

|                                    | 2004                 | 2005      | Year Ended December 31,<br>2006 |             | 2007      | 2008     | 2008 <sup>(9)</sup>   |
|------------------------------------|----------------------|-----------|---------------------------------|-------------|-----------|----------|-----------------------|
|                                    | (in billions of Won) |           |                                 |             |           |          | (in millions of US\$) |
| Net income (loss)                  | (Won) 1,704          | (Won) 542 | (Won) (693)                     | (Won) 1,344 | (Won) 905 | US\$ 718 |                       |
| Interest expense                   | 58                   | 108       | 169                             | 207         | 152       | 121      |                       |
| Interest income                    | (20)                 | (51)      | (29)                            | (58)        | (213)     | (169)    |                       |
| Income tax expense (benefit)       | 38                   | (137)     | (242)                           | 209         | 168       | 133      |                       |
| Depreciation                       | 1,224                | 1,748     | 2,597                           | 2,781       | 2,494     | 1,976    |                       |
| Amortization of intangible assets  | 6                    | 7         | 7                               | 16          | 13        | 10       |                       |
| Amortization of debt issuance cost | 4                    | 6         | 5                               | 1           | 2         | 1        |                       |

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**EBITDA** (Won) 3,014 (Won) 2,223 (Won) 1,814 (Won) 4,500 (Won) 3,521 US\$ 2,790

- (7) Depreciation and amortization includes depreciation, amortization of intangible assets and amortization of debt issuance cost.
- (8) Effect of exchange rate change on cash and cash equivalents has been excluded from net cash provided by operating activities.
- (9) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,262.0 to US\$1.00, the noon buying rate in effect on December 31, 2008 as quoted by the Federal Reserve Bank of New York. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

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|   | Year Ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2006                    | 2007           | 2008           |
| (in thousands)  |                         |                |                |
| <b>Operating Data:</b>                                    |                         |                |                |
| Number of panels sold by product category: <sup>(1)</sup> |                         |                |                |
| Televisions   | 12,649                  | 18,616         | 20,216         |
| Notebook computers  | 21,089                  | 32,106         | 41,969         |
| Desktop monitors  | 20,125                  | 27,827         | 31,558         |
| Other applications <sup>(2)</sup>                         | 69,723                  | 130,241        | 151,357        |
| <b>Total</b>  | <b>123,586</b>          | <b>208,790</b> | <b>245,100</b> |

|                                      | Year Ended December 31, |                     |                     | 2008 <sup>(4)</sup><br>(in millions of US\$) |
|--------------------------------------|-------------------------|---------------------|---------------------|--|
|                                      | 2006                    | 2007                | 2008                |  |
| (in billions of Won)                 |                         |                     |                     |  |
| <b>Revenue by category:</b>          |                         |                     |                     |  |
| Televisions                          | (Won) 4,939             | (Won) 6,841         | (Won) 8,020         | US\$ 6,355                                   |
| Notebook computers                   | 2,167                   | 3,085               | 3,701               | 2,933  |
| Desktop monitors                     | 2,907                   | 3,709               | 3,934               | 3,117  |
| Other applications <sup>(2)(3)</sup> | 611                     | 717                 | 619                 | 490  |
| <b>Total</b>                         | <b>(Won) 10,624</b>     | <b>(Won) 14,352</b> | <b>(Won) 16,274</b> | <b>US\$ 12,895</b>                           |

- (1) Includes only finished goods sold. Sales of semi-finished goods which require additional processing have been excluded.
- (2) Includes, among others, panels for handheld application products, including mobile phones, and industrial and other applications, including entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment.
- (3) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which amounted to (Won)171.1 billion and (Won)(194.5) billion (US\$(154.1) million), or 1.6% and (1.2)% of total revenue, for the years ended December 31, 2006 and December 31, 2008, respectively. Such adjustments were minimal for the year ended December 31, 2007.
- (4) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,262.0 to US\$1.00, the noon buying rate in effect on December 31, 2008 as quoted by the Federal Reserve Bank of New York. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

**Exchange Rates**

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won, expressed in Korean Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Korean Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2008, which was (Won)1,262.0 to US\$1.00. We do not intend to imply that the Korean Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Korean Won, as the case may be, at any particular rate, or at all. On June 19, 2009, the noon buying rate was (Won)1,264.2 = US\$1.00.

Fluctuation in the exchange rate between the Korean Won and the U.S. dollar will affect the amount of U.S. dollars received in respect of cash dividends or other distributions paid in Korean Won by us on, and the Korean Won proceeds received from any sales of, our common stock.

| Year Ended December 31, | At End of Period | Average Rate <sup>(1)</sup><br>(Korean Won per US\$1.00) | High          | Low           |
|-------------------------|------------------|--|---------------|---------------|
| 2004                    | (Won) 1,035.1    | (Won) 1,139.3  | (Won) 1,195.1 | (Won) 1,035.1 |
| 2005                    | 1,010.0          | 1,023.7  | 1,059.8       | 997.0         |

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|                        |         |         |         |         |
|------------------------|---------|---------|---------|---------|
| 2006                   | 930.0   | 950.1   | 1,002.9 | 913.7   |
| 2007                   | 935.8   | 928.0   | 950.2   | 903.2   |
| 2008                   | 1,262.0 | 1,105.8 | 1,507.9 | 935.2   |
| December               | 1,262.0 | 1,361.6 | 1,479.0 | 1,257.4 |
| 2009 (through June 19) | 1,264.2 | 1,351.5 | 1,570.1 | 1,232.1 |
| January                | 1,380.0 | 1,354.4 | 1,391.5 | 1,292.3 |
| February               | 1,532.8 | 1,439.6 | 1,532.8 | 1,368.7 |
| March                  | 1,372.3 | 1,449.6 | 1,570.1 | 1,334.8 |
| April                  | 1,277.0 | 1,332.1 | 1,378.3 | 1,277.0 |
| May                    | 1,249.0 | 1,254.3 | 1,277.0 | 1,232.9 |
| June (through June 19) | 1,264.2 | 1,250.4 | 1,269.0 | 1,232.1 |

- (1) The average rate for each full year is calculated as the average of the noon buying rates on the last business day of each month during the relevant year. The average rate for a full month is calculated as the average of the noon buying rates on each business day during the relevant month (or portion thereof).

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**Item 3.B. Capitalization and Indebtedness**

Not applicable

**Item 3.C. Reasons for the Offer and Use of Proceeds**

Not applicable

**Item 3.D. Risk Factors**

You should carefully consider the risks described below.

**Risks Relating to Our Industry**

***The global economic downturn may result in reduced demand for our products and adversely affect our profitability.***

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The recent global economic downturn has adversely affected demand for consumer products manufactured by our customers in Korea and overseas, including televisions, notebook computers, desktop monitors and other application products utilizing TFT-LCD panels, which has in turn led them to reduce or plan reductions of their production beginning in the fourth quarter of 2008. Partly in response to the weakening demand, we reduced our TFT-LCD production from July 2008 to February 2009. We may decide to adjust our future TFT-LCD production on an ongoing basis subject to market demand for our products, the production outlook of the global TFT-LCD industry and global economic conditions in general. We cannot predict how long the current market conditions will last. We expect the general decline in demand for TFT-LCD products to continue to prevail at least in the near future, which may adversely affect our business, results of operations and/or financial condition.

***Our industry continues to experience steady declines in the average selling prices of display panels irrespective of cyclical fluctuations in the industry, and our margins would be adversely impacted if prices decrease faster than we are able to reduce our costs.***

The average selling prices of display panels have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technological advancements and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced in the market, such prices decline over time, and in certain cases, very rapidly, as a result of market competition or otherwise. If we are unable to effectively anticipate and counter the price erosion that accompanies our products, or if the average selling prices of our display panels decrease faster than the speed at which we are able to reduce our manufacturing costs, our gross margins would decrease and our results of operations and financial condition may be materially adversely affected.

***We operate in a highly competitive environment and we may not be able to sustain our current market position.***

The TFT-LCD industry is highly competitive. We have experienced pressure on the prices and margins of our major products due largely to additional industry capacity from panel makers in Korea, Taiwan, China and Japan. Our main competitors in the industry include Samsung Electronics, Infovision, Hydis, AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar, Innolux, SVA-NEC, BOE-OT, Sharp, Hitachi, TMDisplay, Mitsubishi, Sony and IPS-Alpha. Some of our competitors may currently, or at some point in the future, have greater financial, sales and marketing, manufacturing, research and development or technological resources than we do. In addition, our competitors may be able to manufacture panels on a larger scale or with greater cost efficiencies than we do and we anticipate increases in production capacity in the future by other TFT-LCD manufacturers. Any price erosion resulting from strong global competition or additional industry capacity may materially adversely affect our financial condition and results of operations.

Recent media reports have indicated that certain of our competitors, particularly panel makers in Taiwan, may be engaged in merger and consolidation discussions. Industry consolidation among our competitors may result in increased competition as the entities emerging from such consolidation may have greater financial, manufacturing, research and development and other resources than we do, especially if such mergers or consolidations are sponsored by a government entity. Increased competition resulting from such mergers or consolidations may lead to decreased margins, which may have a material adverse effect on our financial condition and results of operations.





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We and our competitors each seek to establish our own products as the industry standards. For example, in the growing large-size television panel market, we currently manufacture 32-inch, 37-inch, 42-inch, 47-inch, 52-inch and 55-inch television panels. Other TFT-LCD manufacturers produce competitive large-size television panels in slightly different dimensions. If our competitors' panels become the standard market size, we may lose market share, which may have a material adverse effect on our financial condition and results of operations.

Our ability to compete successfully also depends on factors both within and outside our control, including product pricing, performance and reliability, successful and timely investment and product development, success or failure of our end-brand customers in marketing their brands and products, component and raw material supply costs, and general economic and industry conditions. We cannot provide assurance that we will be able to compete successfully with our competitors on these fronts and, as a result, we may be unable to sustain our current market position.

*Our industry is subject to cyclical fluctuations, including recurring periods of capacity increases, that may adversely affect our results of operations.*

TFT-LCD manufacturers are vulnerable to cyclical market conditions. Intense competition and demand growth expectations may result in panel manufacturers investing in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities. During such surges in capacity growth, our customers can exert and have exerted strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in our gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases. In recent years, there has been a general decline in the average selling price of our display panels. For example, the overall average selling price of our display panels (including small panel applications) per panel, which is derived by dividing total sales revenues by total number of panels sold, decreased by 20.0% from (Won)85,966 per panel in 2006 to (Won)68,739 in 2007 and further decreased by 3.4% to (Won)66,398 in 2008 despite the significant depreciation of the Korean Won against the U.S. dollar in 2008. The overall average selling price of our display panels (including small panel applications) per square meter of net display area, which is derived by dividing total sales revenues by total square meters of net display area shipped, decreased by 14.9% from US\$1,555 per square meter of net display area in 2006 to US\$1,323 in 2007 and further decreased by 30.4% to US\$921 in 2008. During the three-month period ended March 31, 2009, the average selling price per square meter of net display area further decreased by 27.4% to US\$669.

Our gross margins have also fluctuated from period to period, from (2.7)% in 2006 to 15.9% in 2007 to 16.4% in 2008. Principal factors affecting our gross margins include declines in the average selling prices of our display panels, as well as our ability to maintain or increase unit sales volume and market share, minimize the impact of fluctuations in prices and foreign exchange rates and the supply and demand for principal components and raw materials, reduce unit manufacturing costs and introduce new products with higher margins in a timely manner. We anticipate continued capacity expansion in the TFT-LCD industry due to scheduled ramp-up of new fabrication facilities, and any large increases in capacity that this may create could further drive down the average selling prices of our panels, which would affect our gross margins. Any decline in prices may be further compounded by a seasonal weakening in demand growth for personal computer products, consumer electronics products and our other application products. We cannot assure you that any future downturns resulting from any large increases in capacity or other factors affecting the industry would not have a material adverse effect on our business, financial condition and results of operations.

*Our operating results fluctuate from period to period, so you should not rely on period-to-period comparisons to predict our future performance.*

The TFT-LCD industry is affected by market conditions that are often outside the control of manufacturers. Our results of operations may fluctuate significantly from period to period due to a number of factors, including seasonal variations in consumer demand, capacity ramp-up by competitors, industry-wide technological changes, the loss of a key customer and the postponement, rescheduling or cancellation of large orders by a key customer. As a result of these factors and other risks discussed in this section, you should not rely on period-to-period comparisons to predict our future performance.

### **Risks Relating to Our Company**

*Our financial condition may be adversely affected if we cannot introduce new products to adapt to rapidly evolving customer needs on a timely basis.*

New products are developed in anticipation of future demand. Our success will depend greatly on our ability to respond quickly to emerging customer requirements and to develop new products in anticipation of future demand. Any delay in our development of commercially successful products with reliable quality and advanced features may adversely affect our business.



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Success of a new product also depends on other factors such as close cooperation with our customers to gain insights into their product needs and to understand general trends in the market. When developing new products, we often work with equipment suppliers to design equipment that will make our production processes for such new products more efficient. If we are unable to work together with our customers and equipment suppliers, or to sufficiently understand their respective needs and capabilities, we may not be able to introduce new products in a timely manner, which may have a material adverse effect on our financial situation.

We plan to continue to expand our operations to meet the growing demand for new applications in consumer electronics and other markets. Because these products, such as televisions and mobile phones, are expected to be marketed to a diverse group of end users with different specifications, functions and prices, we have developed different sales and marketing strategies to promote our panels for these products. We cannot provide assurance that our expansion strategy for these panels will be successful.

***Problems with product quality, including defects, in our TFT-LCD panels could result in a decrease in customers and sales, unexpected expenses and loss of market share.***

Our products are manufactured using advanced and often new technology and must meet stringent quality requirements. Products manufactured using advanced and new technology such as ours may contain undetected errors or defects, especially when first introduced. For example, our TFT-LCD panels may contain defects that are not detected until after they are shipped or installed because we cannot test for all possible scenarios.

Such defects could cause us to incur significant re-designing costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation. In addition, future product failures could cause us to incur substantial expense to repair or replace defective products. If we deliver TFT-LCD panels with errors or defects, or if there is a perception that our TFT-LCD panels contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Widespread product failures may damage our market reputation and reduce our market share and cause our sales to decline.

***We sell our products to a select group of key customers, including our largest shareholder, and any significant decrease in their order levels will negatively affect our financial condition and results of operations.***

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. Sales attributed to our end-brand customers are for their end-brand products and do not include sales to these customers for their system integration activities for other end-brand products, if any. Our top ten end-brand customers, including LG Electronics, our largest shareholder, together accounted for 71.3% of our sales in 2006, 73.7% in 2007 and 76.5% in 2008. Our top three end-brand customers together accounted for 42.0% of our sales in 2006, 41.8% in 2007 and 43.2% in 2008. In 2008, two end-brand customers, LG Electronics (excluding its purchases made as a system integrator) and Philips Electronics, each contributed to 10% or more of our sales.

We benefit from the strong collaborative relationships we maintain with our end-brand customers by participating in the development of their products and gaining insights about levels of future demand for our products and other industry trends. Customers look to us for a dependable supply of quality products, even during downturns in the industry, and we benefit from the brand recognition of our customers' end products. The loss of these end-brand customers, as a result of customers entering into strategic supplier arrangements with our competitors or otherwise, would thus result not only in reduced sales, but also in the loss of these benefits.

In addition, we engage in related party transactions with LG Electronics, our largest shareholder, and its affiliates:

Sales to LG Electronics – sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics both as an end-brand customer and a system integrator, amounted to 16.3%, 17.5% and 21.2% of our sales in 2006, 2007 and 2008, respectively.

Sales to LG International – sales to LG International and its subsidiaries on an aggregate basis amounted to 9.0%, 8.3% and 6.2% of our sales in 2006, 2007 and 2008, respectively.

We expect that we will continue to be dependent upon LG Electronics and its affiliates for a significant portion of our revenues for the foreseeable future. See Item 7.B. Related Party Transactions for a description of these related party transactions with LG Electronics and its affiliates. Our results of operations and financial condition could be affected by the overall performance of LG Electronics and its affiliates.



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We cannot provide assurance that a select group of key end-brand customers, including our largest shareholder, will continue to place orders with us in the future at the same levels as in prior periods, or at all.

***Any material deterioration in the financial condition of our key end-brand customers, their system integrators or our affiliated trading company will have an adverse effect on our results of operations.***

Our top ten end-brand customers accounted for 71.3% of our sales in 2006, 73.7% in 2007 and 76.5% in 2008, on an aggregate basis. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through our affiliated trading company, LG International Corp. and its subsidiaries. As a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the sales we make to our affiliated trading company and its subsidiaries, we are exposed to credit risks associated with these entities.

***Changes at our end-brand customers could cause sales of our products to decline.***

Mergers, acquisitions, divestments or consolidations involving our end-brand customers can present risks to our business, as management at the new entity may change the way they do business, including their transactions with us, or may decide not to use us as one of their suppliers of TFT-LCD products. In addition, we cannot provide assurance that a combined entity resulting from a merger, acquisition or consolidation will continue to purchase TFT-LCD panels from us at the same level as each entity purchased in the aggregate when they were separate companies or that a divested company will purchase panels from us at all.

***Our results of operations depend on our ability to keep pace with changes in technology.***

Advances in technology typically lead to rapid declines in sales volumes for products made with older technologies and may lead to these products becoming less competitive in the marketplace, or even obsolete. As a result, we will likely be required to make significant expenditures to develop or acquire new process and product technologies. Also, our ability to manufacture our products by utilizing advanced process technologies to increase production yields at low production cost will be critical to our sustained competitiveness. We cannot provide assurance that we will be able to continue to successfully develop new products through our research and development efforts or through obtaining technology licenses, or that we will keep pace with technological changes in the marketplace.

***Our revenues depend on continuing demand for televisions, notebook computers, desktop monitors and other application products with TFT-LCD panels. Our sales may not grow at the rate we expect if consumers do not purchase these products.***

Currently, our total sales are derived principally from customers using our products in televisions, notebook computers, desktop monitors and other application products with display devices. In particular, a substantial percentage of our sales is increasingly derived from end-brand customers, or their designated system integrators, who use our panels in their televisions, which accounted for 46.5%, 47.7% and 49.3% of our total sales revenues in 2006, 2007 and 2008, respectively. A substantial portion of our sales is also derived from end-brand customers, or their designated system integrators, who use our TFT-LCD panels in their desktop monitors, which accounted for 27.4%, 25.8% and 24.2% of our total sales revenues in 2006, 2007 and 2008, respectively, and those who use our panels in their notebook computers, which accounted for 20.4%, 21.5% and 22.7% of our total sales revenues in 2006, 2007 and 2008, respectively. We will continue to be dependent on the growth in the television industry as well as the personal computer industry for a substantial portion of our sales, and any downturn in the television and personal computer industry would result in reduced demand for our products, reduced revenues, lower average selling prices and/or reduced margins.

***The introduction of alternative display panel technologies, including those currently under development by our competitors and us, may erode future sales of TFT-LCD panels, which may have a material adverse effect on our financial condition and results of operations.***

New display technologies being developed by us and other panel makers, such as organic light emitting diode, or OLED, and flexible display, may gain wider market acceptance than TFT-LCD technology for use in certain products, such as mobile phones, digital still cameras and portable televisions. If consumers do not purchase products utilizing TFT-LCD panels as we expect, or if TFT-LCD technology itself is rendered obsolete, this would have a material adverse effect on our financial condition and results of operations to the extent we cannot offset such loss in demand for TFT-LCD products by selling products using other display technologies.

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***We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.***

In connection with our strategy to expand the diversity and capacity of our TFT-LCD production, we estimate that we will incur significant capital expenditures for the expansion of existing production lines in Gumi, Korea, construction of new facilities and strategic investments, such as the construction of a new low-temperature poly-silicon, or LTPS, TFT-LCD production facility in Paju, Korea, and the development of production lines for OLED in Paju, Korea.

We estimate that our total capital expenditures for the construction of the new LTPS TFT-LCD production facility and for the development of production lines for OLED on a delivery basis, or capital expenditures accounted for at the time of delivery of property, plant and equipment, will amount to approximately (Won)577 billion and (Won)92 billion, respectively. In 2009, we expect that our total capital expenditures on a delivery basis will amount to approximately (Won)2.5 trillion and that our cash outflows for capital expenditures will amount to approximately (Won)4.0 trillion. Such amounts are subject to periodic assessment, and we cannot provide any assurance that such amounts may not change materially after assessment.

These capital expenditures will be made well in advance of any additional sales that will be generated from these expenditures. However, in the event of adverse market conditions, or if our actual expenditures far exceed our planned expenditures, our external financing activities combined with our internal sources of liquidity may not be sufficient to effect our current and future operational plans, and we may decide not to expand the capacity of certain of our facilities or to continue the construction of the new LTPS TFT-LCD production facility or the development of production lines for OLED as scheduled or at all. Our ability to obtain additional financing will depend upon several factors outside our control, including general economic, financial, competitive, regulatory and other considerations.

Global credit markets have been experiencing difficulties and volatility since the second half of 2008. The market uncertainty that started from the U.S. residential market further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. These developments have resulted in significant contraction, de-leveraging and reduced liquidity in the global credit markets, as well as bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers Holdings Inc. in September 2008. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to financial markets. However, the overall impact of these and other measures is uncertain, and they may not have the intended stabilizing effects. The U.S. Securities and Exchange Commission, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

We are exposed to risks related to changes in the global and Korean economic environments, changes in interest rates and instability in the global financial markets. As liquidity and credit concerns and volatility in the global financial markets increased significantly, the value of the Korean Won relative to the U.S. dollar has depreciated at an accelerated rate. See Item 3.A. Selected Financial Data Exchange Rates. Furthermore, as a result of adverse global and Korean economic conditions, there has been a significant overall decline and continuing volatility in securities prices of Korean companies, including ours, which may result in trading and valuation losses on our trading and investment securities portfolio. The Korea Stock Price Index declined from 1,888.88 on May 16, 2008 to 938.75 on October 24, 2008. The Korea Stock Price Index was 1,400 on June 22, 2009. In addition, recent increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically have led many lenders and institutional investors to reduce or cease providing funding to borrowers, which may negatively impact our liquidity and results of operation. Major market disruptions and the current adverse changes in market conditions and regulatory climate may further impair our ability to meet our desired funding needs. We cannot predict how long the current market conditions will last. These recent and developing economic and governmental factors may have a material adverse effect on our business and the ability to meet the funding needs of us and our customers, as well as negatively affect our credit rating.

The failure to obtain sufficient financing on commercially reasonable terms to complete our expansion plans could delay or derail our ability to pursue our business strategy, which could materially and adversely affect our business and results of operations.

***Our manufacturing processes are complex and periodic improvements to increase efficiency can expose us to potential disruptions in operations.***

The manufacturing process for TFT-LCD products is highly complex, requiring sophisticated and costly equipment that is periodically modified and updated to improve manufacturing yields and product performance, and reduce unit manufacturing





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costs. These updates expose us to the risk that from time to time production difficulties will arise that could cause delivery delays, reduced output or both. We cannot provide assurance that we will not experience manufacturing problems in achieving acceptable output, product delivery delays or both as a result of, among other factors, construction delays, difficulties in upgrading or modifying existing production lines or ramping up new plants, difficulties in changing manufacturing line technologies or delays in equipment deliveries, any of which could constrain our capacity and adversely affect our results of operations.

***We may be unable to successfully execute our expansion strategy or manage and sustain our growth on a timely basis, if at all, and, as a result, our business may be harmed.***

We have experienced, and expect to continue to experience, rapid growth in the scope and complexity of our operations. For example, we expanded our capacity by commencing mass production at our fifth fabrication facility, P5, in May 2003, our sixth fabrication facility, P6, in August 2004, our seventh fabrication facility, P7, in January 2006, our eighth fabrication facility, P8, in March 2009 and at our ninth fabrication facility, P6E, in April 2009. In addition, we commenced production at our module assembly facility in Nanjing, China, in May 2003, at our module production plant in Wroclaw, Poland, in March 2007 and at our module production plant in Guangzhou, China, in December 2007. In January 2009, our board of directors approved an investment in the amount of (Won)577 billion in a new LTPS TFT-LCD production facility in Paju, Korea for the production of premium TFT-LCD panels primarily used in mobile devices. We expect to commence mass production at this production facility in the first half of 2010. See We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans above.

This sustained growth may strain our managerial, financial, manufacturing and other resources. We may experience manufacturing difficulties in starting new production lines, upgrading existing facilities or ramping up new plants, as a result of cost overruns, construction delays or shortages of, or quality problems with, materials, labor or equipment, any of which could result in a loss of future revenues. In addition, failure to keep up with our competitors in future investments in next generation fabrication facilities or in the manufacturing capacity of existing facilities would impair our ability to effectively compete within the TFT-LCD industry. Failure to obtain intended economic benefits from expansion projects could adversely affect our business, financial condition and results of operations.

***If we cannot maintain high capacity utilization rates, our profitability will be adversely affected.***

The production of TFT-LCD panels entails high fixed costs resulting from considerable expenditures for the construction of complex fabrication and assembly facilities and the purchase of costly equipment. We aim to maintain high capacity utilization rates so that we can allocate these fixed costs over a greater number of panels produced and realize higher gross margins. However, we cannot provide assurance that we will be able to sustain our capacity utilization rates in the future.

***We depend on a limited number of third party suppliers for key raw materials, components and manufacturing equipment, and any disruption in their supply will negatively affect our business.***

Our production operations depend on obtaining adequate supplies of quality raw materials and components on a timely basis. As a result, it is important for us to control our component and raw material costs and reduce the effects of fluctuations in price and availability. In general, we source most of our raw materials as well as key components of TFT-LCD products, such as backlight units, glass substrates, driver integrated circuits and polarizers, from two or more suppliers for each key component. However, we may establish a working relationship with a single supplier if we believe it is advantageous to do so due to performance, quality, support, delivery, capacity, price or other considerations. We may experience shortages in the supply of these key components, as well as other components or raw materials, as a result of, among other things, anticipated capacity expansion in the TFT-LCD industry or our dependence on a limited number of suppliers. Our results of operations would be adversely affected if we were unable to obtain adequate supplies of high-quality raw materials or components in a timely manner or make alternative arrangements for such supplies, or if there were significant increases in the costs of raw materials or components that we could not pass on to our customers.

In addition, we have purchased, and expect to purchase, a substantial portion of our equipment from a limited number of qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by the equipment vendors. The unavailability of equipment, delays in the delivery of equipment, or the delivery of equipment that does not meet our specifications, could delay implementation of our expansion plans and impair our ability to meet customer orders. This could result in a loss of revenues and cause financial stress on our operations.

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*Purchase orders from our customers, which are placed generally one month in advance of delivery, vary in volume from period to period, and we operate with a modest inventory, which may make it difficult for us to efficiently allocate capacity on a timely basis in response to changes in demand.*

Our major customers and their designated system integrators provide us with three- to six-month rolling forecasts of their product requirements. However, firm orders are not placed until one month before delivery when negotiations on purchase prices are also finalized. Firm orders may be less than anticipated based on these three- to six-month forecasts. Due to the cyclicity of the TFT-LCD industry, purchase order levels from our customers have varied from period to period. Although we typically operate with a two- to four-week inventory, it may be difficult for us to adjust production costs or to allocate production capacity in a timely manner to compensate for any such volatility in order volumes. Our inability to respond quickly to changes in overall demand for TFT-LCD products as well as changes in product mix and specifications may result in lost revenues, which would adversely affect our results of operations.

*We may experience losses on inventories.*

Frequent new product introductions in the computer and consumer electronics industries can result in a decline in the average selling prices of our TFT-LCD panels and the obsolescence of our existing TFT-LCD panel inventory. This can result in a decrease in the stated value of our TFT-LCD panel inventory, which we value at the lower of cost or market value.

We manage our inventory based on our customers' and our own forecasts. Although adjustments are regularly made based on market conditions, we typically deliver our goods to the customers one month after a firm order has been placed. While we maintain open channels of communication with our major customers to avoid unexpected decreases in firm orders or subsequent changes to placed orders, and try to minimize our inventory levels, such actions by our customers may have an adverse effect on our inventory management.

*Sanctions against us and other TFT-LCD panel producers for possible anti-competitive activities may have a direct and indirect material impact on our operations.*

In December 2006, we received notice that we were under investigation by the Korea Fair Trade Commission, the Japan Fair Trade Commission, the Antitrust Division of the U.S. Department of Justice, and the European Commission with respect to possible anti-competitive activities in the TFT-LCD industry. We later received notice that we were under similar investigations by the Canadian Competition Bureau and the Taiwan Fair Trade Commission. In November 2008, we executed an agreement with the U.S. Department of Justice under which we and our subsidiary, LG Display America, Inc., would plead guilty to a criminal Sherman Act violation and pay a single total fine of US\$400 million. In December 2008, the United States District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment that sentenced us and LG Display America, Inc. to pay the US\$400 million according to the following schedule: US\$20 million, and interest thereon, by June 15, 2009, and US\$76 million, and interest thereon, by each of June 15, 2010, June 15, 2011, June 15, 2012, June 15, 2013 and December 15, 2013, respectively. The agreement resolves all federal criminal charges against us in the United States in connection with this matter, provided we continue to cooperate with the ongoing investigation. We are cooperating with the ongoing investigations by the U.S. Department of Justice and other regulatory bodies.

Subsequent to the commencement of the U.S. Department of Justice investigation, a number of purported class action lawsuits were filed against us and other TFT-LCD panel manufacturers in various U.S. federal district courts, alleging violation of U.S. antitrust laws and other related laws. In a series of decisions in 2007 and 2008, all of such cases were transferred to the Northern District of California for pretrial proceedings. An additional claim by a customer's assignee has also been filed in the Northern District of California. Purported class action complaints have also been filed against us in various Canadian courts, alleging violation of Canadian antitrust laws. We intend to defend these suits vigorously.

In addition, purported class action lawsuits have been brought against us, and certain of our officers and directors, in the United States District Court for the Southern District of New York in 2007, alleging, among other things, that we and certain of our officers and directors violated the U.S. Securities Exchange Act of 1934, or the Exchange Act, in connection with possible anti-competitive activities in the TFT-LCD industry. We intend to defend these suits vigorously.

In connection with these ongoing proceedings and claims, our management evaluates, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case (other than the U.S. federal criminal case), our management has determined that no provision was required to be taken at this time, as the conditions for taking such a provision (i.e., that a loss be both probable and reasonably estimable) had not been met. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of these proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most



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notably the uncertainty associated with predicting decisions by courts and regulatory agencies. In addition, estimates of the potential costs associated with legal and regulatory proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. While our management is not able to estimate the possible loss that may result from these proceedings and claims at this time, these proceedings and claims may result in significant financial liability to us, which may have a material adverse effect on our business, results of operations and financial condition. Furthermore, irrespective of the validity or the successful assertion of the above-referenced claims, we are incurring significant legal and other costs with respect to such claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a description of these matters.

***We need to observe certain financial and other covenants under the terms of our debt instruments, the failure to comply with which would put us in default under those instruments.***

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants include, but are not limited to, maintenance of credit ratings and debt-to-equity ratios. The documentation for such debt also contains negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt.

***Our results of operations are subject to exchange rate fluctuations.***

There has been considerable volatility in foreign exchange rates in recent years, including rates between the Won and the U.S. dollar. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies.

Our sales of display panels are denominated mainly in U.S. dollars, whereas our purchases of raw materials are denominated mainly in U.S. dollars and Japanese Yen. Our expenditures on capital equipment are denominated principally in Korean Won. In 2008, 97.6% of our sales were denominated in U.S. dollars. During the same period, 66.5% of our purchases of raw materials were denominated in U.S. dollars and 31.5% in Japanese Yen. In addition, 94.8% of our equipment purchases and construction costs, which represented almost all of our total capital expenditures in 2008, were denominated in Korean Won.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won as well as between the Japanese Yen and the Korean Won, affect our operating profits and pre-tax income. Beginning in the second half of 2008, the value of the Won relative to the U.S. dollar has fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. During the same period, the value of the Won relative to the Japanese Yen has also fluctuated. Although a depreciation in the Korean Won against the U.S. dollar or the Japanese Yen increases the Korean Won value of our export sales or causes our export products to be more competitive by lowering our prices in U.S. dollar or Japanese Yen terms, it also increases the cost of imported raw materials in Korean Won terms and our cost in Korean Won of servicing our foreign currency debt. In addition, continued exchange rate volatility may also result in foreign exchange losses for us. Although a depreciation in the Korean Won against the U.S. dollar, in general, has a net positive impact on our results of operations that more than offsets the net negative impact caused by a depreciation in the Korean Won against the Japanese Yen, we cannot provide assurance that the exchange rate will not be subject to significant fluctuations, including a sharp appreciation of the Korean Won against the U.S. dollar or the Japanese Yen, and that the impact of such fluctuations will not adversely affect the results of our operations.

***The income tax exemption under the foreign direct investment laws of Korea is no longer available to us.***

Philips Electronics' investment in us upon the formation of the joint venture was characterized as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Accordingly, we were entitled to an exemption from income taxes on income generated from our TFT-LCD business pursuant to the Special Tax Treatment Control Law of Korea in an amount proportional to the percentage of foreign direct equity investment in us for the first seven taxable years following the registration of such investment, which for us was in August 1999, and at one-half of that percentage for the subsequent three taxable years. In 2008, we received a tax benefit of (Won)32.6 billion (US\$25.8 million), or 3.0% of income before income taxes, as a result of Philips Electronics' 14.59% weighted average ownership in us in 2008. 2008 was the last taxable year we were eligible to receive this income tax exemption. The loss of this tax exemption could negatively affect our results of operations.



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***Our business relies on patent rights and our patent rights may be narrowed in scope or found to be invalid or otherwise unenforceable.***

Our success will depend, to a significant extent, on our ability to obtain and enforce our patent rights both in Korea and worldwide. The coverage claimed in a patent application can be significantly reduced before a patent is issued, either in Korea or abroad. Consequently, we cannot provide assurance that any of our pending or future patent applications will result in the issuance of patents. Patents issued to us may be subjected to further proceedings limiting their scope and may not provide significant proprietary protection or competitive advantage. Our patents also may be challenged, circumvented, invalidated or deemed unenforceable. In addition, because patent applications in certain countries generally are not published until more than 18 months after they are first filed, because we currently monitor patent applications filed only by other parties in Korea, Japan and the United States, and because publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were, or any of our licensors was, the first creator of inventions covered by pending patent applications, that we or any of our licensors will be entitled to any rights in purported inventions claimed in pending or future patent applications, or that we were, or any of our licensors was, the first to file patent applications on such inventions.

Furthermore, pending patent applications or patents already issued to us or our licensors may become subject to dispute, and any dispute could be resolved against us. For example, we may become involved in re-examination, reissue or interference proceedings and the result of these proceedings could be the invalidation or substantial narrowing of our patent claims. We also could be subject to court proceedings that could find our patents invalid or unenforceable or could substantially narrow the scope of our patent claims. In addition, depending on the jurisdiction, statutory differences in patentable subject matter may limit the protection we can obtain on some of our inventions.

***Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.***

We believe that developing new products and technologies that can be differentiated from those of our competitors is critical to the success of our business. We take active measures to obtain international protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors.

On August 29, 2002, we filed a complaint in the United States District Court for the Central District of California against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, Inc. claiming patent infringement on our United States patents relating to liquid crystal displays and the manufacturing processes for thin film transistors and liquid crystal displays. On November 21, 2006, we were awarded US\$53.5 million in damages in a trial by jury. On September 12, 2007, the court granted our request for enhanced damages, interest on damages, and additional damages for continuing infringement and legal fees.

On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Company and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear-mountable liquid crystal display devices.

On May 13, 2005, we filed a separate complaint in the United States District Court for the District of Delaware against Chunghwa Picture Tubes, Tatung Company, Tatung Co. of America and ViewSonic Corp. claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. On July 27, 2006, we were awarded US\$52.4 million in damages in a trial by jury.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint in the United States District Court for the Central District of California against LG Electronics and us for alleged infringement of one of its U.S. patents relating to flat panel display mounting systems. The case was dismissed in March 2008 after Chunghwa Picture Tubes and we signed a settlement agreement in November 2007, providing for dismissal of all pending claims and counterclaims. As part of the settlement, Chunghwa Picture Tubes agreed to make a settlement payment to us as compensation.

On December 1, 2006, we filed a complaint in the United States District Court for the District of Delaware against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement. On March 8, 2007, AU Optronics Corp. filed a counter-claim against us in the United States District Court for the Western District of Wisconsin for alleged infringement of patents related to the

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manufacturing processes for TFT-LCDs but the suit was transferred to the United States District Court for the District of Delaware pursuant to our motion to transfer. On May 4, 2007, Chi Mei Optoelectronics Corp. filed a counter-claim against us for patent infringement in the United States District Court for the Eastern District of Texas, but the suit was transferred to the United States District Court for the District of Delaware on March 31, 2008 pursuant to our motion to transfer.

On December 6, 2007, Tatung Company and we signed a settlement agreement providing for dismissal of all pending claims and counterclaims against each other. On January 19, 2008, ViewSonic Corp. and we signed a settlement agreement providing for dismissal of all pending claims and counterclaims against each other.

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of our customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. and Toshiba America, Inc., for alleged infringement of two of its patents relating to liquid crystal displays. Positive Technologies, Inc. is seeking, among other things, damages for past infringement. On March 7, 2007, the United States District Court for the Eastern District of Texas granted our motion to intervene in the patent infringement case brought by Positive Technologies, Inc. On November 7, 2008, Positive Technologies, Inc. and we signed a settlement agreement and the case was dismissed on December 12, 2008.

On February 2, 2007, Anvik Corporation filed a complaint in the United States District Court for the Southern District of New York against us, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of the photo-masking equipments manufactured by Nikon Corporation and the patented methods performed by such system in producing TFT-LCD panels. Anvik is seeking monetary damages for past infringement and an injunction against future infringement.

On December 15, 2008, O2Micro International Ltd. and O2Micro Inc. filed a petition with the United States International Trade Commission to commence trade remedy investigations against us, our subsidiary, LG Display America, Inc., and other manufacturing companies, claiming infringement of patents relating to inverter circuits.

Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

### ***Our rapid introduction of new technologies and products may increase the likelihood that third parties will assert claims that our products infringe upon their proprietary rights.***

Although we take and will continue to take steps to ensure that our new products do not infringe upon third party rights, the rapid technological changes that characterize our industry require that we quickly implement new processes and components with respect to our products. Often with respect to recently developed processes and components, a degree of uncertainty exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims alleging that such components or processes infringe upon third party rights may be brought against us. If our products or manufacturing processes are found to infringe upon third party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.

We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although patent and other intellectual property disputes in our industry have often been settled through licensing or similar arrangements, such defense could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to develop or make certain products or require us to pay monetary damages or royalties to license proprietary rights from third parties. Furthermore, we cannot be certain that the necessary licenses would be available to us on acceptable terms, if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling certain of our products. Any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could adversely affect our business.

### ***We rely on technology provided by third parties and our business will suffer if we are unable to renew our licensing arrangements with them.***

From time to time, we have obtained licenses for patent, copyright, trademark and other intellectual property rights to process and device technologies used in the production of our display panels. We have entered into key licensing arrangements with third parties, for which we have made, and continue to make, periodic license fee payments. In addition, we also have cross-license agreements with certain other third parties. These agreements terminate upon the expiration of the respective terms of the patents.





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If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the processes we employ to manufacture our products and be prohibited from using those processes, which may prevent us from manufacturing and selling certain of our products, including our key products. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do.

In the future, we may also need to obtain additional patent licenses for new or existing technologies. We cannot provide assurance that these license agreements can be obtained or renewed on acceptable terms or at all, and if not, our business and operating results could be adversely affected.

***We rely upon trade secrets and other unpatented proprietary know-how to maintain our competitive position in the TFT-LCD industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could negatively affect our business.***

We also rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of our confidentiality agreements, and there can be no assurance that any such disputes would be resolved in our favor. Further, others may acquire or independently develop similar technology, or if patents are not issued with respect to products arising from research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the TFT-LCD industry.

***We rely on key researchers and engineers, senior management and production facility operators, and the loss of the services of any such personnel or the inability to attract and retain them may negatively affect our business.***

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers, especially during periods of rapid growth. In particular, our focus on leading the market in introducing new products and advanced manufacturing processes has meant that we must aggressively recruit engineers with expertise in cutting-edge technologies.

We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, or at all. We also employ highly skilled line operators at our various production facilities.

The loss of the services of any of our key research and development and engineering personnel, senior management or skilled operators without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect on our operations.

***The interests of LG Electronics, our largest shareholder, and the directors and officers nominated by it, may differ from or conflict with those of us or our other shareholders.***

When exercising its rights as our largest shareholder, LG Electronics may take into account not only our interests but also its interests and the interests of its affiliates. The interests of display businesses of LG Electronics may at times conflict with ours since the growth of our business depends, in part, on successful competition with other display technologies. For example, LG Electronics manufactures plasma display panels, or PDPs, which is an alternative display technology to TFT-LCDs, and it has invested in a PDP production facility in Gumi, Korea, as well as overseas PDP module plants in Mexico, Poland and China. These conflicts may result in alternative display technologies gaining wider market acceptance than TFT-LCDs or a decision by our largest shareholder to sell products using other display technologies.

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Various other conflicts of interest between LG Electronics and us may arise in the future in a number of areas relating to our business and relationships, including potential acquisitions of businesses or properties, incurrence of indebtedness, financial commitments, sales and marketing functions, indemnity arrangements, service arrangements and the exercise by LG Electronics of control over our management and affairs. See Item 6.A. Directors and Senior Management for a description of the composition of our current board of directors.

### ***Labor unrest may disrupt our operations.***

As of December 31, 2008, approximately 68.1% of our total employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. If our relationship with our employees deteriorates and there is labor unrest resulting in a work stoppage or strike, our production facilities will not be able to continue operations and this will have a material adverse effect on our financial condition and results of operations.

### ***We are subject to strict environmental regulations and we may be subject to fines or restrictions that could cause our operations to be interrupted.***

Our manufacturing processes generate chemical waste, waste water and other industrial waste at various stages in the manufacturing process, and we are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of such chemical by-products and waste substances. We have installed various types of anti-pollution equipment, consistent with industry standards, for the treatment of chemical waste and equipment for the recycling of treated waste water at our various facilities. However, we cannot provide assurance that environmental claims will not be brought against us or that the local or national governments will not take steps toward adopting more stringent environmental standards.

Any failure on our part to comply with any present or future environmental regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. In addition, environmental regulations could require us to acquire costly equipment or to incur other significant compliance expenses that may materially and negatively affect our financial condition and results of operations.

### **Risks Relating to our American Depositary Shares, or ADSs, or our Common Stock**

#### ***Future sales of shares of our common stock in the public market may depress our stock price and make it difficult for you to recover the full value of your investment in our common stock or our ADSs.***

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of our common stock for sale will have on the market price of our common stock prevailing from time to time. Our largest shareholder, LG Electronics, currently owns approximately 37.9% of our voting stock. There is no assurance that LG Electronics will not sell a portion of its ownership interest in us.

Any future sales of a significant number of shares of our common stock in the public market by us or by LG Electronics, or the perception that these events may occur, could cause the market price of our common stock to decrease or to be lower than it might be in the absence of these events or perceptions.

#### ***Our public shareholders may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.***

Our corporate affairs are governed by our articles of incorporation and by the laws governing Korean corporations. The rights and responsibilities of our shareholders and members of our board of directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. In the case of public companies, a shareholder must own, individually or collectively with other shareholders, at least 0.01% of our common stock for at least six months in order to file a derivative suit on behalf of us. While the facts and circumstances of each case will differ, the duty of care required of a director under Korean law may not be the same as the fiduciary duty of a director of a U.S. corporation. Holders of our common stock or our ADSs may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

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*You may be limited in your ability to deposit or withdraw the common stock underlying the ADSs, which may adversely affect the value of your investment.*

Under the terms of our deposit agreement, holders of common stock may deposit such common stock with the depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

the aggregate number of shares of common stock we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless (1) our consent, subject to governmental authorization, with respect to such deposit has been obtained or (2) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. The current limit on the number of shares that may be deposited into our ADR facility is 68,095,700 as of June 22, 2009. The number of shares issued or sold in any subsequent offering by us or our major shareholders, subject to government authorization, raises the limit on the number of shares that may be deposited into the ADR facility, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation, or we determine with the ADR depositary to limit the number of shares of common stock so offered that would be eligible for deposit under the deposit agreement in order to maintain liquidity for the shares in Korea as may be requested by the relevant Korean authorities. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the common stock again to obtain ADSs.

***Holders of ADSs will not have preemptive rights in some circumstances.***

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued, except under certain circumstances as provided in our articles of incorporation. Accordingly, if we issue new shares to non-shareholders based on such exception, a holder of our ADSs may experience dilution in its holdings. Furthermore, if we offer any right to subscribe for additional shares of our common stock or any rights of any other nature to existing shareholders subject to their preemptive rights, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and;

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

***Holders of ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct shareholders.***

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In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. However, a holder of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct shareholder prior to the record date of the shareholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

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*Dividend payments and the amount you may realize upon a sale of our common stock or ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Korean Won.*

Cash dividends, if any, in respect of the shares represented by our ADSs will be paid to the depositary in Korean Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Korean Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

## **Risks Relating to Korea**

*If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected.*

We are incorporated in Korea, and a significant portion of our operations and assets are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control. Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Any future deterioration of the Korean and global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

declines in consumer confidence and a slowdown in consumer spending;

continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates or stock markets;

increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;

continuing adverse developments in the economies of countries that are important export and import markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

substantial decreases in the market prices of Korean real estate;

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the economic impact of any pending or future free trade agreements, including the Free Trade Agreement negotiated with the United States and the Free Trade Agreement being negotiated with the European Union;

social and labor unrest;

a decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

financial problems or lack of progress in restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

the recurrence of severe acute respiratory syndrome or an outbreak of avian flu in Asia and other parts of the world;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

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hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and

an increase in the level of tension or an outbreak of hostilities between North Korea and Korea or the United States.

***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common stock.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications. In October 2007, Korea and North Korea held a summit meeting to discuss easing tensions and fostering peace on the Korean peninsula. Mr. Lee Myung Bak, who became the President of Korea in February 2008, has announced that no further summit meetings will be held until North Korea discontinues its nuclear weapons program. In October 2008, North Korea agreed to a series of denuclearization verification measures, following the removal of North Korea from a list of state sponsors of terrorism maintained by the United States. In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. Korea, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea. The United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. On April 14, 2009, North Korea announced that it would permanently pull out of the six party talks and restart its nuclear program. On May 25, 2009, North Korea test-fired three short-range, surface-to-air missiles and announced that it had successfully conducted a second nuclear test. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension which may occur if North Korea continues with its long-range missiles or nuclear tests, or which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts break down between Korea and North Korea or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock.

***If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.***

Under the Korean Foreign Exchange Transaction Law, if the Korean government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange. See Item 10.D. Exchange Controls.

**Table of Contents****Item 4. INFORMATION ON THE COMPANY****Item 4.A. History and Development of the Company**

We are a leading innovator of thin-film transistor liquid crystal display, or TFT-LCD, technology. We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors and various other applications, including mobile products.

The origin of our TFT-LCD business can be traced to the TFT-LCD research that began in 1987 at the Goldstar R&D Center, which was then part of LG Electronics. TFT-LCD research continued at the Anyang R&D Center, a research and development center established by LG Electronics in 1990 in Anyang, Korea, which was subsequently moved to our Paju Display Cluster in 2008, and which today continues to lead our technology innovation efforts. In 1993, the TFT-LCD business division was launched within LG Electronics, and in September 1995 mass production of TFT-LCD panels began at P1, its first fabrication facility, producing mainly TFT-LCD panels for notebook computers and other applications. In December 1997, LG Semicon Inc., a subsidiary of LG Electronics, began mass production at P2, producing mainly TFT-LCD panels for notebook computers.

We were incorporated in 1985 under the laws of the Republic of Korea under the original name of LG Soft, Ltd., a subsidiary of LG Electronics whose main business was the development and marketing of software. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, Ltd., which, as part of the business transfer, changed its name to LG LCD Co., Ltd.

In July 1999, LG Electronics entered into a joint venture agreement with Philips Electronics pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In connection with this transaction, LG LCD transferred its existing software-related business to LG Electronics in order to focus solely on the TFT-LCD business. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in August 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL. Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders' agreement to reflect new arrangements between them as controlling shareholders. The shareholders' agreement automatically terminated upon Philips Electronics' sale of all of its remaining ownership interest in us in March 2009. See Item 7.A. Major Shareholders for a more detailed discussion of the shareholding structure and Philips Electronics' recent change in ownership interest in us.

We continued to develop our manufacturing process technologies and expand production facilities after the formation of the joint venture. Each of our new fabs has been designed to process increasingly larger-size glass substrates, which allows us to cut a larger number of panels, sometimes with larger sizes, from each glass substrate. The ability to process larger glass substrates allows us to produce a larger variety of display sizes to accommodate evolving business and consumer demands. For example, in order to respond to business and consumer demands for large-size panels, in January 2006, we commenced mass production at P7, which is optimized to produce 42-inch and 47-inch wide-format display panels for televisions. Our capital expenditures for the construction and build-out of P7 on a delivery basis amounted to approximately (Won)5.3 trillion in total. In March 2009, we commenced mass production at P8, which is optimized to produce 32-inch, 47-inch and 55-inch wide-format display panels for televisions. We expect that our capital expenditures for the construction and build-out of P8 on a delivery basis will amount to approximately (Won)2.7 trillion in total.

In addition, in April 2009, we commenced mass production at our ninth fabrication facility, P6E, which is optimized to produce large and wide-format panels for notebook computers, such as 15.4-inch and 15.6-inch wide-format display panels, as well as panels for desktop monitors, such as 18.5-inch and 20-inch wide-format display panels. We expect that our capital expenditures for the construction and build-out of P6E on a delivery basis will amount to (Won)0.8 trillion in 2009, which we plan to fund with cash flow from our operations. In January 2009, our board of directors approved an investment in a new LTPS TFT-LCD production facility in Paju, Korea for production of premium TFT-LCD panels primarily used in mobile devices. We expect that our capital expenditures for such investment in the new LTPS TFT-LCD production facility on a delivery basis will amount to approximately (Won)577 billion, all of which is expected to be incurred in 2009, and which we plan to fund with cash flow from our operations. See Item 3.D. Risk Factors Risks Relating to Our Company We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.

From 1995 to early 2003, we assembled all panels in our Gumi assembly facility adjacent to our P1 facility. In May 2003, we commenced operations at a new assembly facility in Nanjing, China, which we built and have since expanded, in order to manage our expanding display capacity and better serve the growing needs of our global customers with manufacturing facilities in China. In November 2005, we commenced operations at a new assembly facility in Paju, Korea, and in March 2007, we commenced mass production at our module production plant in Wroclaw, Poland. In December 2007, we also commenced mass production at our module production plant in Guangzhou, China, our second such module production site in China. We anticipate that our overseas plants will help better serve our customers, especially our Chinese and European customers, and further expand our global production capabilities.





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Effective March 3, 2008, we changed our name from LG.Philips LCD Co., Ltd. to LG Display Co., Ltd.

Our principal executive offices are located at West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu, Seoul, Republic of Korea, 150-721, and our telephone number at that address is +82-2-3777-1010.

### **Item 4.B. *Business Overview*** **Overview**

We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers and desktop monitors, and we are one of the world's leading suppliers of high-definition television panels. We also manufacture TFT-LCDs for handheld application products, such as mobile phones, and medium- and large-size panels for industrial and other applications, such as entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment. In 2008, we sold a total of 93.4 million large-size (10-inch or larger) TFT-LCD panels. According to DisplaySearch, we had a global market share for large-size display panels of approximately 20.3% based on sales revenue in 2008.

We currently operate nine fabrication facilities located in Gumi and Paju, Korea, and seven module facilities located in Gumi and Paju, Korea, Nanjing (3 facilities) and Guangzhou, China and Wrocław, Poland. In January 2008, as part of our plan to pursue commercialization of active matrix OLED technology, or AMOLED, we acquired LG Electronics' AMOLED business by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. AMOLED is considered a next-generation flat panel display technology particularly because it is able to display clearer images of fast moving objects than conventional technology. In June 2008, we launched our AMOLED Business Unit in anticipation of future growth in the AMOLED business.

We seek to build our market position based on collaborative customer relationships, a focus on high-end display products and manufacturing productivity. Our end-brand customers include many of the world's leading manufacturers of televisions, notebook computers and desktop monitors. In 2008, for example, our display panels were included in products sold by LG Electronics, Philips Electronics, Hewlett-Packard, Dell, Toshiba, Apple and Vizio, among others. LG Electronics is our largest shareholder, and terms of our sales to LG Electronics are substantially the same as those of our sales to non-affiliated end-brand customers. Our dedication to customers has helped us win the DisplaySearch Customer Satisfaction Award for fiscal years 2002, 2003 and 2004. DisplaySearch discontinued awarding the prize in 2005. In May 2008, we received the Best Supplier Award from Hewlett-Packard Development Company, L.P., in recognition of our superior product technology and customer satisfaction activities at Hewlett-Packard Worldwide Supplier Conference held in Houston, Texas. The Best Supplier Award program recognizes outstanding companies among Hewlett-Packard's worldwide suppliers of parts and services that satisfy strict purchasing standards in quality, service and technology, and are judged to have made the greatest contributions to Hewlett-Packard.

At the direction of our end-brand customers, we typically ship our display panels to their original equipment manufacturers, known as system integrators, who use our display panels in products they assemble on a contract basis for our end-brand customers. Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries.

Our sales were (Won)10,624.2 billion in 2006, (Won)14,352.0 billion in 2007 and (Won)16,274.1 billion (US\$12,895.5 million) in 2008.

### **Strategy**

We believe that the primary market for TFT-LCD products today includes televisions, notebook computers, desktop monitors and other applications. We believe that the market for TFT-LCD products will continue to expand in scope as consumers are drawn to their superior performance features and as new applications for this technology continue to be designed and developed. Therefore, we plan to develop and commercialize new technologies used in TFT-LCD products, such as flexible display, and also pursue commercialization of next-generation flat panel display technologies, such as AMOLED that may replace existing liquid crystal display panels or plasma display panels.

We aim to maintain and build upon our current position as one of the largest merchant suppliers of large-size TFT-LCD products by strengthening our collaborative relationships with our end-brand customers, focusing on high-end display



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products, including high-definition television panels, and continuing to enhance our manufacturing productivity. We believe that our technology leadership enables us to make timely investments in advanced manufacturing facilities and process technology migrations and improvements, which in turn positions us to deliver a broad and advanced product portfolio in high volumes and in a cost competitive manner to our customers.

### ***Build strong collaborative relationships with end-brand customers***

We plan to continue to focus our resources on expanding our strong collaborative relationships with our key end-brand customers. Our principal end-brand customers include many of the leading consumer electronics producers, such as LG Electronics, Philips Electronics, Toshiba and Vizio, as well as the world's leading manufacturers of computer products, such as Hewlett-Packard, Dell and Apple. For example, in January 2009, we entered into a long-term supply agreement with Apple Inc. to supply display panels to Apple Inc. for five years. Our principal end-brand customers represent a large portion of the global demand for TFT-LCD products, and we believe they value our product and design innovations as well as our ability to provide a reliable and high-quality supply of a wide range of TFT-LCD products in high volumes.

We seek to collaborate with our end-brand customers in the design and development stages of their new products. The close interactions with our end-brand customers allow us to gain insights into their product development strategies and market trends, and enable us to anticipate customer needs and tailor our research, development and manufacturing activities to take advantage of emerging market opportunities. Our strong customer relationships also mean that we enjoy relatively stable demand from these high-volume customers.

### ***Make timely investments in advanced and flexible manufacturing facilities***

Our strategy is to time our investments in next-generation manufacturing facilities that enable us to support a wide range of products. As a result of our investment strategy, our production facilities are among the most advanced in the industry, and our portfolio of nine fabrication facilities can produce a wide variety of products at high volumes to provide critical scale and flexibility in serving our customers' needs.

In the past, our timely investment strategy, along with faster fab ramp-up, has allowed us to establish a leading position in emerging product categories with high growth potential. We have benefited from the higher margins available early in the life cycles of such products. For example, in order to meet the increasing demand for larger and wider display products, we built P7, a seventh-generation fabrication facility, which is optimized for the production of 42-inch and 47-inch wide-format television panels.

The flexibility of our operations also allows us to shift our production to the most attractive product market at any given time. For example, as the demand for larger and better desktop monitors continues to grow, we have shifted part of the production in our P3 facility from 15-inch desktop monitor panels to 30-inch UXGA high-resolution desktop monitor panels, thereby realizing higher margins. We also built P8, an eighth fabrication facility that began mass production in March 2009, which is optimized for production of 32-inch, 47-inch and 55-inch wide-format panels for televisions. The construction of P8 enabled us to shift the production of 32-inch and 47-inch television panels at P6 and P7, respectively, to P8, thereby enhancing our production efficiency and increasing our cost competitiveness.

The advanced nature and scale of our facilities is a key driver of our cost competitiveness. We believe it also enables us to better meet the volume, product variety and turnaround time requirements of our customers.

### ***Leverage technology leadership to deliver high-performance products and enhance manufacturing productivity***

We plan to continue focusing on our product and manufacturing technology in order to maintain our position as an industry leader in delivering a broad and advanced product portfolio in high volumes and in a cost competitive manner.

In the area of product technology, we plan to continue leading the market in the commercial application of technologies with superior performance characteristics. For example, we were one of the first TFT-LCD manufacturers to apply Super In Plane Switching, or S-IPS, technology, which increases viewing angles for large-size desktop monitor and television products, in commercial production. We were also the first to develop copper bus lines, which achieve faster video frame rates and brighter displays in large-size panels, and integrated column spacers, which improve panel ruggedness and enhance viewing uniformity. We also developed a low power consumption technology that allows TFT-LCD panels to operate on approximately 30% less power on average, depending on the media content, than before.

We plan to continue focusing our development efforts on design and process innovations. Our advanced design and process technology capabilities have enabled us to deliver substantial improvements in manufacturing productivity, often with only marginal capital investments. For example, our one-drop fill technology, which we first utilized in the manufacture of display panels for



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desktop monitors and later employed in the manufacture of display panels for other applications, allowed us to significantly reduce the time required to deposit liquid crystal materials into our panels. We were one of the first TFT-LCD manufacturers to reduce the number of mask processes in the TFT array process from four to three with respect to certain models. We were also able to improve the input capacity in P7 from its originally designed monthly input capacity of 90,000 substrates to an expanded average input capacity of 174,000 substrates per month during the fourth quarter of 2008, resulting in significant increases in unit output, with only marginal capital investments. Our ability to ramp-up P4, P5, P6 and P7 in a short time span with minimal technical difficulties is also an example of our process technology capability.

### ***Focus on large-size TFT-LCD panels while maintaining a broad product portfolio***

Our strategy is to leverage our product technology, timely investments and advanced manufacturing capabilities to lead the market in emerging large-size product categories that offer higher growth potential and higher margins, and help shape industry standards in product features such as size and resolution.

Currently the TFT-LCD television market is experiencing strong growth. We began shipping television products in 2001 with 15-inch panels and have since broadened our product portfolio to include panels of various sizes, such as 17-inch, 26-inch, 32-inch, 37-inch, 42-inch, 47-inch and 55-inch panels. We were one of the largest merchant supplier in the television category in terms of both units sold and sales revenues in 2006, 2007 and 2008, based on data from DisplaySearch, and we continued to lead the market in introducing larger and higher-performance panels for televisions. For example, we were the first to develop 42-inch wide-format and 55-inch wide-format high-definition television panels and 100-inch wide-format full high-definition television panels.

The desktop monitor market is currently transitioning from 17-inch and 19-inch to larger panel sizes such as 20-inch and 22-inch, and from 16:10 wide-format to 16:9 wide-format. We believe we are well positioned to capitalize on this opportunity with our full product line-up. We plan to maintain our leadership position in the premium 20-inch and above desktop monitor category, where we were the first-to-market with products such as 20-inch UXGA, 23-inch WUXGA and 30-inch WQXGA+. In addition, we have successfully established the industry standard for 16:9 wide-format in the categories of 18.5-inch, 20-inch, 21.5-inch, 23-inch and 27-inch wide-format display panels for desktop monitors. In 2008, we developed wide-format high-definition display panels in the categories of 18.5-inch, 23-inch and 27-inch display panels for desktop monitors. We also developed a 22-inch e-In Plane Switching, or e-IPS, display panel that retains the superior performance qualities of conventional IPS panels but is also competitive in terms of cost. We are currently developing 20-inch, 21.5-inch, 23-inch, 24-inch wide-format display panels using this technology.

The notebook computer market is also transitioning to larger and wider panel sizes, which command higher margins, and we believe we have the flexibility to increase the production and sales of larger and wider panel sizes as demand grows for such sizes. For example, in 2008, we increased the production and sales of 14.1-inch, 15.4-inch and 17.1-inch wide-format notebook panels in line with the market trend toward larger wide-format screens. We also believe that the trend for larger and wider panels for notebook computers will eventually be replaced by demands for affordable large-size flat panel products with higher resolution and higher performance qualities. Accordingly, we are continuing to develop long-term alternative technologies, such as light emitting diode, or LED, backlight technology, which would enable us to develop thinner and lighter panels that consume less power and use environmentally friendly components. For example, in 2008, we developed, and commenced mass production of, the world's first 17.1-inch TFT-LCD panel for notebook computers that applied red, green and blue LED, or RGB LED, backlight technology. RGB LED backlight technology enabled us to develop the world's first TFT-LCD panel that achieved a color reproduction rate in excess of 100%, offering more colors and a better contrast ratio than conventional models that used cold cathode fluorescent lamps.

We believe that our product range across the television, notebook computer, desktop monitor and other application markets is one of the broadest in the industry and that it enables us to strengthen our relationships with our end-brand customers.

### ***Continually reduce costs***

We focus on continually lowering our cost structure through:

Component cost reductions – we leverage our scale and leading industry position to obtain lower prices for components. Our strategy is to increase volume purchasing while implementing a cost reduction strategy at the product planning level by reducing the number of components used in our products, standardizing components across products and setting up platform-based design, which are important drivers of our cost competitiveness. We also plan to share our cost reduction methods with our suppliers from whom we purchase components so that they may achieve greater efficiency, which in turn would allow us to purchase components from such suppliers at a lower price. Our plan is to assist our suppliers in their component standardization and production system improvement

efforts, and to help improve their business model;

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**Customer collaboration** – we plan to achieve cost reduction by reinforcing our strong collaborative relationship with our customer base. We plan to involve our customers in the design process in order to better align new product development and manufacturing goals and thereby achieve cost reduction from, among other things, elimination of redundant materials, accelerated product development and reduction in the weight and thickness of our display panels. In addition, we plan to move our production close to our customers so as to reinforce our collaborative relationship with our customers and enjoy lower logistics costs and more timely and efficient delivery of our products to customers;

**Larger, more advanced manufacturing base** – we plan to build fabrication facilities that provide us with overhead cost advantages and that produce higher volumes of products, enabling us to enjoy economies of scale;

**High glass conversion efficiency** – we have been able to reduce our costs of production by maximizing glass conversion efficiency, a function of production yield and panel design, allowing us to convert a high proportion of our input glass area into saleable display area. We are also able to optimize production allocation across our multiple fabs to maximize glass conversion efficiency; and

**Process innovation and research and development** – our process technology innovations, such as one-drop-fill technology and mask reduction initiatives, have consistently enabled us to improve the throughput of our fabs often with minimal capital investment, thereby resulting in lower costs per panel. Our other research and development initiatives, including the introduction of new technologies, component standardization and reduction in the number of requisite components, have also contributed to lower manufacturing costs.

### ***Leverage our technology to develop new markets for, and pursue commercialization of, new flat panel display products***

The TFT-LCD industry is subject to rapid technological changes. We believe that effective research and development is essential to maintaining our position as one of the industry's leading technology innovators. We are currently researching and developing technologies in a broad range of categories so as to compete effectively with our competitors in creating and dominating new markets for flat panel display products.

We plan to continue to develop new markets for, and focus on developing and commercializing new technologies used in, TFT-LCD products, while also pursuing commercialization of next-generation flat panel display technologies, such as AMOLED, as the product lifecycle of flat panel displays is approaching maturity. For example, we plan to continue to develop new markets for public display panels so that they may be used as part of interior design or for public advertising purposes, such as multi-view TFT-LCD panels, which would allow viewers to enjoy different images from the same display panel depending on the angle each viewer is viewing from. In addition, we plan to continue to develop flexible display, which we believe will become the next profitable market in the flat panel display industry. In 2007, we commenced production of the world's first flexible mono e-newspaper. In 2008, we developed a flexible color e-book with the world's highest resolution at the time. We were also the first to apply non-laser crystallization technology to the production of AMOLED.

We also plan to further develop and pursue commercialization of AMOLED, a next-generation flat panel display technology that may replace existing liquid crystal display panels or plasma display panels. Pursuant to a strategic alliance agreement and an evaluation agreement for AMOLED development that we entered into with Eastman Kodak Company, or Kodak, in February 2006, we and Kodak are jointly evaluating display technologies for mobile displays and considering other opportunities, including the development and supply of AMOLED technology and products. In January 2008, as part of our plan to pursue commercialization of AMOLED technology, we acquired LG Electronics' AMOLED business by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. In June 2008, we launched our AMOLED Business Unit in anticipation of future growth in the AMOLED business.

## **Technology Description**

### ***TFT-LCD Technology***

TFT-LCD consists of two thin glass substrates and polarizer films between which a layer of liquid crystals is deposited and behind which a light source called a backlight unit is mounted. The front glass substrate is fitted with a color filter, while the back glass substrate, also called a TFT array, has a thin film of transistors, or TFT, formed on its surface. The liquid crystals are normally aligned to allow the polarized light from the backlight unit to pass through the two glass panels to form a picture element, or pixel. When voltage is applied to the transistors on the TFT array, the liquid crystals change their alignment and alter the amount of light that passes through them. Meanwhile, the color filter on the front glass substrate gives each pixel its own color. The combination of these pixels in different colors and levels of brightness forms the image on the panel.





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### ***Manufacturing Process***

The process for manufacturing a TFT-LCD consists of four steps:

*TFT array process* involves fabricating a large number of thin film transistors on the back glass substrate. The number of transistors corresponds to the number of pixels on the screen. The process is similar to the process for manufacturing semiconductor chips, except that transistors are fabricated on large glass substrates instead of silicon wafers. Unlike in the semiconductor industry, however, the number of transistors per glass substrate is not a primary driver of the manufacturing costs for TFT-LCDs. Once the TFT array process on glass substrates is completed, the substrates are cut into panel-sized pieces;

*Color filter process* involves fabricating a large number of color regions on the front glass substrate that overlays the TFT array in the cell process. The colored dots of red, green and blue combine to form various colors. The process is similar to the TFT array process but involves depositing colored dyes instead of transistors;

*Cell process* involves joining together the back glass substrate that is arrayed with transistors and the front glass substrate that is patterned with a color filter. The space between the two glass substrates is filled with liquid crystal materials. The resulting panel is called a cell; and

*Module assembly process* involves connecting additional components, such as driver integrated circuits and backlight units, to the cell formed by combining the glass substrates and liquid crystal materials.

The TFT array, color filter and cell processes are capital-intensive and require highly automated production equipment and are the primary determinants of fixed manufacturing cost. In contrast, the module assembly process involves semi-automated production equipment and manual labor to assemble the various components. Materials are the primary drivers of variable manufacturing cost.

### **Products**

We manufacture TFT-LCD panels of various specifications that are integrated by our customers into principally the following products:

Televisions, which typically utilize large-size display panels ranging from 15 inches to 55-inch wide-format, including full high-definition television panels;

Notebook computers, which typically utilize display panels ranging from 8.9 inches to 20.1-inch wide-format;

Desktop monitors, which typically utilize large-size display panels ranging from 15 inches to 30-inch wide-format; and

Other applications, which utilize a wide array of display panel sizes, ranging from small-size display panels, including handheld application products such as mobile phones, to medium- and large-size display panels, including industrial applications such as entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment.

Unless otherwise specified, when we refer to panels in this annual report we mean assembled cells with added components, such as driver integrated circuits and backlight units.

We design and manufacture our panels to meet the various size and performance specifications of our customers, including specifications relating to thickness, weight, resolution, color quality, power consumption, response times and viewing angles. The specifications vary from product to product. For televisions, a premium is placed on faster response times, wider viewing angles, higher resolution and greater color

fidelity. Notebook computers require an emphasis on thinness, light weight and power efficiency, while desktop monitors demand a greater focus on brightness, color brilliance and wide viewing angles.

***Televisions***

Our television panels range from 15 inches to 55-inch wide-format in size. We began mass production of television display panels in 2001. Our sales of display panels for televisions were (Won)4,938.9 billion, or 46.5% of sales, in 2006, (Won)6,841.5 billion, or 47.7% of sales, in 2007 and (Won)8,019.9 billion (US\$6,354.9 million), or 49.3% of sales, in 2008.

The market for large-size televisions developed later than that for notebook computers and desktop monitors, but we have experienced significant growth in recent years for our television panels and it has become our primary market as consumer demand grew for large-size televisions. We believe that we can leverage our experience in the notebook computer and desktop monitor markets to take advantage of the growth potential in the market for large-size televisions. We began mass production with 15-inch panels and have since broadened our product portfolio to include panels of various sizes such as 17-inch, 19-inch, 20-inch, 22-inch, 26-inch, 32-inch, 37-inch, 42-inch, 47-inch and 55-inch panels. Currently, 32-inch, 37-inch, 42-inch and 47-inch wide-format panels comprise our principal products in this category in terms of sales revenue and sales volume.

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Brand manufacturers of televisions and their distribution channels prefer long-term arrangements with a limited number of display panel suppliers that can offer a full product line, and we believe that we are well positioned to meet their requirements with our strengths in technology, manufacturing scale and efficiency as well as the breadth of our product portfolio.

We employ S-IPS technology in certain television panels to significantly improve the picture quality and to increase the viewing angle. We also employ S-IPS technology in touch screens to provide more stable picture quality. We apply our scanning backlight technology and 120Hz driving technology to certain categories of large-size panels to remove motion blurring, while we use our copper bus technology to achieve better and more stable picture quality in large-size panels.

### ***Notebook Computers***

Our display panels for notebook computers range from 8.9 inches to 20.1-inch wide-format in size in a variety of display formats. Our sales of display panels for notebook computers were (Won)2,166.9 billion, or 20.4% of sales, in 2006, (Won)3,084.7 billion, or 21.5% of sales, in 2007 and (Won)3,700.8 billion (US\$2,932.5 million), or 22.7% of sales, in 2008.

Notebook computer display panels were our principal product from our formation until 2001, when desktop monitor display panels surpassed notebook computer display panels in terms of revenues. Sales volume for 14.1-inch panels, which we first introduced to the market in 1997, continued to increase through 2002. From 2003 to 2005, 15.0-inch panels grew at a fast rate and became the largest component in the notebook category, while in 2006, 15.4-inch panels far outpaced the increase in 15.0-inch panels and became the largest component in terms of sales revenue and volume in the category of notebook computer display panels. In 2007 and 2008, 14.1-inch, 15.4-inch and 17.1-inch panels maintained their position as the principal products in terms of sales revenue and sales volume in the category of notebook computer display panels.

One of the features of notebook computer display panels that we pioneered is our patented side mounting technology, which shifts the screws mounting a TFT-LCD panel on a display from the front to the side, thereby allowing for much thinner borders, or bezels, around the display and allowing product designers to utilize larger screens without increasing a product's overall size.

### ***Desktop Monitors***

Our desktop monitor display panels range from 15 inches to 30-inch wide-format in size in a variety of display resolutions and formats. We began mass production of desktop monitor display panels in 1999. Our sales of display panels for desktop monitors were (Won)2,906.9 billion, or 27.4% of sales, in 2006, (Won)3,708.9 billion, or 25.8% of sales, in 2007 and (Won)3,934.6 billion (US\$3,117.7 million), or 24.2% of sales, in 2008.

Desktop monitor display panels have grown to become our second largest product category, supplanting notebook computer display panels in terms of revenues in 2001, and in terms of volume units in 2002. The weighted average size of our desktop monitor display panels has steadily grown in recent years, with a significant increase in the production and sale of 17-inch and 17-inch wide-format and larger panels from 2002 to 2005. Until 2005, we had also significantly increased production and sale of 19-inch and 20.1-inch panels. Although in 2006, the overall sales of desktop monitors, in terms of volume and revenue, declined compared to the prior years, in 2007, the overall sales of desktop monitors increased compared to 2006 due to a significant increase in the sales of 19-inch, 22-inch and 24-inch display panels for desktop monitors in terms of sales revenue and sales volume. In 2008, sales of 17-inch, 22-inch and 24-inch display panels for desktop monitors continued to increase, in terms of sales revenue and sales volume, compared to 2007, while sales of 19-inch and 20.1-inch panels for desktop monitors, two of our principal products in this category, declined in terms of sales revenue and sales volume, compared to 2007.

In addition to our side mounting technology, which we apply to all of our desktop monitor display panels, we employ S-IPS technology on certain desktop monitor display panels to achieve significantly increased viewing angles.

### ***Other Applications***

Our product portfolio also includes small-size TFT-LCD panels for use in handheld application products, such as mobile phones, and medium- and large-size panels for industrial and other applications, such as entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment. TFT-LCD panels that are ten inches and smaller are referred to as small and medium-size panels, with those smaller than 4 inches being considered small-size panels. In 2008, our principal products in the other applications category were 2-inch, 2.2-inch and 7-inch panels in terms of sales revenue and 2-inch, 2.2-inch and 2.41-inch panels in terms of sales volume.



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Some of the panels we produce for industrial products, such as medical diagnostic devices, are highly specialized niche products manufactured to the specifications of our clients, while others, such as industrial controllers, may be manufactured by slightly modifying a standard product design for our other products, such as desktop monitors. Display panels for these other applications broaden our sales base and product mix. They are also often a good channel through which we can commercialize a particular technology that we have developed. We generally determine the production level and specification of our TFT-LCD panels for other applications by assessing various business opportunities as they arise.

Our sales of display panels for other applications were (Won)611.4 billion, or 5.7% of sales, in 2006, (Won)716.9 billion, or 5.0% of sales, in 2007 and (Won)618.9 billion (US\$490.4 million), or 3.8% of sales, in 2008.

## Sales and Marketing

### Customer Profile

Our display panels are included primarily in televisions, notebook computers, desktop monitors and industrial and other applications sold by our global end-brand customers. In 2008, our top ten end-brand customers included LG Electronics, Philips Electronics, Hewlett-Packard, Dell, Toshiba, Apple, AmTRAN, Acer, Panasonic and Skyworth. LG Electronics is our largest shareholder, and the terms of our sales to LG Electronics are conducted on an arm's-length basis and are substantially the same as those of our sales to non-affiliated end-brand customers.

We negotiate directly with our end-brand customers concerning the terms and conditions of the sales, but typically ship our display panels to designated system integrators at the direction of these end-brand customers. Sales data to end-brand customers include direct sales to these end-brand customers as well as sales to their designated system integrators, including through our affiliated trading company, LG International, and its subsidiaries, as further discussed below under Sales.

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers, including our largest shareholder, together accounted for 71.3% of our sales in 2006, 73.7% in 2007 and 76.5% in 2008. Our top five end-brand customers together accounted for 56.6% of our sales in 2006, 56.8% in 2007 and 59.6% in 2008. In 2008, two end-brand customers, LG Electronics (excluding its purchases made as a system integrator) and Philips Electronics, each contributed to 10% or more of our sales.

The following table presents our top five end-brand customers based on sales in our principal product categories for 2008:

|                     | Computer Products  |                  |                       |  |
|---------------------|--------------------|------------------|-----------------------|--|
| Televisions         | Notebook Computers | Desktop Monitors | Other Applications    |  |
| LG Electronics      | Hewlett-Packard    | Dell             | Tovis                 |  |
| Philips Electronics | Dell               | LG Electronics   | Truly Semiconductors  |  |
| Toshiba             | Toshiba            | Hewlett-Packard  | Seiko Instrument Inc. |  |
| AmTRAN              | Apple              | Apple            | LG Innotech           |  |
| Panasonic           | Acer               | Lenovo           | LG International      |  |

In addition to our top ten end-brand customers, we sell our TFT-LCD panels to a variety of other manufacturers of computers and electronic products. Sales to these other manufacturers constituted 28.7% of our sales in 2006, 26.3% in 2007 and 23.5% in 2008.

The following table sets forth for the periods indicated the geographic breakdown of our sales by the region where purchase orders are originated, without regard to the location of end-brand customers. The figures below therefore reflect orders from our end-brand customers, their system integrators and our affiliated trading company, LG International, and its subsidiaries:

|       | Year Ended December 31,                       |       |    |       |       |    |       |                      |      |       |    |
|-------|---|-------|----|-------|-------|----|-------|----------------------|------|-------|----|
|       | 2006  |       |    | 2007  |       |    | 2008  |                      |      |       |    |
|       | Sales   | %     |    | Sales | %     |    | Sales | Sales <sup>(1)</sup> | %    |       |    |
|       | (in billions of Won, except for percentages)  |       |    |       |       |    |       |                      |      |       |    |
|       | (in millions of US\$, except for percentages) |       |    |       |       |    |       |                      |      |       |    |
| Korea | (Won)   | 805   | 8% | (Won) | 985   | 7% | (Won) | 1,066                | US\$ | 845   | 7% |
| Asia  |   | 6,534 | 61 |       | 8,970 | 63 |       | 10,154               |      | 8,046 | 62 |

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|                       |              |      |              |      |              |             |      |
|-----------------------|--------------|------|--------------|------|--------------|-------------|------|
| America               | 1,034        | 10   | 1,490        | 10   | 2,088        | 1,654       | 13   |
| Europe                | 1,754        | 16   | 2,604        | 18   | 2,655        | 2,104       | 16   |
| Others <sup>(2)</sup> | 497          | 5    | 303          | 2    | 311          | 246         | 2    |
| Total                 | (Won) 10,624 | 100% | (Won) 14,352 | 100% | (Won) 16,274 | US\$ 12,895 | 100% |

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- (1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,262.0 to US\$1.00, the noon buying rate in effect on December 31, 2008 as quoted by the Federal Reserve Bank of New York. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.
- (2) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which amounted to (Won)171.1 billion and (Won)(194.5) billion (US\$(154.1)) million), or 1.6% and (1.2)% of total revenue, for the years ended December 31, 2006 and December 31, 2008, respectively. Such adjustments were minimal for the year ended December 31, 2007.

**Sales**

Our sales and marketing departments seek to maintain and strengthen relationships with our current customers in existing markets as well as expand our business in new markets and with new customers. We currently have wholly-owned sales subsidiaries in the United States, Japan, Germany, Taiwan, China and Singapore. As of December 31, 2008, our sales and marketing force employed a total of 1,046 employees in regional offices in these countries and in our head office in Korea.

The focus of our sales activities is on strengthening our relationships with large end-brand customers, with whom we maintain strong collaborative relationships. Customers look to us for a reliable supply of a wide range of TFT-LCD products. We believe our reliability and scale as a supplier helps support our customers' product positions. We view our relationships with our end-brand customers as important to their product development strategies, and we collaborate with our end-brand customers in the design and development stages of their new products. In addition, our sales teams coordinate closely with our end-brand customers' designated system integrators to ensure timely delivery. For each key customer, we appoint an account manager who is primarily responsible for our relationship with that specific customer, complemented by a product development team consisting of engineers who participate in meetings with that customer to understand the customer's specific needs. Our dedication to our customers has helped us win the overall DisplaySearch Customer Satisfaction Award for fiscal years 2002, 2003 and 2004. DisplaySearch discontinued awarding the prize in 2005. In May 2008, we received the Best Supplier Award from Hewlett-Packard Development Company, L.P., in recognition of our superior product technology and customer satisfaction activities at Hewlett-Packard Worldwide Supplier Conference held in Houston, Texas. The Best Supplier Award program recognizes outstanding companies among Hewlett-Packard's worldwide suppliers of parts and services that satisfy strict purchasing standards in quality, service and technology, and are judged to have made the greatest contributions to Hewlett-Packard.

We do not typically enter into binding long-term contracts with our customers. However, we have in place long-term supply and purchase agreements with certain major end-brand customers, whereby we and our end-brand customers agree on general volume parameters and, in some cases, product specifications and delivery terms. These agreements serve as an indication of the size and key components of a customer's order, and neither party is committed to supply or purchase any products until a firm purchase order is issued.

Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. Our sales subsidiaries procure purchase orders from and distribute our products to system integrators and end-brand customers located in their region. In regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices, we sell our products to LG International and its subsidiaries. These subsidiaries of LG International process orders from and distribute products to customers located in their region. In particular, we have sold a significant amount of our products to LG International Japan, Ltd. and LG International (HK) Ltd. Sales to LG International and its subsidiaries on an aggregate basis amounted to 9.0%, 8.3% and 6.2% in 2006, 2007 and 2008, respectively. See Item 7.B. Related Party Transactions for further discussion of these sales arrangements.

We establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of utilizing our affiliated trading company, LG International, or its subsidiaries, and where local market practice permits. Based on this approach, we established sales subsidiaries in Hong Kong and Shanghai, China, in January 2003, to replace LG International (HK) in conducting sales to system integrators located in China. In January 2009, we established a sales subsidiary in Singapore, which is expected to replace LG International Singapore Ltd. in conducting sales to system integrators located in Singapore. We expect to continue to utilize LG International Japan, consistent with local market practices there, to conduct our sales to end-brand customers in Japan, but may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

Our end-brand customers or their system integrators generally place purchase orders with us one month prior to delivery based on our non-binding supply and purchase agreements with them. Generally, the head office of an end-brand customer





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provides us with three- to six-month forecasts, which, together with our own forecasts, enable us to plan our production schedule in advance. Our customers usually issue monthly purchase orders containing prices we have negotiated with the end-brand customer one month prior to delivery, at which point the customer becomes committed to the order at the volumes and prices indicated in the purchase orders. Under certain special circumstances, however, a negotiated price may be subject to change during the one-month period prior to delivery.

Prices for our products are generally determined based on negotiations with our end-brand customers. Pricing of our display panel products is generally market-driven, based on the complexity of the product specifications and the labor and technology involved in the design or production processes. Purchase prices and payment terms for our sales to our largest shareholder is substantially the same as those for our non-affiliated end-brand customers.

We generally provide a limited warranty to our end-brand customers, including the provision of replacement parts and after-sale services for our products. Costs incurred under our warranty liabilities consist primarily of repairs. We set aside a warranty reserve based on our historical experience and future expectations as to the rate and cost of claims under our warranties.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have been collected within 65 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements and accounts receivable insurance programs, to protect us from excessive exposure to credit risks. To date we have not experienced any material problems relating to customer payments.

## **Competition**

The TFT-LCD industry is highly competitive. Due to the capital intensive nature of the display industry and the high production volumes required to achieve economies of scale, the international market for display devices is characterized by significant barriers to entry, but the competition among the relatively small number of major producers is intense. Currently almost all TFT-LCD manufacturers are located in Asia, and we compete principally with manufacturers from Korea, Taiwan, China and Japan.

The principal elements of competition for customers in the TFT-LCD market include:

product portfolio range and availability;

product specifications and performance;

price;

capacity allocation and reliability;

customer service, including product design support; and

logistics support and proximity of regional stocking facilities.

Our principal competitors are:

Samsung Electronics (including the joint venture formed by Samsung Electronics and Sony Corporation in April 2004) and Hydis in Korea;

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AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar and Innolux in Taiwan;

Sharp, Hitachi, TMDisplay, Mitsubishi, Sony and IPS-Alpha in Japan; and

SVA-NEC, Infovision and BOE-OT in China.

According to DisplaySearch, in 2008, Korean TFT-LCD manufacturers had a market share of 46.1% of the 10.0-inch or larger panel market based on revenue, Taiwanese manufacturers had 38.8% and Japanese manufacturers had 12.1%.

### **Components, Raw Materials and Suppliers**

Components and raw materials accounted for 58.9% of our cost of sales in 2006, 60.5% in 2007 and 61.4% in 2008. The key components and raw materials of our TFT-LCD products include backlight units, glass substrates, driver integrated circuits, polarizers, color filters and liquid crystal materials. We source these components and raw materials from outside sources, although, unlike many other TFT-LCD manufacturers, we produce a substantial portion of the color filters we use. With respect to glass substrates, Paju Electric Glass Co., Ltd., a joint venture company of which we and Nippon Electric Glass Co., Ltd. own 40% and 60%, respectively, provides us with a stable supply at competitive prices.

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We generally negotiate non-binding master supply agreements with our suppliers several times a year, but pricing terms are negotiated on a quarterly basis, or if necessary, on a monthly basis. Firm purchase orders are issued generally six weeks prior to the scheduled delivery, except in the case of purchase orders for driver integrated circuits, which are issued generally six to ten weeks prior to the scheduled delivery. We purchase our components and raw materials based on forecasts from our end-brand customers as well as our own assessments of our end-brand customers' needs.

In January 2008, we entered into a purchase agreement with HannStar, pursuant to which HannStar agreed to supply us, on a monthly basis, with TFT-LCD modules and cells to be used in our TFT-LCD products. The agreement has a term of three years but will be automatically renewed unless either party provides the other with prior notice to terminate. We pay the purchase price for the modules and cells on a delivery basis.

In order to reduce our component and raw material costs and our dependence on any one supplier, we generally develop compatible components and raw materials and purchase our components and raw materials from more than one source. However, we source the key components and raw materials from a limited group of suppliers in order to ensure timely supply and consistent quality. Also, in order to facilitate implementation of our cost reduction strategies, we continually review and weigh the reduction in logistics and transportation costs we may achieve by sourcing our components and raw materials from suppliers based in Korea against the price reduction we may achieve by sourcing from suppliers based abroad that are price competitive. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and price of the components, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

We maintain a strategic relationship with many of our key material suppliers, and from time to time, we make equity investments in our material suppliers as part of our efforts to secure a stable supply of key components and raw materials. For example, in May 2008, we purchased 1,008,875 shares of common stock of TLi Inc., which was approximately 12.9% of its outstanding shares as of December 31, 2008, at a purchase price of (Won)14.1 billion. TLi Inc. produces key components such as timing controllers and driver integrated circuits. In addition, in July 2008, we purchased 6,850,000 shares of common stock of New Optics Ltd., which is approximately 36.7% of its outstanding shares, at a purchase price of (Won)9.7 billion. New Optics produces backlight units.

We generally maintain a component and raw material inventory sufficient for approximately 10 days, or 20 days for driver integrated circuits, as a safeguard against potential disruptions in supply.

In addition to components and raw materials, the manufacturing of our products requires significant quantities of electricity and water. In order to obtain and maintain reliable electric power and water supplies, we have our own back-up power generation facilities and water storage tanks as well as easy access to nearby water sources. To date we have not experienced any material problems with our electricity and water supplies.

## **Equipment and Suppliers**

We depend on a limited number of equipment manufacturers for equipment tailored to specific requirements. Since our manufacturing processes depend on the quality and technological capacity of our equipment, we work closely with the equipment manufacturers in the design process to ensure that the equipment meets our specifications. The principal types of equipment we use to manufacture TFT-LCD panels include chemical deposition equipment, steppers, developers and coaters.

We purchase equipment from a small number of qualified vendors to ensure consistent quality, timely delivery and performance. We maintain strategic relationships with many equipment manufacturers as part of our efforts to ensure quality while reducing costs. For example, in June 2008, we purchased 2,037,204 shares of common stock of AVACO Co., Ltd., a local equipment supplier that produces sputters, which was approximately 19.9% of its outstanding shares as of December 31, 2008, at a purchase price of (Won)6.2 billion.

In recent years, we began substituting a portion of our equipment purchased from foreign vendors with purchases from local suppliers, and in 2008, approximately 56.6% of our equipment was purchased from local suppliers on an invoiced basis. We plan to continue this localization effort to diversify our supply source and reduce costs. A large majority of the equipment purchased from foreign vendors are from Japanese vendors. In the procurement of equipment from Japan, we also use LG International's subsidiary in Japan in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. See Item 7.B. Related Party Transactions.

Our engineers begin discussions with equipment manufacturers far in advance of the planned installation of equipment in a new fab, and we typically execute a letter of intent with the vendors in advance of our planned installation to ensure timely delivery of main equipment with long-term delivery schedules. Engineers from our vendors typically accompany the new equipment to our fabs to assist in the installation process to ensure proper operation. To date, we have not experienced any material problems with our equipment supplies or after-delivery

services.

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### **Quality Control**

We believe that our advanced production capabilities and our reputation for high quality and reliable products have been important factors in attracting and retaining key customers. We have implemented quality inspection and testing procedures at all of our fabs and assembly facilities. Our quality control procedures are carried out at three stages of the manufacturing process:

incoming quality control with respect to components and raw materials;

in-process quality control, which is conducted at a series of control points in the manufacturing process; and

outgoing quality control, which focuses on packaging, delivery and post-delivery services to customers.

With respect to incoming quality control, we perform quality control procedures for the raw materials and components that we purchase. These procedures include testing samples of large batches, obtaining vendor testing reports and testing to ensure compatibility with other components and raw materials, as well as vendor qualification and vendor rating. Our in-process quality control includes various programs designed to detect, as well as prevent, quality deviations, reduce manufacturing costs, ensure on-time delivery, increase in-process yields and improve field reliability of our products. We perform outgoing quality control based on burn-in testing and final visual inspection of our products and accelerated life testing of samples. We inspect and test our completed display panels to ensure that they meet our high production standards. We also provide post-delivery services to our customers, and maintain warranty exchange inventories in regional hubs to meet our customers' needs.

Our quality assurance team works not only to ensure effective and consistent application of our quality control procedures, but also to introduce new methodologies, including six-sigma quality control. Our quality assurance programs have received accredited ISO/TS 16949 certifications. The ISO/TS certification process involves subjecting our manufacturing processes and quality management systems to reviews and observation for various fixed periods. ISO/TS certification is required by certain European countries and the United States in connection with sales of industrial products in those countries, and provides independent verification to our customers regarding the quality control measures employed in our manufacturing and assembly processes.

### **Insurance**

We currently have insurance coverage for our production facilities in Gumi and Paju, Korea, for up to (Won)2 trillion per claim, which includes business interruption coverage. We also have insurance coverage for work-related injuries to our employees, accidents during overseas business travel, damage during construction, damage to products and equipment during shipment, damage to equipment during installation at our fabs, automobile accidents, bodily injury and property damage from gas accidents, as well as mandatory unemployment insurance for our workers and director and officer liability insurance. In addition, we maintain general and product liability, employment practice liability and aviation product liability insurance. Our dormitories in Gumi and Paju, Korea have fire insurance coverage for up to (Won)264 billion per claim. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment, cargo insurance and life and disability insurance for their employees. Our subsidiaries in Nanjing and Guangzhou, China and Wroclaw, Poland also carry property insurance, business interruption insurance and commercial general liability insurance.

### **Environmental Matters**

Our production processes generate various forms of chemical waste, waste water and other industrial waste at various stages in the manufacturing process. We have installed various types of anti-pollution equipment for the treatment of chemical waste and waste water and equipment for the recycling of treated waste water in our facilities in Korea. We have also voluntarily agreed to reduce emission of greenhouse gases, such as per fluoro compounds, or PFCs, and sulfur hexafluoride, or SF<sub>6</sub>, gases, by installing PFC abatement systems to meet voluntary emissions targets for the TFT-LCD industry by 2010. We installed PFC abatement systems at all of our production lines when the production facilities were being constructed. We also installed a SF<sub>6</sub> abatement system in P1 in April 2005 and we intend to install similar abatement systems in our other production facilities through implementation of Clean Development Mechanism, or CDM, projects. Our methodology for SF<sub>6</sub> decomposition has been approved by the CDM Executive Board, an entity established by the parties to the United Nations Framework Convention on Climate Change, or UNFCCC, in February 2009, and we are currently preparing the CDM project design document for such projects. In addition, as of December 31, 2008, we were party to voluntary agreements, which reflect a coordinated energy conservation initiative between government and industry, with respect to our operation of P1 through P7, the Gumi module production plant and the Paju module production plant. In



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accordance with such agreements, we have implemented a variety of energy-saving measures in those facilities, including installation of energy saving devices and consulting with energy conservation specialists. We also established an overall greenhouse gas emissions inventory system for our domestic sites, which was verified by Lloyd's Register Quality Assurance, which is certified as the designated operational entity for CDM by the CDM Executive Board.

Operations at our manufacturing plants are subject to regulation and periodic monitoring by the Korean Ministry of Environment and local environmental protection authorities. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with local industry practice, and that we are in compliance in all material respects with the applicable environmental laws and regulations in Korea. Expenditures related to such compliance may be substantial. Such expenditures are generally included in capital expenditures. As required by Korean law, we employ licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation. We currently have ISO 14001 certifications with respect to the environmental record for P1 through P7, the Gumi module production plant and the Paju module production plant, as well as our module production plants in Nanjing and Guangzhou, China.

We have been certified by the Korean Ministry of Environment as an Environmentally Friendly Company, with respect to our environmental record for P1 and our module production plant in Gumi since 1997, with respect to our operations at P2 and P3 since 2006, and with respect to our operations at P4, P5 and P6 since 2008.

We also have an internal monitoring system to control the use of hazardous substances in the manufacture of our products as we are committed to compliance with all applicable environmental laws and regulations, including European Union Restriction of Hazardous Substances (RoHS) Directive 2002/95/EC, which took effect on July 1, 2006 in the European Union and restricts the use of certain hazardous substances in the manufacture of electrical and electronic equipment. In June 2006, we became the first TFT-LCD panel manufacturer to be recognized as an internationally accredited RoHS testing laboratory by the European Union's German accreditation organization, EU TÜV SÜD. In October 2007, we became the first TFT-LCD company to be certified the International Electrotechnical Commission-Hazardous Substance Process Management (IECQ-HSPM) QC 080000, which is an international system requirements document intended to help organizations manage hazardous substances in their components and products through hazardous substance process management, and demonstrates the organization's conformity with RoHS.

Furthermore, we are operating a green purchasing system, which excludes the hazardous materials at the purchasing stage. This system has enabled us to comply with various environmental legislations of hazardous substances, from European Union RoHS to China RoHS.

**Subsidiaries**

The following table sets forth summary information for our subsidiaries as of December 31, 2008:

| Subsidiary                   | Main Activities         | Jurisdiction of Incorporation | Date of Incorporation | Total Paid-in Capital | Percentage of Our Ownership Interest | Percentage of Our Voting Power |
|------------------------------|-------------------------|-------------------------------|-----------------------|-----------------------|--------------------------------------|--------------------------------|
| LG Display Taiwan Co., Ltd.  | Sales                   | Taiwan                        | April 1999            | NT\$ 115,500,000      | 100%                                 | 100%                           |
| LG Display America, Inc.     | Sales                   | U.S.A.                        | September 1999        | US\$ 5,000,000        | 100%                                 | 100%                           |
| LG Display Japan Co., Ltd.   | Sales                   | Japan                         | October 1999          | ¥ 95,000,000          | 100%                                 | 100%                           |
| LG Display Germany GmbH      | Sales                   | Germany                       | November 1999         | 960,000               | 100%                                 | 100%                           |
| LG Display Nanjing Co., Ltd. | Manufacturing and sales | China                         | July 2002             | RMB 1,642,572,600     | 100%                                 | 100%                           |



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|                                   |                            |           |                |      |             |      |      |
|-----------------------------------|----------------------------|-----------|----------------|------|-------------|------|------|
| LG Display<br>Hong Kong Co., Ltd. | Sales                      | Hong Kong | January 2003   | HK\$ | 11,500,000  | 100% | 100% |
| LG Display<br>Shanghai Co., Ltd.  | Sales                      | China     | January 2003   | RMB  | 4,138,650   | 100% | 100% |
| LG Display<br>Poland Sp. zo.o.    | Manufacturing<br>and sales | Poland    | September 2005 | PLN  | 511,071,000 | 80%  | 80%  |

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| Subsidiary                     | Main Activities         | Jurisdiction of Incorporation | Date of Incorporation | Total Paid-in Capital | Percentage of Our Ownership Interest | Percentage of Our Voting Power |
|--------------------------------|-------------------------|-------------------------------|-----------------------|-----------------------|--------------------------------------|--------------------------------|
| LG Display Guangzhou Co., Ltd. | Manufacturing and sales | China                         | June 2006             | RMB 678,337,330       | 84%                                  | 84%                            |
| LG Display Shenzhen Co., Ltd.  | Sales                   | China                         | August 2007           | RMB 3,775,250         | 100%                                 | 100%                           |

In November 2008, Global Professional Sourcing Co., Ltd., a subsidiary of LG Display Taiwan Co., Ltd., was liquidated. In January 2009, we established LG Display Singapore Pte. Ltd., a wholly-owned sales subsidiary in Singapore with paid-in capital of SG\$1.4 million.

**Item 4.C. Organizational Structure**

These matters are discussed under Item 4.B. where relevant.

**Item 4.D. Property, Plants and Equipment  
Current Facilities**

We currently operate nine fabrication facilities, P1 through P8 and P6E, located in Gumi and Paju, Korea, and seven module facilities located in Gumi and Paju, Korea, Nanjing (3 facilities) and Guangzhou, China and Wroclaw, Poland. In addition, we installed equipment that enables the manufacture of display panels using LTPS technology in a facility, AP1, located in previously unused space in our P6 facility. We began mass production at AP1 in August 2005.

The following table sets forth the size, primary use and capacity of our fabrication facilities and the size of our research and development facility and assembly facilities:

| Facility | Generation <sup>(1)</sup> | Gross Floor Area<br>(in square meters) | Input Substrates                                 |  | Nominal TFT Capacity<br>as of December 31, 2008<br>(in input substrates<br>per month) <sup>(2)</sup> | Primary Size of Panels<br>Produced or<br>Other Activity |                                 |
|----------|---------------------------|--|--|--|--|---|---------------------------------|
|          |                           |  | Size (in mm)/<br>Mass Production<br>Commencement |  |  |   |                                 |
| P1       | 2                         | 38,838                                 | 370 x 470<br>September 1995                      |  | 94,000   | 15.4  | small and medium-size<br>panels |
| P2       | 3                         | 71,002                                 | 590 x 670<br>December 1997                       |  | 118,000  | 13.3 , 14.1 , 15.0                                      |                                 |
| P3       | 4                         | 71,002                                 | 680 x 880<br>July 2000                           |  | 131,000  | 14.1 , 15.0 , 15.4                                      |                                 |
| P4       | 5                         | 90,988                                 | 1,000 x 1,200<br>March 2002                      |  | 143,000  | 15.0 , 17.1 , 19.0                                      |                                 |

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|                           |   |                |                       |                    |                                       |
|---------------------------|---|----------------|-----------------------|--------------------|---------------------------------------|
| P5                        | 5 | 90,988         | 1,100 x 1,250         | 157,000            | 15.4 , 17.0 , 24.0                    |
|                           |   |                | May 2003              |                    |                                       |
| P6                        | 6 | 288,602        | 1,500 x 1,850         | 170,000            | 20.1 , 32.0 , 37.0                    |
|                           |   |                | August 2004           |                    |                                       |
| P7                        | 7 | 310,134        | 1,950 x 2,250         | 132,000            | 19.0 , 42.0 , 47.0                    |
|                           |   |                | January 2006          |                    |                                       |
| P8                        | 8 | 508,744        | 2,200 x 2,500         | N/A <sup>(3)</sup> | 32.0 , 47.0 , 55.0                    |
|                           |   |                | March 2009            |                    |                                       |
| P6E                       | 6 | 101,607        | 1,500 x 1,850         | N/A <sup>(4)</sup> | 15.4 , 18.5 , 20.0                    |
|                           |   |                | April 2009            |                    |                                       |
| AP1                       | 4 | <sup>(5)</sup> | 730 x 920 August 2005 | 4,000              | LTPS panels and backplanes for AMOLED |
| R&D Center                |   | 10,742         |                       |                    |                                       |
| Gumi assembly facility    |   | 56,380         | January 1995          |                    |                                       |
| Nanjing assembly facility |   | 145,873        | May 2003              |                    |                                       |

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| Facility                    | Generation <sup>(1)</sup> | Gross Floor Area<br>(in square meters) | Input Substrates                                 |  | Nominal TFT Capacity<br>as of December 31, 2008<br>(in input substrates<br>per month) <sup>(2)</sup> | Primary Size of Panels        |  |
|-----------------------------|---------------------------|--|--|--|--|-------------------------------|--|
|                             |                           |  | Size (in mm)/<br>Mass Production<br>Commencement |  |  | Produced or<br>Other Activity |  |
| Paju assembly facility      |                           | 218,931                                | November 2005                                    |  |  |                               |  |
| Wroclaw assembly facility   |                           | 106,928                                | March 2007                                       |  |  |                               |  |
| Guangzhou assembly facility |                           | 29,686                                 | December 2007                                    |  |  |                               |  |

N/A = Not applicable

- (1) Based on internal reference to evolutions in facility design, material flows and input substrate sizes. There are several definitions of generations in the TFT-LCD industry. There has been no consensus in the TFT-LCD industry on a uniform definition. References to fab generations made in this annual report are based on our current definition of generations as indicated in the table below.

| Substrate Sizes (in millimeters) | Gen 2     | Gen 3     | Gen 4     | Gen 5         | Gen 6         | Gen 7         | Gen 8         |
|----------------------------------|-----------|-----------|-----------|---------------|---------------|---------------|---------------|
|                                  | 360 x 465 | 550 x 650 | 680 x 880 | 1,000 x 1,200 | 1,500 x 1,800 | 1,870 x 2,200 | 2,200 x 2,500 |
|                                  | 370 x 470 | 590 x 670 | 730 x 920 | 1,100 x 1,250 | 1,500 x 1,850 | 1,950 x 2,250 |               |
|                                  | 400 x 500 | 600 x 720 |           | 1,100 x 1,300 |               |               |               |
|                                  |           | 620 x 750 |           | 1,200 x 1,300 |               |               |               |
|                                  |           | 650 x 830 |           |               |               |               |               |
| <b>LG Display</b>                |           |           |           |               |               |               |               |
| P1                               | 370 x 470 |           |           |               |               |               |               |
| P2                               |           | 590 x 670 |           |               |               |               |               |
| P3                               |           |           | 680 x 880 |               |               |               |               |
| P4                               |           |           |           | 1,000 x 1,200 |               |               |               |
| P5                               |           |           |           | 1,100 x 1,250 |               |               |               |
| P6                               |           |           |           |               | 1,500 x 1,850 |               |               |
| P7                               |           |           |           |               |               | 1,950 x 2,250 |               |
| P8                               |           |           |           |               |               |               | 2,200 x 2,500 |
| P6E                              |           |           |           |               | 1,500 x 1,850 |               |               |

- (2) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 have the capacity to process both TFT and color filter substrates.
- (3) Commenced mass production in March 2009.
- (4) Commenced mass production in April 2009.
- (5) Located in previously unused space in our P6 facility.

**Expansion Projects**

We are building additional production and research and development facilities to meet forecasted increases in demand for our products. We commenced mass production at P8, our eighth fabrication facility, in March 2009. We expect that the total cost of the construction and build-out of P8 will amount to approximately (Won)2.7 trillion, of which approximately (Won)2.2 trillion was incurred in 2008 and approximately (Won)0.4 trillion is expected to be incurred in 2009. In addition, we commenced mass production at P6E, our ninth fabrication facility, in April 2009. We expect that the total cost of the construction and build-out of P6E will amount to approximately (Won)1.4 trillion, of which approximately (Won)0.7 trillion was incurred in 2008 and approximately (Won)0.8 trillion is expected to be incurred in 2009. In January 2009, our board of directors approved an investment in a new LTPS TFT-LCD production facility in Paju, Korea for production of premium TFT-LCD panels primarily used in mobile devices. We expect to commence mass production at this production facility in the first half of 2010. We expect that our capital expenditures for such investment in the new LTPS TFT-LCD production facility on a delivery basis will amount to approximately (Won)577 billion, all of which is expected to be incurred in 2009. Such amounts are subject to periodic assessment, and we cannot provide any assurance that such amounts may not change materially after assessment. We expect that our total capital expenditures on a delivery basis to be approximately (Won)2.5 trillion in 2009. We may undertake further expansion projects in the future with respect to our

existing facilities as our overall business strategy may require.

Prior to January 16, 2009, the construction of factories exceeding a certain size was prohibited in designated areas around Seoul, such as Paju, under the Presidential Decree of the Industrial Cluster Development and Factory Establishment Act. Due to such prohibition, we had relied on an exemption available to companies whose foreign equity interest equals or exceeds 30% to construct the facilities at our Paju Display Cluster. On January 16, 2009, the Presidential Decree was amended to permit the construction or expansion of factories in such designated areas if (i) the purpose of the factory is to manufacture certain equipment, such as audiovisual equipment, and (ii) the factory is located in an area that has been designated as an industrial complex area under Korean law. Our Paju Display Cluster meets both such criteria, and we may construct new facilities and make additional expansions at our Paju Display Cluster without relying on the exemption available to companies whose foreign equity interest equals or exceeds 30%.

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We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act.

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****Item 5.A. Operating Results****Overview**

Our results of operations are affected principally by overall market conditions, our manufacturing productivity and costs, and our product mix.

**Market Conditions**

The TFT-LCD industry is affected by market conditions that are often outside the control of individual manufacturers. Our results of operations might fluctuate significantly from period to period due to market factors, such as seasonal variations in consumer demand, surges in production capacity by competitors and changes in technology. Our industry has grown significantly in recent years as a result of cost reductions and product improvements that stimulated consumer demand and supported the technology substitution of traditional CRT-based personal computer displays for TFT-LCD displays. According to DisplaySearch, unit sales across the TFT-LCD industry grew from 70 million units in 1999 to 2,081 million units in 2008. Market revenues grew from US\$14 billion to US\$92 billion during the same period, showing a compounded annual growth rate of 23.3%, according to the same source.

While the industry has grown rapidly, it has also experienced business cycles with significant and rapid price declines from time to time. Historically, TFT-LCD manufacturers typically increased display area fabrication capacity by about 50% year on year. Capacity expansion above this growth rate can occur when several manufacturers ramp-up new factories at the same time. During such surges in the rate of supply growth, our customers are able to exert downward pricing pressure, leading to sharp declines in average selling prices and significant fluctuations in our gross margins. In addition, regardless of relative capacity expansion, we expect average selling prices of our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for TFT-LCD panels in some past periods, most recently in 2004. According to DisplaySearch, the average selling price of large-size TFT-LCD panels, or panels that are ten inches or larger, decreased by approximately 1.6% from US\$186 in 2006 to US\$183 in 2007 and further decreased by 10.4% to US\$164 in 2008 as a result of TFT-LCD manufacturers' increased production capacity, which resulted in an increased supply of TFT-LCD panels in 2007 and 2008, despite increased sales of large-size television panels.

Our product cost and price vary with the product display area to a significant extent. Therefore, the average selling price of our products can vary over time as a result of business cycles and the choices we make in capacity allocation for specific products. The overall average selling price of our display panels, including small panels for applications other than computers or televisions, can fluctuate significantly. Our average selling price per panel of panels used in televisions, notebook computers and desktop monitors decreased by 6.6% from (Won)185,893 per panel in 2006 to (Won)173,585 in 2007 and further decreased by 3.8% to (Won)167,002 (US\$132) in 2008 despite the significant depreciation of the Korean Won against the U.S. dollar, in which most of our sales are denominated, in 2008. We anticipate an increased capacity output in 2009, as competing panel manufacturers, including us, commence production in new fabrication facilities. In line with historical trends in our industry, we anticipate that temporary surges in capacity might put downward pressure on prices for our panels, but we expect that consumer demand for large-size panels will continue to increase in the personal computer and the television market. During the initial stage of market development for TFT-LCD desktop monitors we were able to capture price premiums for desktop monitor panels until we reduced prices in order to stimulate wider demand. In order to grow the TFT-LCD television market, we plan to follow a similar strategy to reduce prices, fuel consumer demand and mitigate anticipated increases in capacity in the TFT-LCD industry. This strategy may result in a decrease in the overall average selling prices of our panels.

We strive to mitigate the effect of industry cyclicality and the resulting price fluctuations by planning capacity expansions and capacity allocations, or shifting our product mix, to capture premium prices in specific emerging product categories. Recently, we have expanded capacity and design capability toward large-size displays, which offer premium prices. For example, our P4 is optimized for the efficient fabrication of 19-inch panels for desktop monitors and our P5 is optimized for producing 23-inch and 27-inch wide-format panels for desktop monitors. Our P6 is optimized for producing large and wide-format panels for desktop



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monitors, such as 21.5-inch wide-format display panels, as well as panels for televisions, such as 32-inch and 37-inch wide-format display panels. Our P7 is optimized for producing large-size panels for desktop monitors and televisions, including 42-inch and 47-inch wide-format display panels. Our P8 is optimized for producing panels for televisions, including 32-inch, 47-inch and 55-inch wide-format display panels. Our P6E is optimized to produce large and wide-format panels for notebook computers, such as 15.4-inch and 15.6-inch wide-format display panels, as well as panels for desktop monitors, such as 18.5-inch and 20-inch wide-format display panels.

**Manufacturing Productivity and Costs**

We seek to continually enhance our manufacturing productivity and thereby reduce the cost of producing each panel. We have significantly expanded our production capacity by investing in fabs that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and year-end input capacity as a result of ramp-up for each of our fabs as of the dates indicated:

| Fabrication Facility | Mass<br>Production<br>Commencement | Input<br>Substrates Size<br>(in millimeters) | Initial<br>Design Capacity<br>(in input substrates<br>per month) | Year-end Input Capacity <sup>(1)</sup>                 |                    |                    |
|----------------------|------------------------------------|--|--|--|--------------------|--------------------|
|                      |                                    |  |  | 2006<br>(in input substrates per month) <sup>(2)</sup> | 2007               | 2008               |
| P1                   | September 1995                     | 370x470                                      | 30,000   | 98,000   | 97,000             | 95,000             |
| P2                   | December 1997                      | 590x670                                      | 40,000   | 106,000  | 119,000            | 119,000            |
| P3                   | July 2000                          | 680x880                                      | 60,000   | 115,000  | 132,000            | 144,000            |
| P4                   | March 2002                         | 1,000x1,200                                  | 60,000   | 115,000  | 143,000            | 157,000            |
| P5                   | May 2003                           | 1,100x1,250                                  | 60,000   | 129,000  | 157,000            | 175,000            |
| P6                   | August 2004                        | 1,500x1,850                                  | 90,000   | 135,000  | 170,000            | 185,000            |
| P7                   | January 2006                       | 1,950x2,250                                  | 90,000   | 77,000   | 138,000            | 162,000            |
| P8                   | March 2009                         | 2,200x2,500                                  | 83,000   | N/A <sup>(3)</sup>                                     | N/A <sup>(3)</sup> | N/A <sup>(3)</sup> |
| P6E                  | April 2009                         | 1,500x1,850                                  | 60,000   | N/A <sup>(4)</sup>                                     | N/A <sup>(4)</sup> | N/A <sup>(4)</sup> |

N/A = not applicable

- (1) Year-end input capacity is the total input substrates for the month that had the highest monthly input substrates during the fiscal year.
- (2) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 have the capacity to process both TFT and color filter substrates.
- (3) Began mass production in March 2009.
- (4) Began mass production in April 2009.

Our cash outflows for capital expenditures amounted to (Won)3,076.0 billion in 2006, (Won)1,577.3 billion in 2007 and (Won)2,748.6 billion (US\$2,178.0 million) in 2008. Such capital expenditures relate mainly to the construction of new fabrication facilities, including the construction and equipping of P6 and P7 in 2006 and 2007, and the construction of P8 in 2008. Capital expenditures were also incurred for the acquisition of new equipment during the same period. Our depreciation expense as a percentage of sales decreased from 24.4% in 2006 to 19.4% in 2007 and decreased further to 15.3% in 2008. The decrease was primarily due to lower depreciation of P6 which had been substantially depreciated by July 2008. Capital expenditures increased in 2008 primarily due to the construction of P8 and the commencement of the construction of P6E. We expect that our capital expenditures for the construction and build-out of P8 on a delivery basis will amount to (Won)0.4 trillion in 2009. In April 2009, we completed the construction of P6E, and we expect that our capital expenditures for the construction and build-out of P6E on a delivery basis will amount to (Won)0.8 trillion in 2009. In January 2009, our board of directors approved an investment in the amount of (Won)577 billion in a new LTPS TFT-LCD production facility in Paju, Korea for production of premium TFT-LCD panels primarily used in mobile devices. We expect that our capital expenditures for such investment in the new LTPS TFT-LCD production facility on a delivery basis will amount to approximately (Won)577 billion, all of which is expected to be incurred in 2009. Such amounts are subject to periodic assessment, and we cannot provide any assurance that such amounts may not change materially after assessment.

Since inception we have designed our fabs in-house and co-developed most equipment sets with our suppliers. These efforts have enabled us to gain valuable experience in designing and operating next generation fabs capable of processing increasingly larger-size glass substrates. We have been able to leverage this experience to achieve and maintain high production output and yields at our fabs, thereby lowering costs. For example, P7, a seventh-generation fab which began mass production in January 2006, reached an initial design capacity of 90,000 input sheets of



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glass substrate per month in April 2007 and an expanded average capacity of 174,000 input sheets of glass substrate per month during the fourth quarter of 2008. In addition, in recent years we have substituted a portion of our equipment purchased from overseas suppliers with purchases from domestic vendors as part of our ongoing efforts to reduce our reliance on overseas suppliers for key components and equipment. In 2008, we purchased approximately 56.6% of our equipment from local suppliers on an invoiced basis, and we plan to continue this localization effort to diversify our supply source and reduce costs. We aim to actively facilitate the development of a domestic vendor base to take advantage of lower prices and to reduce our vulnerability to possible component shortages during times of surplus demand. We also fabricate certain components internally, such as color filters, which are one of the industry's higher-cost components.

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We also continue to make various process improvements at our fabs, including enhancing the performance of process equipment, efficiency of material flows and quality of process and product designs. For example, we have reduced the number of mask steps in the TFT process from four to three with respect to certain models, thereby enabling us to process a higher number of substrates in a given period of time. Such process improvements result in increased unit output of our fabs without significant capital investment, thus enabling us to reduce fixed costs on a per panel basis.

Raw materials comprise the largest component of our costs. Over the past several years we have consistently increased the proportion of our raw material purchases from local suppliers, who have typically offered lower prices compared to overseas suppliers. We plan to diversify our supplier base to overseas suppliers who are price competitive. In 2008, approximately 87.8% of our raw materials were sourced from local suppliers. We have also been able to leverage our scale and leading industry position to obtain competitive prices from our suppliers. Certain strategic decisions, such as fabricating our own color filters, one of the higher cost components, have also been important drivers of our cost control.

The size of our operations has also expanded considerably from 2002 to date, enabling us to benefit from economies of scale. As a result of the above factors, our cost of sales per panel (including small and medium-size display panels, or panels smaller than 10 inches in size), which is derived by dividing total cost of sales by total number of panels sold, decreased from (Won)88,280 per panel in 2006 to (Won)57,820 in 2007 and further decreased to (Won)55,525 (US\$44) in 2008 despite the significant depreciation of the Korean Won against the U.S. dollar, in which a significant portion of our raw materials purchases are denominated, in 2008. Our cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased from US\$1,627 per square meter of net display area in 2006 to US\$1,113 in 2007 and US\$770 in 2008.

### Product Mix

Our product mix reflects our strategic capacity allocation among various TFT-LCD product markets, and is continually reviewed and adjusted based on the demand for, and our assessment of the profitability of, display panels in different market and size categories. For example, beginning in 2002, we increased our sales of 18-inch panels for desktop monitors to capture the emerging market for large-size desktop monitors and now we offer 19-inch, 20-inch, 20-inch wide-format XGA, 22-inch wide-format SXGA+, 23-inch wide-format UXGA, 24-inch wide-format UXGA, 26-inch wide-format UXGA and 30-inch WQXGA+ panels for desktop monitors. In addition to increases in sales of panels for computer products, we increased our sales of panels for televisions in 2006, 2007 and 2008 in response to a notable rise in consumer demand for televisions using TFT-LCD panels. We have the flexibility to increase the production and sales of 19-inch wide-format, 32-inch wide-format, 37-inch wide-format, 42-inch wide-format, 47-inch wide-format, 52-inch wide-format and 55-inch wide-format panels as demand grows for these larger sizes. As a result of our product mix shift to target large-size panels that command higher prices as well as an increase in overall sales, we were able to alleviate to a large extent the negative effect of price declines in 2006, 2007 and 2008 in most of our product categories. Our average selling price per panel of panels used in televisions, notebook computers and desktop monitors decreased by 6.6% from (Won)185,893 per panel in 2006 to (Won)173,585 in 2007 and further decreased by 3.8% to (Won)167,002 (US\$132) in 2008.

Our product portfolio also includes small-size display panels for handheld application products, such as mobile phones, and medium- and large-size display panels for industrial and other applications, such as entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment. Sales of our small and medium-size display panels, or panels smaller than ten inches, for these applications increased from 69.4 million in 2006 to 129.8 million in 2007 and further increased to 151.7 million in 2008, principally as a result of increased demand for handheld application products, mobile phones, digital photo displays and portable navigation devices.

The following table sets forth our sales by product category for the periods indicated and sales revenues in each product category as a percentage of our total sales:

| Panels for                            | Year Ended December 31,                      |     |             |     |                       |            |     |  |  |
|---------------------------------------|--|-----|-------------|-----|-----------------------|------------|-----|--|--|
|                                       | 2006   |     | 2007        |     | 2008                  |            |     |  |  |
|                                       | Sales  | %   | Sales       | %   | Sales                 | Sales      | %   |  |  |
|                                       | (in billions of Won, except for percentages) |     |             |     | (in millions of US\$) |            |     |  |  |
| Televisions                           | (Won) 4,939                                  | 47% | (Won) 6,841 | 48% | (Won) 8,020           | US\$ 6,355 | 49% |  |  |
| Notebook Computers                    | 2,167  | 20  | 3,085       | 21  | 3,701                 | 2,933      | 23  |  |  |
| Desktop Monitors                      | 2,907  | 27  | 3,709       | 26  | 3,934                 | 3,117      | 24  |  |  |
| Other Applications <sup>(1) (2)</sup> | 611  | 6   | 717         | 5   | 619                   | 490        | 4   |  |  |



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| Panels for | Year Ended December 31,                      |      |              |      |                       |             |
|------------|--|------|--------------|------|-----------------------|-------------|
|            | 2006   |      | 2007         |      | 2008                  |             |
|            | Sales  | %    | Sales        | %    | Sales                 | Sales       |
|            | (in billions of Won, except for percentages) |      |              |      | (in millions of US\$) |             |
| Total      | (Won) 10,624                                 | 100% | (Won) 14,352 | 100% | (Won) 16,274          | US\$ 12,895 |

- (1) Includes, among others, panels for handheld application products, including mobile phones, and industrial and other applications, including entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment. Also includes sales of parts and accessories.
- (2) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which amounted to (Won)171.1 billion and (Won)(194.5) billion (US\$(154.1) million), or 1.6% and (1.2)% of total revenue, for the years ended December 31, 2006 and December 31, 2008, respectively. Such adjustments were minimal for the year ended December 31, 2007.

The following table sets forth our sales volume by product category for the periods indicated and as a percentage of our total panels sold:

| Panels for                        | Year Ended December 31,                |      |                                 |      |                                 |      |
|-----------------------------------|--|------|---------------------------------|------|---------------------------------|------|
|                                   | 2006                                   |      | 2007                            |      | 2008                            |      |
|                                   | Number of Panels <sup>(2)</sup>        | %    | Number of Panels <sup>(2)</sup> | %    | Number of Panels <sup>(2)</sup> | %    |
|                                   | (in thousands, except for percentages) |      |                                 |      |                                 |      |
| Televisions                       | 12,649                                 | 10%  | 18,616                          | 9%   | 20,216                          | 8%   |
| Notebook Computers                | 21,089                                 | 17   | 32,106                          | 15   | 41,969                          | 17   |
| Desktop Monitors                  | 20,125                                 | 16   | 27,827                          | 13   | 31,558                          | 13   |
| Other Applications <sup>(1)</sup> | 69,723                                 | 57   | 130,241                         | 63   | 151,357                         | 62   |
| Total                             | 123,586                                | 100% | 208,790                         | 100% | 245,100                         | 100% |

- (1) Includes, among others, panels for handheld application products, including mobile phones, and industrial and other applications, including entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment. Also includes sales of parts and accessories.
- (2) Includes only finished goods sold. Sales of semi-finished goods which require additional processing have been excluded.

The following table sets forth our average selling price per panel by markets for the periods indicated:

| Panels for                        | Average Selling Price <sup>(1)</sup> |               |               |          |
|-----------------------------------|--------------------------------------|---------------|---------------|----------|
|                                   | Year Ended December 31,              |               |               |          |
|                                   | 2006                                 | 2007          | 2008          | 2008     |
| Televisions                       | (Won) 390,457                        | (Won) 367,501 | (Won) 396,717 | US\$ 314 |
| Notebook Computers                | 102,752                              | 96,078        | 88,178        | 70       |
| Desktop Monitors                  | 144,444                              | 133,283       | 124,677       | 99       |
| Other Applications <sup>(2)</sup> | 8,769                                | 5,505         | 5,515         | 4        |

- (1) Average selling price for each market represents sales per market divided by unit sales per market.
- (2) Includes, among others, panels for handheld application products, including mobile phones, and industrial and other applications, including entertainment systems, portable navigation devices, e-paper, digital photo displays and medical diagnostic equipment.

The overall average selling price of our display panels (including small panel applications) per square meter of net display area, which is derived by dividing total sales revenues by total square meters of net display area shipped, decreased by 14.9% from US\$1,555 per square meter of net display area in 2006 to US\$1,323 in 2007 and further decreased by 30.4% to US\$921 in 2008. During the three-month period ended March 31, 2009, the average selling price per square meter of net display area further decreased by 27.4% to US\$669.

**Critical Accounting Policies**

The preparation of our financial statements and related disclosures in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements and related disclosures. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions, and they require our management to make the most difficult, subjective or complex judgments.

***Income Taxes***

We currently have significant deferred income tax assets, including tax credits, that may be used to offset taxable income in future periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income

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sufficient to utilize these tax credits before their expiration. In our evaluation of future utilization of income tax assets, if current results suggest that it is more likely than not that a portion or all of the deferred income tax assets will not be realized before their expiration, a valuation allowance will be recognized. Changes in estimates of our ability to realize our deferred tax assets are generally recognized in earnings as a component of our income tax (benefit) expense. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and expiration of tax credits. If we are unable to generate sufficient future taxable income, or if we are unable to identify suitable tax planning strategies, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if conditions improve and we determine that our valuation allowance should be reduced because of changes in estimates in future taxable income or other conditions that affect our expected recovery of deferred tax assets that previously had a valuation allowance associated with it, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Based on the assessments that we have conducted during 2007 and 2008, which took into account our projected future taxable income, we concluded that it was more likely than not that all of our deferred tax assets, which consist of mainly tax credits in Korea, would be realized. Accordingly, during the years ended December 31, 2007 and 2008, we did not record any valuation allowance relating to our deferred income tax assets. During the year ended December 31, 2006, we recorded a valuation allowance of (Won)159.5 billion, which related to tax credits in Korea that were expected to expire unused, based on our future taxable income projections. The increase in projected future taxable income from 2006 to 2007 and 2008 was primarily due to TFT-LCD manufacturers scaling-down their planned capacity expansions, which eased the oversupplied state of the TFT-LCD market, and due to an increase in demand for TFT-LCD televisions.

Changes in our evaluation of our deferred income tax assets from period to period could have a significant effect on our net results and financial condition.

***Accounts Receivable and Allowance for Doubtful Accounts***

We evaluate our outstanding accounts receivable balance on a regular basis to determine whether to record an allowance for doubtful accounts. When establishing an allowance for doubtful accounts, we consider our historical losses adjusted to take into account the current market conditions and the financial condition of our customers, the amount of accounts receivable in dispute, the number of days outstanding for each account receivable and the current payment patterns. We provide an allowance for doubtful accounts based on the aggregate estimated collectibility of our accounts receivable. Beginning in June 2008, we entered into accounts receivable insurance programs with Korea Export Insurance Corporation and Atradius Trade Credit Insurance Company to reduce credit risks on accounts receivable from certain customers. The accounts receivable insurance programs cover 90 to 95% of the insured customers' outstanding accounts receivable balance. The insurance premiums are expensed as incurred in selling, general and administrative expenses. Allowance for doubtful accounts increased from (Won)3.6 billion in 2006 to (Won)10.3 billion in 2007 mainly as a result of a significant increase in accounts receivable. However, in 2008, allowance for doubtful accounts decreased to (Won)1.3 billion mainly due to the effect of having entered into such accounts receivable insurance programs.

***Accrued Warranty Obligation***

We record a liability for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products. This warranty covers defective products and is normally valid for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect our warranty liability include historical and anticipated rate of warranty claims on repairs, calculated based on our sales volume and cost per claim to satisfy our warranty obligation. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. Warranty expenses increased from (Won)46.0 billion in 2006 to (Won)77.9 billion in 2007 and to (Won)103.4 billion (US\$81.9 million) in 2008. The increase in warranty expenses outpaced the increase in sales during these periods, mainly because while the increase in sales volume resulted in increases in both our sales as well as warranty expenses, the positive impact of increased sales volume on sales was partially offset by a decrease in the unit sales price of our products, which did not have a correspondingly negative impact on warranty expenses.

***Long-Lived Assets: Useful Lives, Valuation and Impairment***

Property, plant and equipment are recorded at cost less accumulated depreciation over the estimated useful lives of the individual assets, with depreciation calculated on a straight line basis. The determination of an asset's useful life and salvage value requires judgment based on our historical and anticipated use of the asset. Since 1999, all new machinery, equipment and vehicles are being depreciated on a straight-line basis over four to twelve years.

We review our long-lived assets and intangible assets that do not have indefinite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If circumstances require



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that a long-lived asset or asset group be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by such asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined by employing a variety of valuation techniques as necessary, including discounted cash flow models, quoted market values and third-party independent appraisals. The determination of undiscounted future cash flows and fair value requires our judgments and assumptions about future operations. The determination of an asset's useful life, and the potential impairment of our long-lived assets could have a material effect on our results of operations. In 2007, we recorded an impairment loss of (Won)44.4 billion on machinery, equipment and vehicles and construction-in-progress, due to a change in our investment plan with respect to our facilities. Impairment loss is recognized as selling, general and administrative expenses.

***Contingencies***

We are involved from time to time in certain routine legal actions incidental to our business. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. We record liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources when it is probable that a liability has been incurred and we can reasonably estimate the amount of the assessment and/or remediation. In determining whether a loss should be accrued, we evaluate, among other factors, the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss, considering factors such as the nature of the litigation, claim, or assessment, the progress of the case and the opinions or views of legal counsel and other advisers. These estimates have been based on our assessment of the facts and circumstances at each balance sheet date and are subject to change based upon new information and intervening events. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Description of Certain Statement of Income Items*****Sales***

Our sales are derived primarily from sales of TFT-LCD panels. We also derive a small amount of revenues from TFT-LCD cells, backlight units and other parts and accessories that we sell to third parties, as well as from royalty payments we receive from third parties under our license agreements. Prices for our TFT-LCD panels are generally determined based on prevailing market conditions and our negotiations with end-brand customers, which take into account the complexity of the product specifications, the labor and technology involved in the design or production processes and the strength and history of our relationship with the end-brand customer.

***Cost of Sales***

Our cost of sales consists principally of:

costs of raw materials, such as glass substrates, liquid crystal materials, color filters, polarizers, backlight units and driver integrated circuits;

manufacturing and overhead costs, consisting mainly of depreciation expenses, product development costs directly associated with production at our fabrication facilities and module production plants, including salaries and bonuses, and amortization of fees related to intellectual property rights; and

labor costs.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of salaries, bonuses and retirement payments to selling and administrative staff, research and development expenses, warranty expenses and shipping and handling cost. Research and development expenses consist primarily of salaries paid to research and development personnel at our research and development center in Paju, Korea, and, to a lesser extent, expenses relating to the depreciation and maintenance of the equipment and materials used at the research and development center in Paju, Korea.





**Table of Contents****Operating Results**

Effective January 1, 2008, we have reclassified certain of our accounts, and we have made the corresponding reclassifications to our 2006 and 2007 accounts in our consolidated financial statements and related notes included in this annual report to conform them to the 2008 presentation. Our discussion of operating results is prepared using the reclassified consolidated financial statements.

The following table shows some of our results of operations data and as a percentage of our sales for the periods indicated:

|   | 2006   |      | Year Ended December 31, |      |   |             | 2008 |  |
|---|--|------|-------------------------|------|---|-------------|------|--|
|   |  | %    | 2007                    | %    | 2008  |             | %    |  |
|   | (in billions of Won, except for percentages) |      |                         |      | (in millions of US\$, except for percentages) |             |      |  |
| Sales   | (Won) 10,624                                 | 100% | (Won) 14,352            | 100% | (Won) 16,274                                  | US\$ 12,895 | 100% |  |
| Cost of sales                                       | 10,910                                       | 103  | 12,072                  | 84   | 13,609  | 10,783      | 84   |  |
| Gross profit (loss)                                 | (286)  | (3)  | 2,280                   | 16   | 2,665   | 2,112       | 16   |  |
| Selling, general and administrative expenses        | 596  | 5    | 802                     | 6    | 896   | 710         | 5    |  |
| Antitrust fine <sup>(1)</sup>                       |  |      |                         |      | 535   | 424         | 3    |  |
| Operating income (loss)                             | (882)  | (8)  | 1,478                   | 10   | 1,234   | 978         | 8    |  |
| Other income (expense)                              | (53)   | (1)  | 75                      | 1    | (161)   | (127)       | (1)  |  |
| Earnings (loss) before income tax expense (benefit) | (935)  | (9)  | 1,553                   | 11   | 1,073   | 851         | 7    |  |
| Income tax expense (benefit)                        | (242)  | (2)  | 209                     | 2    | 168   | 133         | 1    |  |
| Net income (loss)                                   | (Won) (693)                                  | (7)% | (Won) 1,344             | 9%   | (Won) 905                                     | US\$ 718    | 6%   |  |

(1) Antitrust fine represents a fine to the U.S. Department of Justice, a further discussion of which is included under Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

**Comparison of 2008 to 2007****Sales**

Our sales increased by 13.4% from (Won)14,352.0 billion in 2007 to (Won)16,274.1 billion (US\$12,895.5 million) in 2008. Increases in unit sales of our large-size panels for televisions, notebook computers and desktop monitors were the primary contributing factors to this increase, offset by a decrease in the average selling price of our panels. In particular:

unit sales of 42-inch panels for televisions increased by 36.3% from 4.5 million panels in 2007 to 6.1 million panels in 2008;

unit sales of 47-inch panels for televisions increased by 60.0% from 0.9 million panels in 2007 to 1.4 million panels in 2008;

unit sales of 15.4-inch panels for notebook computers increased by 32.4% from 15.4 million panels in 2007 to 20.4 million panels in 2008;

unit sales of 17-inch and 17.1-inch panels for desktop monitors increased by 21.8% from 8.7 million in 2007 to 10.6 million in 2008; and

unit sales of 22-inch and 24-inch panels for desktop monitors increased by 111.5% from 2.3 million panels in 2007 to 4.8 million panels in 2008.

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The total unit sales of panels for televisions increased by 8.6% from approximately 18.6 million in 2007 to 20.2 million in 2008. Total sales attributable to television panels increased by 17.2% from approximately (Won)6,841.5 billion in 2007 to (Won)8,019.9 billion (US\$6,354.9 million) in 2008. Growth in total sales of panels for televisions primarily reflected increased demand for larger- and wider-sized panels, as well as an increase in the average selling price of our television panels in 2008.

The total unit sales of panels for notebook computers increased by 30.7% from approximately 32.1 million in 2007 to 42.0 million in 2008. Total sales attributable to panels for notebook computers increased by 20.0% from approximately (Won)3,084.7 billion in 2007 to (Won)3,700.8 billion (US\$2,932.5 million) in 2008 due primarily to increased demand for larger- and wider-sized panels, which more than offset a decrease in the average selling price of our panels for notebook computers in 2008.

The total unit sales of panels for desktop monitors increased by 13.4% from approximately 27.8 million in 2007 to 31.6 million in 2008. Total sales attributable to panels for desktop monitors increased by 6.1% from approximately (Won)3,708.9 billion in 2007 to (Won)3,934.6 billion (US\$3,117.7 million) in 2008. The increase in total sales of panels for desktop monitors is due primarily to increased demand for larger- and wider-sized panels for desktop monitors, which more than offset a decrease in the average selling price of our panels for desktop monitors in 2008.

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The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for our notebook computers and desktop monitors from 2007 to 2008. Although the average selling price of panels for televisions increased by 7.9% from (Won)367,501 per panel in 2007 to (Won)396,717 (US\$314) in 2008, due partly to depreciation of the Korean Won against the U.S. dollar, in which most of our sales are denominated, in 2008, the average selling price of panels for notebook computers decreased by 8.2% from (Won)96,078 per panel in 2007 to (Won)88,178 (US\$70) in 2008 and the average selling price of panels for desktop monitors decreased by 6.5% from (Won)133,283 per panel to (Won)124,677 (US\$99) over the same period.

### ***Cost of Sales***

Cost of sales increased by 12.7% from (Won)12,072.3 billion in 2007 to (Won)13,609.1 billion (US\$10,783.8 million) in 2008. As a percentage of sales, however, cost of sales decreased slightly from 84.1% in 2007 to 83.6% in 2008. The increase in our cost of sales in 2008 was attributable primarily to increases in:

raw material costs, resulting from an overall increase in sales volume, especially of large-size panels, as well as depreciation of the Korean Won against the U.S. dollar, in which a significant portion of our raw materials purchases are denominated, partially offset by our ongoing raw material cost reduction efforts;

inventories, resulting from a slowdown in the global economy and an increase in our production output; and

overhead costs, primarily resulting from expenses related to expansion of existing facilities and expenses due to increased production capacity, including utility fees, supply costs and repair costs, as well as an increase in ordinary research and development expenses.

The effect of increases in raw material costs, inventories and overhead costs was partially offset by a decrease in depreciation expenses, due primarily to lower depreciation of P6 which had been substantially depreciated by July 2008.

As a percentage of our total cost of sales, raw material costs, change in inventories and overhead costs increased slightly from 2007 to 2008, whereas depreciation expenses decreased by 4.7% from 23.0% to 18.3% over the same period.

Cost of sales per panel, which is derived by dividing total cost of sales by total number of panels sold, decreased by 4.0% from (Won)57,820 per panel in 2007 to (Won)55,525 (US\$44) in 2008 reflecting our ongoing cost reduction efforts, particularly managing raw material costs by procuring raw materials on a large scale at favorable prices from strategic suppliers, improved production efficiency and decreases in fixed costs as a percentage of sales due to increases in sales, partially offset by depreciation of the Korean Won against the U.S. dollar, in which a significant portion of our raw materials purchases are denominated, in 2008. Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 30.8% from US\$1,113 per square meter of net display area in 2007 to US\$770 in 2008. In 2008, we continued to improve production efficiency and maximize input capacity at our fabrication facilities, increase the production of color filters in-house and reduce common components and processing steps in the manufacturing process.

### ***Gross Profit and Gross Margin***

As a result of the cumulative effect of the reasons explained above, our gross profit increased by 16.9% from (Won)2,279.7 billion in 2007 to (Won)2,665.0 billion (US\$2,111.7 million) in 2008, and our gross margin improved from 15.9% to 16.4% over the same period.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased by 11.8% from (Won)801.4 billion in 2007 to (Won)895.9 billion (US\$709.9 million) in 2008. As a percentage of sales, our selling, general and administrative expenses generally remained the same and was 5.6% in 2007 and 5.5% in 2008. The increase in selling, general and administrative expenses in 2008 was attributable primarily to increases in:

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research and development expenses, resulting from an increase in research and development activities and from an increase in the number of research and development employees;

warranty expenses, resulting from providing more services and replacement parts for defective products sold to customers commensurate with an increase in our sales volume;

advertising expenses, resulting from an increase in advertising activities, especially in promoting our products that utilize in-plane-switching technology; and

transportation expenses, resulting primarily from rising oil prices and depreciation of the Korean Won against the U.S. dollar, in which a significant portion of our transportation expenses are denominated.

The effect of such increases was partially offset by a decrease in other expenses, resulting primarily from a significant decrease in impairment cost of assets. In 2007, we incurred significant impairment cost of assets, primarily due to an impairment loss on tangible assets due to change in investment strategies relating to capital expenditures in new facilities, whereas in 2008, such impairment cost of assets was minimal.

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The following table shows selling, general and administrative expenses broken down by major components for each of the years in the two-year period ended December 31, 2008:

|                             | Year Ended<br>December 31, |                 |
|-----------------------------|----------------------------|-----------------|
|                             | 2007                       | 2008            |
|                             | (in billions of Won)       |                 |
| Salaries and bonus          | (Won) 116.1                | (Won) 122.6     |
| Retirement allowance        | 8.5                        | 9.8             |
| Employee benefit            | 13.0                       | 25.7            |
| Transportation              | 194.1                      | 209.7           |
| Depreciation                | 15.0                       | 23.7            |
| Insurance                   | 5.2                        | 8.3             |
| Travel                      | 10.0                       | 16.7            |
| Fee and commission          | 95.7                       | 95.6            |
| Advertising                 | 30.4                       | 49.0            |
| Sales promotion             | 17.5                       | 24.4            |
| Overseas market development | 6.3                        | 14.2            |
| Research and development    | 102.8                      | 141.5           |
| Warranty                    | 77.9                       | 103.4           |
| Impairment cost of asset    | 44.4                       | 0.1             |
| Others                      | 64.5                       | 51.2            |
| <br>Total                   | <br>(Won) 801.4            | <br>(Won) 895.9 |

**Antitrust Fine**

We recognized a charge to earnings of (Won)534.8 billion (US\$423.8 million) in 2008, due to a fine of US\$400 million imposed by the U.S. Department of Justice, a further discussion of which is included under Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. We recorded no such antitrust fine in 2007. The US\$400 million fine amount was re-measured into Korean Won and recognized as an expense using the exchange rate based on the basic rate under the market average exchange rate system provided by Seoul Money Brokerage Services, Ltd., between dollars and Won on November 12, 2008, which was the date the plea agreement with the U.S. Department of Justice was entered into.

**Operating Income and Operating Margin**

As a result of the cumulative effect of the reasons explained above, our operating income decreased by 16.5% from (Won)1,478.3 billion in 2007 to (Won)1,234.3 billion (US\$978.1 million) in 2008. Our operating margin decreased from 10.3% to 7.6% over the same period.

**Other Income (Expense)**

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). We recognized total net other expense of (Won)160.9 billion (US\$127.5 million) in 2008 compared to total net other income of (Won)75.0 billion in 2007, primarily due to:

net foreign exchange loss of (Won)242.7 billion (US\$192.4 million) in 2008 compared to net foreign exchange gain of (Won) 71.0 billion in 2007, which resulted primarily from foreign currency exchange transaction losses in 2008, which was in turn due to depreciation of the Korean Won against the U.S. dollar, in which a substantial amount of our debt is denominated, and our use of foreign exchange forward contracts, in 2008; and

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no legal settlement income recorded in 2008, compared to (Won)146.6 billion of such income recorded in 2007. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

The effect of net foreign exchange losses was partially offset by net interest income of (Won)60.5 billion (US\$47.9 million) we recognized in 2008, compared to net interest expense of (Won)148.3 billion in 2007, primarily due to a significant increase in interest income to (Won)212.7 billion (US\$168.5 million) in 2008 from (Won)58.3 billion in 2007, which resulted primarily from an increase in short-term financial instruments we held over the same period.

**Table of Contents*****Income Tax Expense***

Income tax expense decreased from (Won)208.9 billion in 2007 to (Won)168.0 billion (US\$133.1 million) in 2008. Our effective income tax rate was 13.4% and 15.7% in 2007 and 2008, respectively. The increase in the effective tax rate was mainly the effect of the non-deductible nature of the (Won)534.8 billion antitrust fine in 2008 and deferred tax asset valuation allowance reversal of (Won)159.5 billion in 2007, both of which contributed to a significantly higher effective tax rate in 2008 as compared with 2007, which effects were offset in large part by a (Won)213.1 billion increase in income tax credits in 2008.

***Net Income***

As a result of the cumulative effect of the reasons explained above, our net income decreased by 32.6% from (Won)1,344.4 billion in 2007 to (Won)905.4 billion (US\$717.4 million) in 2008.

Tax exemptions under the Special Tax Treatment Control Law of Korea had the effect of increasing our net income by (Won)23.6 billion in 2007 and (Won)32.6 billion (US\$25.8 million) in 2008. We will no longer be eligible for such income tax exemptions beginning in 2009.

**Comparison of 2007 to 2006*****Sales***

Our sales increased by 35.1% from (Won)10,624.2 billion in 2006 to (Won)14,352.0 billion in 2007. Increases in unit sales of our large-size panels for televisions, notebook computers and desktop monitors were the primary contributing factors to this increase, offset by a decrease in the average selling price of our panels. In particular:

unit sales of 42-inch panels for televisions increased by 147.4% from 1.8 million panels in 2006 to 4.5 million panels in 2007;

unit sales of 32-inch panels for televisions increased by 85.6% from 3.5 million panels in 2006 to 6.5 million panels in 2007;

unit sales of 15.4-inch panels for notebook computers increased by 69.4% from 9.1 million panels in 2006 to 15.4 million panels in 2007; and

unit sales of 19-inch panels for desktop monitors increased by 76.2% from 6.2 million panels in 2006 to 11.0 million panels in 2007. The total unit sales of panels for televisions increased by 47.2% from approximately 12.6 million in 2006 to 18.6 million in 2007. Total sales attributable to television panels increased by 38.5% from approximately (Won)4,938.9 billion in 2006 to (Won)6,841.5 billion in 2007. Growth in total sales of panels for televisions primarily reflected increased demand for larger- and wider-sized panels, which more than offset a decrease in the average selling price of our television panels in 2007.

The total unit sales of panels for notebook computers increased by 52.2% from approximately 21.1 million in 2006 to 32.1 million in 2007 and the total unit sales of panels for desktop monitors increased by 38.3% from approximately 20.1 million in 2006 to 27.8 million in 2007. Total sales attributable to panels for notebook computers increased by 42.4% from approximately (Won)2,166.9 billion in 2006 to (Won)3,084.7 billion in 2007, while total sales attributable to panels for desktop monitors increased by 27.6% from approximately (Won)2,906.9 billion in 2006 to (Won)3,708.9 billion in 2007. The increase in total sales of panels for notebook computers and desktop monitors is due primarily to increased demand for larger- and wider-sized panels, which more than offset a decrease in the average selling price of our panels for notebook computers and desktop monitors in 2007.

The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for our major product categories from 2006 to 2007. The average selling price of panels for televisions decreased 5.9% from (Won)390,457 per panel in 2006 to (Won)367,501 in 2007, the average selling price of panels for notebook computers decreased 6.5% from (Won)102,752 per panel in 2006 to (Won)96,078 in 2007 and the average selling price of panels for desktop monitors decreased 7.7% from (Won)144,444 per panel to



(Won)133,283 over the same period.

***Cost of Sales***

Cost of sales increased by 10.7% from (Won)10,910.3 billion in 2006 to (Won)12,072.3 billion in 2007. However, as a percentage of sales, cost of sales decreased from 102.7% in 2006 to 84.1% in 2007. The increase in our cost of sales in 2007 was attributable primarily to:

increases in raw material costs, resulting from an overall increase in sales volume, especially of large-size panels, partially offset by our ongoing raw material cost reduction efforts; and

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increases in depreciation expenses, resulting from the depreciation of P6 and P7, as well as the commencement of depreciation of our new module production plants in Wroclaw, Poland and Guangzhou, China, which began mass production in 2007.

As a percentage of our total cost of sales, raw material costs increased slightly from 2006 to 2007, whereas depreciation expenses decreased slightly over the same period.

Cost of sales per panel, which is derived by dividing total cost of sales by total number of panels sold, decreased by 34.5% from (Won)88,280 per panel in 2006 to (Won)57,820 in 2007 due primarily to decreases in cost of raw materials, improved production efficiency, and decreases in fixed costs as a percentage of sales due to increase in sales. Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 31.6% from US\$1,627 per square meter of net display area in 2006 to US\$1,113 in 2007. In 2007, we continued to improve production efficiency at our fabs, produce color filters in-house and reduce common components and processing steps in the manufacturing process.

**Gross Profit (Loss) and Gross Margin**

As a result of the cumulative effect of the reasons explained above, we recorded a gross profit of (Won)2,279.7 billion in 2007 compared to a gross loss of (Won)286.1 billion in 2006 and our gross margin improved from (2.7)% to 15.9% over the same period.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by 34.5% from (Won)595.8 billion in 2006 to (Won)801.4 billion in 2007. As a percentage of sales, our selling, general and administrative expenses generally remained the same and was 5.6% in each of 2006 and 2007. The increase in selling, general and administrative expenses in 2007 was attributable primarily to increases in:

salaries, bonuses and retirement payments, resulting from an increase in performance related compensation to executive officers and employees;

impairment cost of assets, primarily due to an impairment loss on tangible assets due to change in investment strategies relating to capital expenditures in new facilities;

warranty expenses, resulting from providing services and replacement parts for defective products sold to customers;

fee and commission expenses, primarily due to increases in legal fees related to our patent litigations; and

research and development expenses, resulting from an increase in research and development activities.

The following table shows selling, general and administrative expenses broken down by major components for each of the years in the two-year period ended December 31, 2007:

|                      | Year Ended December 31, |             |
|----------------------|-------------------------|-------------|
|                      | 2006                    | 2007        |
|                      | (in billions of Won)    |             |
| Salaries and bonus   | (Won) 67.8              | (Won) 116.1 |
| Retirement allowance | 5.6                     | 8.5         |
| Employee benefit     | 9.8                     | 13.0        |
| Transportation       | 188.8                   | 194.1       |
| Depreciation         | 7.0                     | 15.0        |
| Insurance            | 5.3                     | 5.2         |

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|                             |             |             |
|-----------------------------|-------------|-------------|
| Travel                      | 9.3         | 10.0        |
| Fee and commission          | 71.8        | 95.7        |
| Advertising                 | 24.1        | 30.4        |
| Sales promotion             | 11.3        | 17.5        |
| Overseas market development | 5.3         | 6.3         |
| Research and development    | 81.2        | 102.8       |
| Warranty                    | 46.0        | 77.9        |
| Others                      | 62.5        | 108.9       |
| Total                       | (Won) 595.8 | (Won) 801.4 |

**Table of Contents*****Operating Income (Loss) and Operating Margin***

As a result of the cumulative effect of the reasons explained above, we recorded an operating income of (Won)1,478.3 billion in 2007 compared to an operating loss of (Won)881.8 billion in 2006. Our operating margin improved from (8.3)% to 10.3% over the same period.

***Other Income (Expense)***

Other income (expense) includes primarily interest income (expense), net foreign exchange gain (loss) and income from legal settlement. We recorded total net other income of (Won)75.0 billion in 2007 compared to total net other expense of (Won)53 billion in 2006, primarily due to:

(Won)146.6 billion of legal settlement income we recorded in 2007, compared to none in 2006. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings ; and

an increase in net foreign exchange gain from (Won)52.4 billion in 2006 to (Won)71.0 billion in 2007 as a result of appreciation of the Korean Won against the U.S. dollar.

The effect of increases in income from legal settlement and net foreign exchange gain was partially offset by an increase in net interest expense from (Won)140.3 billion in 2006 to (Won)148.3 billion in 2007, primarily due to a significant increase in interest expense from (Won)169.6 billion in 2006 to (Won)206.7 billion in 2007 reflecting increased levels of long-term debt over the same period.

***Income Tax Expense (Benefit)***

We reported income tax expense of (Won)208.9 billion in 2007 and income tax benefit of (Won)242.1 billion in 2006. This change was primarily due to the income before income taxes we generated in 2007 compared to the loss before income taxes that we recorded in 2006.

***Net Income (Loss)***

As a result of the cumulative effect of the reasons explained above, we recorded a net income of (Won)1,344.4 billion in 2007 compared to a net loss of (Won)692.8 billion in 2006.

**Item 5.B. *Liquidity and Capital Resources***

Our principal sources of liquidity have been net cash flows generated from our operating activities and debt and equity financing activities. We had cash and cash equivalents of (Won)954.4 billion, (Won)1,196.4 billion and (Won)1,352.8 billion (US\$1,071.9 million) as of December 31, 2006, 2007 and 2008, respectively. We also had short-term financial instruments of (Won)2,055.0 billion (US\$1,628.4 million) as of December 31, 2008. Our primary use of cash has been to fund capital expenditures related to the expansion of our production capacity, including the construction and ramping-up of new fabrication facilities and the acquisition of new equipment. We also use cash flow from operations for our working capital requirements, servicing our debt payments and payment of technology license fees. We expect our cash requirements for 2009 to be primarily for capital expenditures and repayment of maturing debt.

Although we have historically been able to satisfy our cash requirements from cash flow from operations and debt and equity financing, our ability to continue to do so will be affected by our ability to maintain and improve our margins and, in the case of external financing, market conditions, which in turn may be affected by several factors outside of our control. We believe that we have sufficient working capital available to us for our current requirements. However, we re-evaluate our capital requirements regularly in light of our cash flow from operations, the progress of our expansion plans and market conditions. To the extent that we do not generate sufficient cash flow from our operations to meet our capital requirements, we may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, including the issuance of equity, equity-linked and other debt securities.

Our net cash provided by operating activities amounted to (Won)1,866.0 billion in 2006, (Won)3,309.0 billion in 2007 and (Won)4,525.5 billion (US\$3,586.0 million) in 2008. The increase in net cash provided by operating activities in 2007 was due primarily to a (Won)2,894.5 billion increase in net income less non-cash operating items in 2007 compared to 2006, which was partially offset by an increase in our investments in working capital in 2007 compared to 2006, which consisted primarily of an increase in accounts receivable. The increase in net cash provided by

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operating activities in 2008, despite the decrease in net income less non-cash operating items including antitrust fine by (Won)199.8 billion (US\$158.3 million) in 2008 compared to 2007, was mainly due to a reduction of our investments in working capital in 2008 compared to 2007, which consisted primarily of a decrease in accounts receivable. Accounts receivable increased by (Won)1,446.4 billion in 2007, due primarily to a significant increase in sales during the fourth quarter of 2007 and a decrease in off-balance sheet financing activities as a result of an increase in our net cash

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provided by operating activities, but decreased by (Won)177.9 billion (US\$141.0 million) in 2008, due primarily to a decrease in sales during the fourth quarter of 2008. The increase in net cash provided by operating activities in 2007 was partially reduced by an increase in accounts receivable in the same period for the reasons noted above, while the increase in net cash provided by operating activities in 2008 was partially reduced by an increase in inventories by (Won)312.7 billion (US\$247.8 million) in 2008, primarily due to a higher level of finished products, work-in-process and raw materials as a result of a slowdown in the global economy and an increase in our production output. Inventories decreased by (Won)227.7 billion in 2007, primarily as a result of an increase in demand and a shortage in supply of TFT-LCD panels.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabrication facilities and our cost reduction measures, contribute to the fluctuations in our inventory levels from period to period. In 2007, an increase in demand and a shortage in supply of TFT-LCD panels contributed to a 21.7% decrease in our inventory levels from year-end 2006. In 2008, a slowdown in the global economy and an increase in our production contributed to a 38.0% increase in our inventory levels from year-end 2007. Inventories comprised the following for the periods indicated:

|                               | 2006          | As of December 31, |   | 2008       | 2008 |
|-------------------------------|---------------|--------------------|---|------------|------|
|                               |               | 2007               | (in billions of Won and millions of US\$) |            |      |
| Finished goods <sup>(1)</sup> | (Won) 571.8   | (Won) 453.0        | (Won) 540.3                               | US\$ 428.1 |      |
| Work in process               | 264.4         | 208.7              | 358.1                                     | 283.8      |      |
| Raw materials and supplies    | 215.4         | 162.2              | 238.3                                     | 188.8      |      |
| Total                         | (Won) 1,051.6 | (Won) 823.9        | (Won) 1,136.7                             | US\$ 900.7 |      |

(1) Includes merchandise of (Won)0.9 billion (US\$0.7 million) in 2008 that we purchased from HannStar.

Our net cash used in investing activities amounted to (Won)3,067.2 billion in 2006, (Won)2,382.1 billion in 2007 and (Won)4,290.3 billion (US\$3,399.6 million) in 2008. Net cash used in investing activities primarily reflected the substantial capital expenditures we have invested in connection with the expansion of our production capacity in recent years, mainly relating to construction of our new fabrication facilities and acquisition of new equipment. These cash outflows from capital expenditures amounted to (Won)3,076.0 billion, (Won)1,577.3 billion and (Won)2,748.6 billion (US\$2,178.0 million) in 2006, 2007 and 2008, respectively. We intend to fund our capital requirements associated with new construction projects, including the construction of a new LTPS TFT-LCD production facility in Paju, Korea, with cash flow from operations and other financing activities, such as external long-term borrowings. Through the end of 2008, we had used internally generated cash to fund our construction projects.

We currently expect that our total capital expenditures on a delivery basis to be approximately (Won)2.5 trillion and our cash outflows for capital expenditures to be approximately (Won)4.0 trillion in 2009, primarily to fund the build-out of P6E, the build-out of P8, the construction of the new LTPS TFT-LCD production facility and improvements to our pre-existing facilities. However, our overall expenditure levels and our allocation among projects are subject to many uncertainties. We review the amount of our capital expenditures and may make adjustments from time to time based on cash flow from operations, the progress of our expansion plans and market conditions.

Our net cash provided by financing activities amounted to (Won)576.6 billion in 2006, and our net cash used in financing activities amounted to (Won)682.5 billion in 2007 and (Won)137.7 billion (US\$109.1 million) in 2008. The net cash used in financing activities in 2008 reflects primarily repayment and prepayment of Won-denominated loans and debentures and the payment of dividends. We did not declare or pay any dividends in respect of the fiscal years ended December 31, 2001 through 2006. However, on February 29, 2008, we declared a cash dividend of (Won)268.4 billion to our shareholders of record as of December 31, 2007 and distributed the cash dividend to such shareholders on March 21, 2008. On March 13, 2009, we declared a cash dividend of (Won)178.9 billion to our shareholders of record as of December 31, 2008 and distributed the cash dividend to such shareholders on April 3, 2009.

We had a total of (Won)250.1 billion, (Won)4.7 billion and (Won)601.1 billion (US\$476.3 million) of short-term borrowings outstanding as of December 31, 2006, 2007 and 2008, respectively. The weighted average interest rate under the terms of these short-term borrowings was 5.9% as of December 31, 2008. As of December 31, 2008, all of our short-term borrowings were with respect to financing arrangements we entered into with local and foreign banks using accounts receivable due from our consolidated subsidiaries.

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We have in place overdraft agreements with various banks in the amount of (Won)59.0 billion that are renewable on a yearly basis. There were no drawdowns under these agreements as of December 31, 2008. In addition, as of December 31, 2008, we

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maintained U.S. dollar-denominated accounts receivable negotiating facilities with several banks for up to an aggregate amount of US\$1,616.5 million. As of December 31, 2008, we had US\$478.0 million outstanding under the accounts receivable negotiating facilities. As of December 31, 2008, our subsidiary in Wroclaw, Poland has outstanding long-term loans under a long-term credit facility with a syndicate of banks in the amount of 70.0 million. The availability period for drawings under the long-term credit facility expired in March 2008. As of December 31, 2008, our subsidiary in Guangzhou, China maintained a long-term credit facility with Bank of China in the amount of US\$70 million. As of December 31, 2008, approximately US\$25 million and RMB70 million was drawn on the long-term credit loan facility, and as of May 31, 2009, an additional RMB124 million and US\$16.7 million was drawn on the long-term credit loan facility.

As of December 31, 2008, we had outstanding long-term debt including current portion and discounts on debentures in the amount of (Won)3,513.2 billion (US\$2,783.8 million), primarily consisting of (Won)1,447.0 billion of Korean Won-denominated debentures, US\$550.0 million convertible bonds, US\$901.7 million of U.S. dollar-denominated long-term loan, (Won)66.3 billion of Korean Won-denominated long-term loan, 70 million of Euro-denominated long-term loan and RMB70 million of RMB-denominated long-term loan. The conversion price of the US\$550 million of zero coupon convertible bonds due 2012 was initially (Won)49,070 per share, but was adjusted to (Won)48,760 per share after the approval of a cash dividend of (Won)268.4 billion at the annual general meeting of shareholders on February 29, 2008 and was further adjusted to (Won)48,251 per share after the approval of a cash dividend of (Won)178.9 billion at the annual general meeting of shareholders on March 13, 2009.

As of December 31, 2008, US\$150 million of our US\$901.7 million aggregate principal amount of U.S. dollar-denominated floating rate long-term borrowings are hedged against interest rate fluctuations and another US\$150 million of such borrowings are hedged against foreign exchange rate and interest rate fluctuations.

We issued (Won)200 billion principal amount of five-year debentures in May 2006 and (Won)200 billion principal amount of five-year debentures in June 2006 but did not issue any domestic debentures in 2007 and 2008.

Terms of some of our long-term debts contain provisions that would trigger a requirement for early payment. The principal and interest under these obligations may be accelerated if there is a default, including defaults triggered by failure to comply with financial covenants and cross defaults triggered under our other debt obligations.

Our debt obligations as of December 31, 2008 are set forth below:

**Short-Term Debt Obligations as of December 31, 2008**

| Borrower   | Date of Issuance  | Securities                | Amount as of December 31, 2008 |                       | Principal Amount (in millions of US\$) | Underwriters or Purchasers                              | Maturity        |
|------------|-------------------|---------------------------|--------------------------------|-----------------------|--|---|-----------------|
|            |                   |                           | (in billions of Won)           | (in millions of US\$) |  |   |                 |
| LG Display | 10/24/08-12/26/08 | Accounts Receivable Loans | (Won) 601                      | US\$ 478              |  | Kookmin Bank, Citibank and other financial institutions | 1/12/09-2/20/09 |
| Sub-total  |                   |                           | (Won) 601                      |                       |  |   |                 |

**Long-Term Debt Obligations as of December 31, 2008**

| Borrower   | Date of Issuance | Securities | Amount as of December 31, 2008 |                                     | Principal Amount (in billions of Won, millions of US\$, Euro and RMB) | Underwriters or Purchasers or Lenders | Maturity |
|------------|------------------|------------|--------------------------------|-------------------------------------|---|---------------------------------------|----------|
|            |                  |            | (in billions of Won)           | (in billions of US\$, Euro and RMB) |   |                                       |          |
| LG Display | 5/13/04          | Debentures | (Won) 230                      | (Won) 300                           |   |                                       | 5/13/09  |



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|            |          |            |           |           |  |   |          |
|------------|----------|------------|-----------|-----------|--|---|----------|
|            |          |            |           |           |  | SK Securities Co., Ltd., Woori Investment & Securities, Korea Investment & Securities Co., Ltd. |          |
| LG Display | 11/23/04 | Debentures | (Won) 229 | (Won) 300 |  | Woori Investment & Securities, SK Securities Co., Ltd., Daewoo Securities Co., Ltd.             | 11/23/09 |
| LG Display | 3/21/05  | Debentures | (Won) 388 | (Won) 400 |  | Woori Investment & Securities, Hanwha Securities Co., Ltd.                                      | 3/21/10  |

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| <b>Borrower</b> | <b>Date of Issuance</b> | <b>Securities</b> | <b>Amount as of December 31, 2008 (in billions of Won)</b> |     | <b>Original Principal Amount (in billions of US\$, Euro and RMB)</b> |     | <b>Principal Underwriters or Purchasers or Lenders</b> | <b>Maturity</b>   |
|-----------------|-------------------------|-------------------|--|-----|--|-----|--|---|
| LG Display      | 12/14/05                | Debentures        | (Won)  | 200 | (Won)  | 200 | National Agricultural Cooperative Federation           | 12/14/10  |
| LG Display      | 5/29/06                 | Debentures        | (Won)  | 200 | (Won)  | 200 | Hana Bank  | 5/30/11   |
| LG Display      | 6/23/06                 | Debentures        | (Won)  | 200 | (Won)  | 200 | Woori Bank   | 6/23/11   |
| LG Display      | 2/10/04                 | Long Term Loan    | (Won)  | 10  | (Won)  | 59  | Export Import Bank of Korea                            | 2/10/09   |
| LG Display      | 7/28/05 - 12/27/07      | Long Term Loan    | (Won)  | 19  | (Won)  | 19  | Shinhan Bank   | 9/15/09-12/15/15<br>*5 year grace and 5 year installment    |
| LG Display      | 3/30/06                 | Long Term Loan    | (Won)  | 38  | (Won)  | 150 | Korea Development Bank                                 | 3/30/09-3/30/10   |
| LG Display      | 4/18/07                 | Convertible Bonds | (Won)  | 729 | US\$   | 550 | Morgan Stanley   | 4/18/12<br>*Put option on 4/18/10                           |
| LG Display      | 5/19/06-7/24/06         | Long Term Loan    | (Won)  | 251 | US\$   | 200 | Kookmin Bank and other financial institutions          | 5/19/11   |
| LG Display      | 8/28/06                 | Long Term Loan    | (Won)  | 251 | US\$   | 200 | Kookmin Bank   | 8/29/11   |
| LG Display      | 9/28/06                 | Long Term Loan    | (Won)  | 126 | US\$   | 100 | Mizuho Corporate Bank                                  | 9/28/11   |
| LG Display      | 1/31/07                 | Long Term Loan    | (Won)  | 126 | US\$   | 100 | Bank of Tokyo-Mitsubishi UFJ                           | 1/31/12   |
| LG Display      | 3/14/07                 | Long Term Loan    | (Won)  | 63  | US\$   | 50  | Export-Import Bank of Korea                            | 9/14/10-3/14/13<br><br>*3 year grace and 3 year installment |

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|   |                   |                |       |       |      |     |   |   |
|---|-------------------|----------------|-------|-------|------|-----|---|---|
| LG Display  | 3/28/07           | Long Term Loan | (Won) | 176   | US\$ | 140 | Korea Development Bank  | 3/28/12   |
| LG Display Nanjing  | 11/29/04-11/06/06 | Long Term Loan | (Won) | 109   | US\$ | 130 | Bank of China, China Construction Bank and other financial institutions | 3/13/08-11/22/10  |
| LG Display Poland   | 4/04/07-9/22/07   | Long Term Loan | (Won) | 124   | EUR  | 70  | Societe Generale, Kookmin Bank and other financial institutions         | 4/04/10-4/04/13<br>*3 year grace and 13 quarterly installment |
| LG Display Guangzhou  | 12/12/07-1/08/08  | Long Term Loan | (Won) | 31    | US\$ | 25  | Bank of China   | 3/20/10-12/20/11<br>*2 year grace and 8 quarterly installment |
| LG Display Guangzhou  | 1/03/08           | Long Term Loan | (Won) | 13    | RMB  | 70  | Bank of China   | 3/20/10-12/20/11<br>*2 year grace and 8 quarterly installment |
| Sub-total   |                   |                | (Won) | 3,513 |      |     |   |   |
| Current portion of long-term debt obligation                |                   |                | (Won) | 553   |      |     |   |   |
| Long-term debt, excluding current portion of long-term debt |                   |                | (Won) | 2,960 |      |     |   |   |
| Debt obligation   |                   |                | (Won) | 4,114 |      |     |   |   |

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As of December 31, 2008, we were obligated to guarantee the payment obligation of our Poland subsidiary in the amount of 70 million under a long-term credit facility that our Poland subsidiary entered into with a syndicate of banks. Other than the foregoing, we have not entered into any other financial guarantees or similar commitments to guarantee the payment obligations of our subsidiaries or other third parties as of December 31, 2008.

In March 2009, we entered into a long-term loan agreement with the Korea Development Bank in the amount of (Won)300 billion. As of April 2009, (Won)30 billion was drawn on the long-term loan agreement with the Korea Development Bank. In April 2009, we entered into a short-term loan credit facility with Hana Bank in the amount of (Won)200 billion.

Set forth below are the aggregate amounts, as of December 31, 2008, of our future contractual financing and licensing obligations under our existing debt and other contractual arrangements:

| Contractual Obligations                   | Total           | Payments Due by Period |                                   |                 |                      |
|---|-----------------|------------------------|-----------------------------------|-----------------|----------------------|
|   |                 | Less than<br>1 year    | 1-3 years<br>(in millions of Won) | 3-5 years       | More than<br>5 years |
| Long-Term Debt, including current portion | (Won) 3,513,209 | (Won) 553,430          | (Won) 1,815,744                   | (Won) 1,139,415 | (Won) 4,620          |
| Fixed License Payment                     | 129,036         | 19,505                 | 36,510                            | 36,510          | 36,511               |
| Long-Term Other Payables                  | 503,000         | 25,150                 | 191,140                           | 286,710         |                      |
| Total                                     | (Won) 4,145,245 | (Won) 598,085          | (Won) 2,043,394                   | (Won) 1,462,635 | (Won) 41,131         |

|   |         |        |        |         |    |
|---|---------|--------|--------|---------|----|
| Estimates of interest payment based on contractual interest rates effective as of December 31, 2008 | 298,958 | 94,335 | 84,488 | 120,039 | 97 |
|---|---------|--------|--------|---------|----|

In addition to fixed license payments listed above that we are obligated to make under certain technology license agreements, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amount of which are generally determined based on a percentage of sales of our TFT-LCD products.

Expenses relating to our license fees and royalty payments under existing license agreements were (Won)30.1 billion in 2006, (Won)30.1 billion in 2007 and (Won)28.7 billion (US\$22.7 million) in 2008, representing 6.9% of our research and development expenses in 2006, 7.3% in 2007 and 5.7% in 2008. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

**Material Related Party Transactions**

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

We sell TFT-LCD panels, primarily large-size panels for televisions, notebook computers and desktop monitors and other applications, 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. 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, amounted to (Won)1,729.3 billion, or 16.3% of our sales, in 2006, (Won)2,516.9 billion, or 17.5% of our sales, in 2007 and (Won)3,448.2 billion (US\$2,732.3 million), or 21.2% of our sales, in 2008.

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 9.0%, 8.3% and 6.2% in 2006, 2007 and 2008, 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, supplies and services 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, including purchases of materials, supplies and services, from LG International and its subsidiaries amounted to (Won)1,006.1 billion, or 10.7% of our total purchases, in 2006, (Won)429.4 billion, or 5.2%, in 2007 and (Won)1,643.4 billion (US\$1,302.3

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million), or 12.7%, in 2008. We also purchase raw materials, supplies and services necessary for our production process from LG Electronics and its affiliated companies, including LG Chem Ltd. and LG Micron Ltd. Our total purchases, including purchases of materials, supplies and services, from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to (Won)1,551.1 billion, or 16.5% of our total purchases in 2006, (Won)1,958.5 billion, or 23.6%, in 2007 and (Won)3,551.9 billion (US\$2,814.5 million), or 27.4%, in 2008. In addition, in January 2008, we acquired LG Electronics' AMOLED business by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. We paid a purchase price of (Won)4.6 billion for the AMOLED business, which was paid in cash in two installments.

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### **Taxation**

The effective statutory corporate income tax rate currently applicable to us is 12.1% for the first (Won)200 million of our taxable income and 27.5% for our taxable income in excess of (Won)200 million.

### ***Tax Exemptions***

Under the Special Tax Treatment Control Law of Korea, beginning in August 1999 when we registered Philips Electronics investment in us until 2008, we were entitled 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 2008, we received a tax benefit of (Won)32.6 billion (US\$25.8 million), or 3.0% of income before income taxes, as a result of Philips Electronics 14.59% weighted average ownership in us in 2008. 2008 was the last taxable year we were eligible to receive this income tax exemption. The loss 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, 2008, 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, 2008, we had available deferred tax assets related to these credits in the amount of (Won)421.8 billion (US\$334.2 million), which may be utilized against future income tax liabilities through 2013.

### **Recent U.S. GAAP Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. In February 2008, the FASB issued FASB Staff Position ( FSP ) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Beginning on January 1, 2009, we will be required to apply the provisions of SFAS 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair

value in the financial statements on a nonrecurring basis. We are in the process of evaluating the impact, if any, of applying these provisions on our financial position and results of operations.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer in a business combination should recognize and measure identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of their first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires companies to clearly identify and present on the face of the consolidated statement of income, the amount of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and will be applied prospectively to all noncontrolling interests, including any that arose prior to the effective date. All of our significant subsidiaries are wholly-owned by us, and therefore the initial adoption of SFAS 160 is not expected to have a material impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133* ( SFAS 161 ). The new standard is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures include, for example:

a tabular summary of the fair values of derivative instruments and their gains and losses;

disclosure of derivative features that are credit-risk-related to provide more information regarding an entity's liquidity; and

cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments.

SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are currently in the process of evaluating the impact, if any, of adopting this standard.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently in the process of evaluating the impact, if any, of adopting this FSP on our financial position and results of operations.

### **Item 5.C. Research and Development, Patents and Licenses, etc.** **Research and Development**

The TFT-LCD industry is subject to rapid technological changes. We believe that effective research and development is essential to maintaining our position as one of the industry's leading technology innovators. Our research and product development expenditures amounted to (Won)737.6 billion in 2006, (Won)565.2 billion in 2007 and (Won)790.8 billion (US\$626.6 million) in 2008, representing 6.9% of our sales in 2006, 3.9% in 2007 and 4.9% in 2008. Included in these figures are product development costs directly associated with production at our fabrication facilities and module production plants, excluding depreciation expense, as well as research and development expenses, excluding depreciation expense, in the aggregate amount of (Won)418.2 billion in 2006, (Won)392.6 billion in 2007 and (Won)479.9 billion (US\$380.3 million) in 2008, and capital expenditures related to research and development and manufacturing for research and development test runs in the amount of (Won)319.4 billion in 2006, (Won)172.6 billion in 2007 and (Won)310.9 billion (US\$246.4 million) in 2008.

Our research and development activities primarily focus on the development of new and improved products. For example, in 2006, we developed a 100-inch panel for televisions, the largest TFT-LCD panel in the world at the time. In 2007, we developed the world's first 15.4-inch



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wide LED-applied display panel for notebook computers, the world's largest LED-applied panel for notebook computers at the time. In 2008, we displayed the world's first panel for notebook computers that could change its horizontal viewing angle from 175 degrees to 60 degrees with a built-in adjustable viewing image control, thereby significantly reducing privacy concerns while using notebook computers in public areas. In 2008, we also developed the world's first TFT-LCD panel for notebook computers that applied RGB LED backlight technology, thereby offering more colors and a better contrast ratio than conventional

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models that used cold cathode fluorescent lamps. In addition, in 2008, we developed the world's largest 27-inch panel for desktop monitors at the time that applied black data insertion technology, which enabled us to achieve a motion picture response time equivalent to panels that used 120Hz driving technology without increasing our production costs.

We believe that the trends for display products in the future are the widespread use of affordable large-size flat panel products with higher performance qualities and the use of different types of display products for a variety of purposes, such as using flexible display panels in a range of products or using large-size display panels for public display or advertising. To meet the demands of the future trends, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the existing products and diversifying the use of display panels as new opportunities arise with the development of communication systems and information technology. Accordingly, we have developed long-term alternative technologies, such as LED backlight technology, which is thin and light and is expected to provide reduced power consumption using environmentally friendly components. We have developed large-size high resolution LED backlight TFT-LCD panels for the categories of 42-inch, 47-inch and 55-inch panels for televisions. We have also developed copper line technology, a technology that takes advantage of copper's low electrical resistance to improve the transmission of video signals even across large-size TFT-LCD screens, resulting in sharp image quality with minimal distortion. We were the first company to apply copper line technology to high-resolution TFT-LCD panels. We are also further developing TruMotion 240Hz driving technology based on copper line, scanning backlight technology and other new circuit algorithms. TruMotion 240Hz driving technology decreases motion blur by doubling the speed of the usual frame rate. Using this technology, we developed high-resolution TFT-LCD panels for televisions, ranging in size from 32 inches to 55 inches. In addition, in continual cooperation with our television end-brand customers, we have developed various mounting technologies, such as user direct mounting and through-hole mounting technology, to provide more mounting options and further enhance the marketability of their products. In order to stay technologically ahead in the TFT-LCD industry, we are focusing on evolving our existing display panels so that they become slimmer and narrower and become more environmentally friendly by using less power. For example, in 2008, we succeeded in developing one of the world's most energy efficient TFT-LCD panel for 32-inch television that can operate on up to 56% less power and a ultra slim 47-inch TFT-LCD panel with a thickness of 8.9mm in 2008.

At the same time, we plan to develop new markets for public display panels so that, for example, they can be used as part of interior design or for public advertising purposes, such as multi-view TFT-LCD panels, which would allow viewers to enjoy different images from the same display panel depending on the angle each viewer is viewing from. For example, in 2008, we developed a three-dimensional multi-vision TFT-LCD panel that does not require the use of special viewing glasses and a 47-inch digital television that can utilize its standby power to display digital pictures.

In addition, as the product lifecycle of flat panel displays is approaching maturity, we plan to further focus on developing a next generation flat panel display technology, such as AMOLED, that can replace existing liquid crystal display panels or plasma display panels. AMOLED is considered a next generation flat panel display technology particularly because it is able to display clearer images of fast moving objects than conventional technology. In February 2006, we entered into two agreements, a strategic alliance agreement and an evaluation agreement for AMOLED development with Kodak. Pursuant to these agreements, we and Kodak are jointly evaluating display technologies for mobile displays and considering other opportunities, including the development and supply of AMOLED technology and products. In addition, we have already established ourselves as the leading developer of flexible displays. In 2007, we developed the world's first flexible AMOLED that uses amorphous silicon, which was selected as one of the best inventions of 2007 by Time Magazine, and the world's first flexible color e-book with video graphics array resolution. We also commenced production of the world's first flexible mono e-newspaper in 2007. In 2008, we developed a flexible color e-book with the world's highest resolution at the time. We were also the first to apply non-laser crystallization technology to the production of AMOLED.

In order to maintain our position as one of the industry's technology leaders, we believe it is important not only to increase direct spending on research and development, but also to manage our research and development capability effectively in order to successfully implement our long-term strategy. Therefore, we complement our in-house research and development capability with collaborations with universities and other third parties. For example, we provide project-based funding to both domestic and overseas universities as a means to recruit promising engineering students and to research and develop new technologies. We also enter into joint research and development agreements from time to time with third parties for the development of technologies in specific fields. In addition, we belong to several display industry consortia, and we receive annual government funding to support our research and development efforts. In addition to these collaborations, we may form strategic technology alliances with the research arms of LG Electronics, as well as suppliers and equipment makers in cluster industries, that is, industries related to the TFT-LCD industry, in order to enhance our capability to develop new technology.

We have developed a research and development management system whereby we encourage our engineers to propose new projects freely and to implement rigorous evaluation criteria for each stage of project development. We select our projects



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primarily based on their feasibility and alignment with our research and development strategy, and we review the progress of all ongoing projects on a quarterly basis. As of December 31, 2008, we employed 1,872 personnel in our research and development department.

While we primarily rely on our own capacity for the development of new technologies in the TFT-LCD design and manufacturing process, we rely on third parties for certain key technologies to enhance our technology leadership, as further described in Intellectual Property below.

## **Intellectual Property**

### *Overview*

We currently hold a total of 10,455 patents, including 5,180 in Korea. We also hold patents in other countries, including in the United States, China, Japan, Great Britain and Taiwan. These include patents for TFT-LCD manufacturing processes, products and applications. These patents will expire at various dates upon the expiration of their respective terms ranging from 2009 to 2028.

As part of our ongoing efforts to prevent infringements on our intellectual property rights and to keep abreast of critical technology developments by our competitors, we closely monitor patent applications in Korea, Japan and the United States. We also plan to initiate monitoring activities in China. We intend to continue to file patent applications, where appropriate, to protect our proprietary technologies.

We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship are our exclusive property.

### *License Agreements*

We enter into license or cross-license agreements from time to time with third parties with respect to various device and process technologies to complement our in-house research and development. We engage in regular discussions with third parties to identify potential areas for additional licensing of key technologies.

Expenses relating to our license fees and royalty payments under existing license agreements were (Won)30.1 billion in 2006, (Won)30.1 billion in 2007 and (Won)28.7 billion (US\$22.7 million) in 2008, representing 6.9% of our research and development expenses in 2006, 7.3% in 2007 and 5.7% in 2008. We recognized royalty income of US\$25.1 million, US\$180.2 million and US\$25.4 million in 2006, 2007 and 2008, respectively.

We have a license agreement with Lemelson Foundation, effective as of July 1999, which provides for a non-exclusive, non-transferable license under certain patents owned by the Lemelson Foundation relating to the magnification process in our TFT-LCD manufacturing process.

We have a license agreement with Columbia University, effective as of July 2000, which provides for a non-exclusive, non-transferable license under certain patents relating to LTPS technology for TFT-LCD products.

We have a license agreement with Semiconductor Energy Laboratory Co., Ltd., effective as of October 2005, which provides for a non-exclusive and non-transferable license under certain patents relating to amorphous silicon TFT technology for TFT-LCD products and for a cross license under certain patents relating to LTPS AMOLED technology for AMOLED products.

We have a license agreement with the Penn State Research Foundation, effective as of January 2003, which provides for a non-transferable license under its patents relating to LTPS technology and certain other technologies for TFT-LCD products.

In connection with the settlement of a lawsuit with NEC, we have a cross-license agreement with NEC, effective as of April 2001, under which each party grants to the other a non-exclusive and non-transferable worldwide licenses under all of its patents filed prior to the fifth anniversary of the effective date relating to TFT-LCD modules and its related components. In addition, NEC authorized us to grant to LG Electronics a license under certain patents for the production and sale of monitors.

We have a license agreement with each of Honeywell International Inc. and Honeywell Intellectual Properties Inc., effective as of March and October 2003, respectively, which provides for a non-exclusive, non-transferable license under a patent relating to



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certain diffuser and flicker-free technology for TFT-LCD products. We also have a license agreement with Honeywell Intellectual Properties Inc., effective as of May 2006, which provides for a non-exclusive, non-transferable license under patents relating to various technologies for TFT-LCD products.

We have a license agreement with Plasma Physics Corporation, effective as of September 2003, which provides for a non-exclusive license under certain patents relating to plasma chemical vapor coating or etching for TFT-LCD products.

We have a license agreement with Ferguson Patent Properties, LLC, effective as of October 2003, which provides for a non-exclusive, non-transferable license under a patent relating to technology for controlling light intensity for TFT-LCD products.

We have a cross-license agreement with Hitachi, effective as of June 2004, which provides for a non-exclusive, non-transferable, non-assignable and indivisible license to use each other's patents relating to liquid crystal and OLED display devices.

We entered into a license agreement with Merck & Co., our key supplier of liquid crystal materials, effective as of December 2006, which provides for a non-exclusive and non-transferable license under a patent for a panel design technology in IPS to manufacture and sell certain display panels.

Philips Electronics and Toshiba Corporation entered into a royalty-free cross-license agreement in July 2000, as amended in a side letter dated March 2004, for a worldwide, non-exclusive and non-transferable license to use each other's patents for TFT-LCD products. The cross-license agreement extends to affiliates, subsidiaries and certain associated companies of Philips Electronics and Toshiba, which included us prior to our initial public offering in July 2004. The ability of Toshiba and us to use each other's patented technologies under this cross-license agreement automatically terminated when, following our initial public offering, Philips Electronics ceased to own or control at least 50% of our voting stock. However, under the terms of the license agreement we will continue to be licensed to use those patents that were filed prior to the date on which we were no longer deemed to be an associated company of Philips Electronics, which is July 2004, for the life of such patents.

In addition to licensing key technologies from third parties, we aim to benefit from our own patents and other intellectual property rights by granting licenses to third parties from time to time in return for royalty payments. We entered into a license agreement with Rockwell Collins Inc. in June 2001, under which we granted to Rockwell a non-exclusive, non-transferable license under our patents primarily for use in military applications.

In November 2007, Chunghwa Picture Tubes and we entered into a settlement agreement providing for dismissal of all pending claims against each other and a patent agreement allowing the companies to use each other's patented technology. As part of the settlement, Chunghwa Picture Tubes agreed to make a settlement payment to us as compensation.

We entered into a cross-license agreement with Kodak in March 2008 for a non-exclusive, non-transferable license under certain patents relating to technology for OLED displays and modules.

Under several patent purchase and license agreements between us and third parties where we have sub-licensing rights, we are obligated to share with these third parties a portion of the license payments and/or royalty income received from any such sub-licensing. In 2008, we recognized US\$25.4 million of royalty income under such sub-licensing rights after deducting amounts due to third parties under the patent purchase and license agreements.

### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

### **Item 5.E. *Off-Balance Sheet Arrangements***

In September 2004, we entered into a revolving asset-backed commercial paper program of up to US\$300 million using selected accounts receivable of our four sales subsidiaries in Germany, Taiwan, Japan and the United States. We have used the proceeds from this financing to reduce the payment terms of our sales subsidiaries' accounts payable and to meet working capital needs. However, as of December 31, 2007, we had no amount outstanding under the revolving asset-backed commercial paper program and in March 2008, we terminated the program.

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Since the second half of 2006, our overseas sales subsidiaries have entered into factoring arrangements. We had no amount outstanding under the factoring arrangements as of December 31, 2008. In June 2006, our sales subsidiary in Shanghai, China entered into a forfeiting arrangement of up to US\$200 million using its accounts receivable backed by letter of credit. In October 2006, we entered into an accounts receivable purchase facility of up to US\$600 million using selected accounts receivable of our sales subsidiaries in the United States, Germany, Hong Kong and Shanghai, China. As of December 31, 2008, we had no amount outstanding under the accounts receivable purchase facility and the forfeiting arrangement.

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As of December 31, 2008, payment guarantees were provided to us by ABN AMRO Bank amounting to US\$8.5 million relating to deferred tax payments in Poland. As of December 31, 2008, payment guarantees were provided to our subsidiary in Japan by Bank of Tokyo-Mitsubishi UFJ amounting to ¥1,300 million and to our subsidiary in Taiwan by ABN AMRO Bank amounting to US\$4 million, respectively, relating to their local tax payments.

We enter into foreign currency forward contracts to hedge transaction risks related to changes in currency exchange rates.

### **Item 5.F. *Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

### **Item 5.G. *Safe Harbor***

See Forward-Looking Statements.

## **Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Item 6.A. *Directors and Senior Management* Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Our articles of incorporation provide for a board consisting of between five and eleven directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Under the Korean Commercial Code, a representative director of a company established in Korea is authorized to represent and act on behalf of such company and has the power to bind such company. A company may have (i) one sole representative director, (ii) two or more co-representative directors or (iii) two or more joint representative directors. The powers and authorities of a sole representative director and any co-representative directors are exactly the same while the only distinction for joint representative directors is that they must act jointly (i.e., all of the joint representative directors must act together in order to bind the company while co-representative directors may act independently). All representative directors are selected from among the non-outside directors. Our articles of incorporation require that we elect either a single representative director or two joint representative directors. If we elect to have two joint representative directors, one representative director will serve as chief executive officer and the other representative director will serve as chief financial officer.

The term of office for our directors will expire upon the closing of the annual general meeting of shareholders convened in respect of the last fiscal year within three years after they take office. However, if the term of office expires after the close of the last fiscal year of such term of office but before the annual general meeting of shareholders convened in respect of such fiscal year, the term of office shall be extended up to the close of such annual general meeting of shareholders. Our board must meet at least once every quarter, and may meet as often as the representative director or joint representative directors deem necessary or advisable. Other directors may also request the representative director or joint representative directors to convene a board meeting at any time.

The tables below set forth information regarding our current directors and executive officers. The business address of all of the directors and executive officers is the address of our registered office at West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu, Seoul, Republic of Korea, 150-721.

#### ***Our Outside Directors***

Our current outside directors are set out in the table below. Each of our outside directors meets the applicable independence standards set forth under the rules of the Korean Securities and Exchange Act and also meets the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.





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| Name               | Date of Birth    | Position | First Elected/ |               | Principal Occupation  |
|--------------------|------------------|----------|----------------|---------------|---|
|                    |                  |          | Appointed      | Term Expires  |   |
| Ingoo Han          | October 15, 1956 | Director | July 2004      | February 2010 | Dean, Graduate School of Management, Korea Advanced Institute of Science and Technology |
| Dongwoo Chun       | January 15, 1945 | Director | March 2005     | February 2011 | Outside Director, Pixelplus   |
| Bruce I. Berkoff   | August 13, 1960  | Director | February 2008  | February 2011 | Chief Marketing Officer, Ascent Solar Technologies, Inc.                                |
| Yoshihide Nakamura | October 22, 1942 | Director | February 2008  | February 2011 | President and Chief Executive Officer, ULDAGE Inc.                                      |
| William Y. Kim     | June 6, 1956     | Director | February 2008  | February 2011 | Partner, Ropes & Gray LLP   |

**Our Non-Outside Directors**

Our non-outside directors are:

| Name                  | Date of Birth    | Position   | First Elected/ |               | Principal Occupation  |
|-----------------------|------------------|--|----------------|---------------|---|
|                       |                  |  | Appointed      | Term Expires  |   |
| Young Soo Kwon        | February 6, 1957 | Representative Director, President and Chief Executive Officer | February 2007  | February 2010 |   |
| James (Hoyoung) Jeong | November 2, 1961 | Director, Executive Vice President and Chief Financial Officer | February 2008  | February 2011 |   |
| Simon (Shin Ik) Kang  | May 10, 1954     | Director   | February 2008  | February 2011 | President of Home Entertainment Business Division, LG Electronics |

**Table of Contents****Our Executive Officers**

| <b>Name</b>           | <b>Date of Birth</b> | <b>Position</b>  | <b>Appointed</b>                             | <b>Division/Department</b>           |
|-----------------------|----------------------|--|--|--------------------------------------|
| Young Soo Kwon        | February 6, 1957     | Representative Director, President and Chief Executive Officer | February 2007                                |                                      |
| James (Hoyoung) Jeong | November 2, 1961     | Director, Executive Vice President and Chief Financial Officer | February 2008                                |                                      |
| Jong Sik Kim          | June 4, 1953         | Executive Vice-President and Chief Production Officer          | October 2006                                 | Manufacturing                        |
| In Jae Chung          | September 20, 1956   | Executive Vice-President and Chief Technology Officer          | January 2007                                 | Research & Development               |
| <b>Name</b>           | <b>Date of Birth</b> | <b>Position</b>  | <b>Elected/Appointed to Current Position</b> | <b>Division/Department</b>           |
| Bock Kwon             | August 4, 1954       | Executive Vice-President                                       | January 2006                                 | Corporate Strategy and Marketing     |
| Sang Deog Yeo         | September 21, 1955   | Executive Vice-President                                       | January 2005                                 | TV Business Unit                     |
| Sang Beom Han         | June 18, 1955        | Executive Vice-President                                       | January 2006                                 | Information Technology Business Unit |
| Hyun He Ha            | December 18, 1956    | Executive Vice-President                                       | January 2007                                 | Mobile Business Unit                 |
| Yu Seoung Yin         | June 20, 1956        | Executive Vice-President                                       | January 2009                                 | China Center                         |

We and our subsidiaries do not have any service contracts with our directors providing for benefits upon termination of their employment with us or our subsidiaries.

*Young Soo Kwon* has served as representative director, president and chief executive officer since February 2007. Prior to joining LG Display, Mr. Kwon served as president and chief financial officer of LG Electronics. He also served as head of the globalization team at LG Electronics headquarters in Korea, as well as a financial officer at LG Electronics' overseas subsidiary in New Jersey. Mr. Kwon holds a bachelor's degree in business administration from Seoul National University and a master's degree in industrial engineering from Korea Advanced Institute of Science and Technology.

*James (Hoyoung) Jeong* has served as director, executive vice president and chief financial officer since February 2008. Mr. Jeong also served as head of our Business Supporting Center. Prior to joining LG Display, he served as chief financial officer of LG Electronics. Mr. Jeong holds a bachelor's degree in business administration from Yonsei University.

*Simon (Shin Ik) Kang* has served as director since February 2008. Mr. Kang is currently president and head of the Home Entertainment Business Division of LG Electronics. He also served as president of the Korea Sales & Marketing Operation of LG Electronics. He holds a bachelor's degree in business administration from Yonsei University.

*Ingoo Han* has served as outside director since July 2004. Mr. Han is currently dean of the Graduate School of Management at the Korea Advanced Institute of Science and Technology. He is also a certified public accountant in Korea and a certified management accountant in the United States. Mr. Han holds a bachelor's degree in international economics from Seoul National University, a master's degree in management science from the Korea Advanced Institute of Science and Technology and a Ph.D. in accounting information systems from the University of Illinois at Urbana-Champaign.

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*Dongwoo Chun* has served as outside director since March 2005. Mr. Chun is currently serving as member of the board of directors of Pixelplus. He also served as executive vice president of Cirrus Logic Inc., Silicon Magic Inc. and LG Semicon. Mr. Chun holds a bachelor's degree in electronic engineering from Seoul National University, a master's degree in electrical engineering from the University of California, Berkeley and a Ph.D. in electrical engineering from the University of Texas.

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*Bruce I. Berkoff* has served as outside director since February 2008. Mr. Berkoff is also currently a member on the board of directors of InFocus Corporation, Syntax-Brilliant Corporation, Tvia, inc., Unipixel Displays, Inc. and Alta-Analog Inc. He is currently chief marketing officer of Ascent Solar Technologies, Inc. He is also currently chairman of LCD TV Association and he also served as chairman of Enuclia Semiconductor, Inc. Mr. Berkoff holds a bachelor's degree in physics from Princeton University and a master's degree in biophysics from the University of California, Berkeley.

*Yoshihide Nakamura* has served as outside director since February 2008. Mr. Nakamura is currently serving as an outside board member of Onward Holding Co., Ltd. of Japan. He is also currently president and chief executive officer of ULDAGE Inc. He also served as senior vice president of the Intellectual Property department at Sony Corporation and president and chief executive officer of Sony Chemical Corporation. Mr. Nakamura holds a bachelor's degree in law from Chuo University.

*William Y. Kim* has served as outside director since February 2008. Mr. Kim is currently a partner at Ropes & Gray LLP. He also served as partner at Alston & Bird LLP and Dorsey & Whitney LLP. He is currently the chairman of the Scholarship and Rules Committee of the National Board of Directors of the Korean-American Scholarship Foundation. Mr. Kim holds a bachelor's degree in science from the Catholic University of America, a J.D. degree from Georgetown University Law Center and an M.B.A. degree from the University of Michigan.

*Jong Sik Kim* has served as executive vice-president since October 2006 and chief production officer since January 2007. Mr. Kim also served as head of the module center since joining LG Display in October 2006. Prior to joining LG Display, Mr. Kim served as head of display production and head of quality control and procurement at LG Electronics. Mr. Kim holds a bachelor's degree in electronic engineering from Yeungnam University and a master's degree in electronic engineering from Kyungpook National University.

*In Jae Chung* has served as executive vice-president since January 2006 and as chief technology officer since January 2007. Prior to joining LG Display, Mr. Chung served as head of the notebook development department and LCD laboratory at LG Electronics. Mr. Chung received a bachelor's degree in physics and a master's degree in applied physics from Korea University and a Ph.D. in electronic engineering from University of South Australia.

*Bock Kwon* has served as executive vice-president since January 2006. Mr. Kwon also served as head of the Corporate Strategy & Marketing Center since July 2008. Prior to joining LG Display, Mr. Kwon worked for the worldwide sales division at LG Electronics. Mr. Kwon holds a bachelor's degree in electrical engineering from Pusan National University.

*Sang Deog Yeo* has served as executive vice-president since January 2005. Mr. Yeo also served as head of the TV Business Unit since August 2006. Prior to joining LG Display, Mr. Yeo served as head of Monitor Product Development at LG Electronics. Mr. Yeo holds a bachelor's degree in electronic engineering from Kyungpook National University.

*Sang Beom Han* has served as executive vice-president and head of the Information Technology Business Unit since June 2007. Mr. Han also served as executive vice-president and head of the Panel Center and as vice-president for our Panel 5 factory and the Manufacturing Technology Center since joining LG Display in December 2001. Prior to joining LG Display, Mr. Han served as vice president of Hynix Semiconductor Inc. Mr. Han holds a Ph.D. degree in material science from Stevens Institute of Technology.

*Hyun He Ha* has served as executive vice-president since January 2007. Mr. Ha has also served as head of the Small and Medium Displays Business Unit since August 2006. Mr. Ha has also served as vice president of the Corporate Strategy Department. Mr. Ha holds a bachelor's degree in history from Pusan National University and an M.B.A. degree from Waseda University.

*Yu Seoung Yin* has served as executive vice-president and head of the China Center since January 2009. Prior to joining LG Display, Mr. Yin served as executive vice-president of the Chairman's Office at LG Holdings. Mr. Yin holds a bachelor's degree in mass communication from Chung-Ang University.

**Item 6.B. Compensation**

The aggregate remuneration and benefits-in-kind we paid in 2008 to our executive officers and our directors was (Won)6.1 billion. In addition, as of December 31, 2008, our accrued severance and retirement benefits to those directors and officers amounted to (Won)0.6 billion (US\$0.5 million).



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In March 2005, our articles of incorporation were amended to provide for a long-term incentive plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. See Item 6.E. Stock Ownership Stock Options below for information concerning our long-term incentive plan.

We carry liability insurance for the benefit of our directors and officers against certain liabilities incurred by them in their official capacities. This insurance covers our directors and officers, as well as those of our subsidiaries, against certain claims, damages, judgments and settlements, including related legal costs, arising from a covered individual's actual or alleged breaches of duty, neglect or other errors, arising in connection with such individual's performance of his or her official duties. The insurance protection also extends to claims, damages, judgments and settlements, including related legal costs, arising out of shareholders' derivative actions or otherwise relating to our securities. Policy exclusions include, but are not limited to, claims relating to fraud, willful misconduct or criminal acts, as well as the payment of punitive damages. In 2008, we paid a premium of approximately US\$2.0 million in respect of this insurance policy.

### **Item 6.C. Board Practices**

See Item 6.A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

### **Committees of the Board of Directors**

We currently have three committees that serve under our board of directors:

Audit Committee;

Outside Director Nomination and Corporate Governance Committee; and

Remuneration Committee.

Our board of directors may establish other committees if they deem them necessary.

Our board of directors will appoint each member of these committees except that candidates for the Audit Committee will first be elected by our shareholders at the general meeting of shareholders.

### ***Audit Committee***

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. Our Audit Committee is comprised of three outside directors: Ingoo Han, Yoshihide Nakamura and William Y. Kim. The chairman is Ingoo Han. Members of the Audit Committee are elected by our shareholders at the annual general meeting of shareholders and all members must meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002 and the Commercial Code of Korea. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee's primary responsibilities include the following:

engaging or dismissing independent auditors;

approving independent audit fees;

approving audit and non-audit services;

reviewing annual and interim financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics;

assessing compliance with disclosure and filing obligations;

evaluating reports of actual or threatened litigation;

considering significant changes in accounting practices; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of shareholders. Our external auditor reports directly to the Audit Committee. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed.

The committee holds regular meetings at least once each quarter, and more frequently as needed.



**Table of Contents*****Outside Director Nomination and Corporate Governance Committee***

The Outside Director Nomination and Corporate Governance Committee is comprised of two outside directors, Dongwoo Chun and William Y. Kim, and one non-outside director, Simon (Shin Ik) Kang. The chairman is Dongwoo Chun. The Outside Director Nomination and Corporate Governance Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors. The committee also develops and recommends to the board of directors a set of corporate governance principles and oversees our policies, practices and procedures in the area of corporate governance.

The committee holds regular meetings at least once each year, and more frequently as needed.

***Remuneration Committee***

The Remuneration Committee is comprised of two outside directors, Bruce I. Berkoff and Dongwoo Chun, and one non-outside director, Simon (Shin Ik) Kang. The chairman is Simon (Shin Ik) Kang. The Remuneration Committee's primary responsibilities include making recommendations to the board of directors concerning salaries and incentive compensation for our directors and executive officers.

The committee holds regular meetings at least once each year, and more frequently as needed.

**Item 6.D. *Employees***

As of December 31, 2008, we had 24,860 employees, including 5,843 employees in our overseas subsidiaries. The following table provides a breakdown of our employees by function as of December 31, 2006, 2007 and 2008:

|                             | As of December 31, |        |        |
|-----------------------------|--------------------|--------|--------|
|                             | 2006               | 2007   | 2008   |
| Employees <sup>(1)</sup>    | 16,326             | 15,805 | 18,847 |
| Production                  |                    |        |        |
| Technical <sup>(2)</sup>    | 5,759              | 3,649  | 4,200  |
| Sales & Marketing           | 444                | 734    | 1,046  |
| Management & Administration | 1,110              | 715    | 767    |
| Total                       | 23,639             | 20,903 | 24,860 |

(1) Includes employees of our subsidiaries.

(2) Includes research and development and engineering personnel.

To recruit promising engineering students at leading Korean universities, we work with these universities on research projects where these students can gain exposure to our research and development efforts. We also provide on-the-job training for our new employees and develop training programs to identify and promote new leaders.

As of December 31, 2008, approximately 68.1% of our employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. We have never experienced a work stoppage or strike, and we consider our relationship with our employees to be good.

The salaries of our employees are reviewed annually. Salaries are adjusted based on individual and team performance, industry standards and inflation. As an incentive, discretionary bonuses may be paid based on the performance of individuals, and a portion of our operating income may be paid to our employees under our profit sharing plan if certain performance criteria are achieved. We also provide a wide range of benefits to our employees including medical insurance, employment insurance, workers compensation, free medical examinations, child tuition and education fee reimbursements and low-cost housing for certain employees.

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Under the Korean Labor Standards Act, employees with one year or more of service are entitled to receive, upon termination of their employment, a lump-sum severance payment based on the length of their service and their average wage during the last three months of employment. We make provisions for accrued severance liabilities based on the assumption that all employees terminate their employment with us at the same time. As of December 31, 2008, our accrued severance liabilities amounted to (Won)202.0 billion (US\$160.1 million), of which 65% was funded through severance insurance plans, while 0.2% was funded through deposits with the National Pension Corporation.

As of December 31, 2008, our employee stock ownership association owned approximately 0.1% of our common stock.

**Table of Contents****Item 6.E. Share Ownership**  
**Common Stock**

The persons who are currently our executive officers held, as a group, 23,000 shares of our common stock as of December 31, 2008, the most recent date for which this information is available. Our executive officers acquired our shares of common stock through our employee stock ownership association and pursuant to open market purchases on the Korea Exchange. Due to Korean law restrictions, our chief executive officer and chief financial officer did not participate in the employee stock ownership association. Each of our directors and executive officers beneficially owns less than one percent of our common stock on an individual basis.

**Stock Options**

In March 2005, our articles of incorporation were amended to provide for a long-term incentive plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. As part of our long-term incentive plan, our board of directors resolved on April 7, 2005 to grant the first performance-based stock options to our standing directors and executive officers. The stock option plan compares gains in the KOSPI against increases in the price of our common stock during the period from the grant date to the start of the exercise period. Depending on our performance, adjustments may be made to the number of options that a grantee may exercise during the exercise period. A grantee will be permitted to exercise 100% of the stock options initially granted if our common stock outperforms the KOSPI during the period of comparison. A grantee will be permitted to exercise only 50% of the stock options initially granted if the KOSPI outperforms our common stock during the period of comparison. In addition, our board adopted a Stock Appreciation Rights Plan pursuant to which we will pay in cash the difference between the exercise and market price at the date of exercise. The following table sets forth certain information regarding our stock option plan as of June 22, 2009:

| Executive Officers   | Grant Date    | Exercise Period |               | Exercise Price | Number of Granted Options | Number of Exercised Options | Number of Exercisable Options <sup>(1)</sup> |
|----------------------|---------------|-----------------|---------------|----------------|---------------------------|-----------------------------|--|
|                      |               | From            | To            |                |                           |                             |  |
| Ron H. Wirahadiraksa | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 100,000                   | 0                           | 50,000                                       |
| Duke M. Koo          | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000                    | 0                           | 20,000                                       |
| Sang Deog Yeo        | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000                    | 0                           | 20,000                                       |
| Jae Geol Ju          | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000                    | 0                           | 20,000                                       |

- (1) When the increase rate of our share price is the same or less than the increase rate of the Korea Composite Stock Price Index ( KOSPI ) over the three-year period following the grant date, only 50% of the initially granted shares are exercisable. Since the increase rate of our share price was lower than the increase rate of KOSPI during the period from April 7, 2005 to April 7, 2008, only 50% of the initially granted shares are exercisable.

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7.A. Major Shareholders**

The following table sets forth information regarding beneficial ownership of our common stock as of December 31, 2008 by each person or entity known to us to own beneficially more than 5% of our outstanding shares:

| Beneficial Owner <sup>(1)</sup>    | Number of Shares of Common Stock | Percentage |
|------------------------------------|----------------------------------|------------|
| LG Electronics                     | 135,625,000                      | 37.9%      |
| Philips Electronics <sup>(2)</sup> | 47,225,000                       | 13.2%      |

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- (1) As of February 4, 2009, Korean National Pension Service's ownership of our shares was 18,512,515 shares, representing 5.17% of the total shares of our common stock.
- (2) On March 16, 2009, Philips Electronics sold all of its equity interest in us.  
Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common stock or exercised control or could exercise control over us as of December 31, 2008. None of our major shareholders identified above has voting rights different from those of our other shareholders.

In July 1999, LG Electronics entered into a joint venture agreement with Philips Electronics, pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL. Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders' agreement to reflect new arrangements between them as controlling shareholders. On October 2007, Philips Electronics sold 46.4 million shares of our common stock to financial institutions in a capital markets transaction, which represented approximately 13.0% of our issued share capital, and reduced its ownership interest in us to 19.9% from 32.9% as of December 31,

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2006. On March 12, 2008, Philips Electronics sold 24 million shares of our common stock to institutional investors and further reduced its ownership interest in us to 13.2%. On March 16, 2009, Philips Electronics sold all of its remaining equity interest in us and the shareholders agreement automatically terminated upon such sale by Philips Electronics.

**Item 7.B. *Related Party Transactions***  
**Certain Relationships and Related Party Transactions**

We engage from time to time in a variety of transactions with related parties. We have conducted our transactions with related parties, including LG Electronics, as we would in comparable arm's-length transactions with a non-related party, on a basis substantially as favorable to us as would be obtainable in such transactions.

**Relationships and Transactions with LG Electronics and Related Companies**

***Sales to LG Electronics***

We sell TFT-LCD panels, primarily large-size panels for televisions, notebook computers and desktop monitors and other applications, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis, as both an end-brand customer and as a systems integrator for use in products they assemble on a contract basis for other end-brand customers. 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 LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to (Won)1,729.3 billion, or 16.3% of our sales, in 2006, (Won)2,516.9 billion, or 17.5% of our sales, in 2007 and (Won)3,448.2 billion (US\$2,732.3 million), or 21.2% of our sales, in 2008.

***Sales to LG International***

We sell our products to certain subsidiaries of LG International, our affiliated trading company, 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.

In particular, we have sold a significant amount of our products to LG International Japan, Ltd. and LG International Singapore Ltd. Sales to LG International and its subsidiaries on an aggregate basis amounted to 9.0%, 8.3% and 6.2% of our sales in 2006, 2007 and 2008, respectively. We sell our products to these subsidiaries of LG International at a market price determined on an arm's-length basis.

We establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of utilizing our affiliated trading company, LG International, or its subsidiaries, and where local market practice permits. Based on this approach, we established sales subsidiaries in Hong Kong and Shanghai, China, in January 2003, to replace LG International (HK) in conducting sales to system integrators located in China. In January 2009, we established a sales subsidiary in Singapore, which is expected to replace LG International Singapore Ltd. in conducting sales to system integrators located in Singapore. We expect to continue to utilize LG International Japan, consistent with local market practices there, to conduct our sales to end-brand customers in Japan, but may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

***Purchases from LG International***

We procure a portion of our production materials, supplies and services, from LG International and its subsidiaries in Japan, Europe and the United States. We use these subsidiaries in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. Purchase prices we pay to these subsidiaries and other terms of our transactions with them are conducted on an arm's-length basis. We expect to continue to utilize LG International's overseas subsidiaries for the procurement of a portion of our production materials, supplies and services.

Our purchases, including purchases of materials, supplies and services, from LG International and its subsidiaries, amounted to (Won)1,006.1 billion, or 10.7% of our total purchases, in 2006, (Won)429.4 billion, or 5.2% of our total purchases, in 2007 and (Won)1,643.4 billion (US\$1,302.3 million), or 12.7% of our total purchases, in 2008.



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**Table of Contents*****Other Purchases***

Under a master purchase agreement, we procure, on an as-needed basis, raw materials, components and other materials necessary for our production process from LG Electronics and its affiliated companies, including LG Chem and LG Micron Ltd. Our purchases of raw materials, such as polarizers, from LG Chem amounted to (Won)708.8 billion, (Won)862.9 billion and (Won)1,146.5 billion (US\$908.5 million) in 2006, 2007 and 2008, respectively. Our purchases of photo masks from LG Micron Ltd. amounted to (Won)113.3 billion, (Won)105.6 billion and (Won)138.4 billion (US\$109.6 million) in 2006, 2007 and 2008, respectively.

Our total purchases, including purchases of materials, supplies and services, from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to (Won)1,551.1 billion, or 16.5% of our total purchases, in 2006, (Won)1,958.5 billion, or 23.6% of our total purchases, in 2007 and (Won)3,551.9 billion (US\$2,814.5 million), or 27.4% of our total purchases, in 2008.

In addition, we benefit from certain licenses extended to us from license or cross-license agreements between LG Electronics and third parties.

Under the terms of the joint venture agreement, LG Electronics had assigned most of its patents relating to the development, manufacture and sale of TFT-LCD products to us and we had agreed to maintain joint ownership of those patents that were not assigned to us. Pursuant to a grantback agreement entered into with LG Electronics in July 2004, in the event of any intellectual property dispute between LG Electronics and a third party relating to those patents jointly owned by LG Electronics and us, we intend to allow LG Electronics to assert ownership in those patents for all non TFT-LCD applications and to license or grant other rights in such patents for use by the licensee in non-TFT-LCD applications in order to settle such disputes.

***Trademark Agreement with LG Corp.***

We entered into a trademark license agreement with LG Corp., the holding company of the LG Group, in July 2004 for use of the LG name. Under the agreement, we began making monthly payments to LG Corp. in the aggregate amount per year of 0.1% of our sales, net of advertising expenses, in 2005. This trademark license agreement expired on December 31, 2007, and although the agreement allowed for an automatic renewal, we signed a new trademark license agreement with LG Corp. in February 2008. Under the new agreement, from January 1, 2008 to June 30, 2008 and from July 1, 2008 to December 31, 2010, we are required to make monthly payments to LG Corp. in the aggregate amount per year of 0.1% and 0.2% of our sales, respectively, net of advertising expenses. As of June 22, 2009, we have made all monthly payments required to be made to LG Corp. in accordance with the terms of the new agreement.

**Relationships and Transactions with Philips Electronics*****Sales to, and Purchases from, Philips Electronics***

We 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. On March 12, 2008, Philips Electronics sold 24 million shares of our common stock to institutional investors and further reduced its ownership interest in us to 13.2%. On March 16, 2009, Philips Electronics sold all of its remaining equity interest in us.

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)1,331.4 billion, or 12.5% of our sales, in 2006, (Won)1,704.3 billion, or 11.9% of our sales, in 2007 and (Won)1,636.8 billion (US\$1,297.0 million), or 10.1% of our sales, in 2008.

We purchase materials, including backlight units and driver integrated circuits, as well as other services, from Philips Electronics. These purchases amounted to (Won)74.6 billion, (Won)13.8 billion and (Won)9.2 billion (US\$7.3 million) in 2006, 2007 and 2008, respectively. These amounts include purchases from Philips Electronics semiconductor division until September 2006, which, as of October 2006, is no longer a division of Philips Electronics.

***Trademark Agreement with Philips Electronics***

We entered into a trademark license agreement with Philips Electronics in July 2004 for use of the Philips name. Under the agreement, we began making monthly payments in the aggregate amount per year of 0.1% of our sales, net of advertising expenses, in 2005. Effective as of March 3, 2008, we changed our name to LG Display Co., Ltd. On June 30, 2008, the trademark license agreement with Philips Electronics expired.

**Transactions with Directors and Officers**

Certain of our directors and executive officers also serve as executive officers of companies with which we do business. None of our directors or executive officers has or had any interest in any of our business transactions that are or were unusual in their nature or conditions or significant to our business.

**Item 7.C. *Interests of Experts and Counsel***

Not applicable

**Item 8. FINANCIAL INFORMATION**

**Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-48.

**Legal Proceedings**

We are involved from time to time in certain routine legal actions incidental to our business. However, except for the ongoing proceedings described below, we are not currently involved in any material litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, have a material adverse effect on our results of operations or financial condition. In addition, except as described below, we are not aware of any other material pending or threatened litigation against us.

***Intellectual Property***

On August 29, 2002, we filed a complaint in the United States District Court for the Central District of California against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, Inc. claiming patent infringement on our United States patents relating to liquid crystal displays and the manufacturing processes for thin film transistors and liquid crystal displays. On November 21, 2006, we were awarded US\$53.5 million in damages in a trial by jury. On September 12, 2007, the court granted our request for enhanced damages, interest on damages, and additional damages for continuing infringement and legal fees.



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On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Company and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear-mountable liquid crystal display devices.

On May 13, 2005, we filed a separate complaint in the United States District Court for the District of Delaware against Chunghwa Picture Tubes, Tatung Company, Tatung Co. of America and ViewSonic Corp. claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. On July 27, 2006, we were awarded US\$52.4 million in damages in a trial by jury.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint in the United States District Court for the Central District of California against LG Electronics and us for alleged infringement of one of its U.S. patents relating to flat panel display mounting systems. The case was dismissed in March 2008 after Chunghwa Picture Tubes and we signed a settlement agreement in November 2007, providing for dismissal of all pending claims and counterclaims. As part of the settlement, Chunghwa Picture Tubes agreed to make a settlement payment to us as compensation.

On December 1, 2006, we filed a complaint in the United States District Court for the District of Delaware against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement. On March 8, 2007, AU Optronics Corp. filed a counter-claim against us in the United States District Court for the Western District of Wisconsin for alleged infringement of patents related to the manufacturing processes for TFT-LCDs but the suit was transferred to the United States District Court for the District of Delaware pursuant to our motion to transfer. On May 4, 2007, Chi Mei Optoelectronics Corp. filed a counter-claim against us for patent infringement in the United States District Court for the Eastern District of Texas, but the suit was transferred to the United States District Court for the District of Delaware on March 31, 2008 pursuant to our motion to transfer.

On December 6, 2007, Tatung Company and we signed a settlement agreement providing for dismissal of all pending claims and counterclaims against each other. On January 19, 2008, ViewSonic Corp. and we signed a settlement agreement providing for dismissal of all pending claims and counterclaims against each other.

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of our customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. and Toshiba America, Inc., for alleged infringement of two of its patents relating to liquid crystal displays. Positive Technologies, Inc. is seeking, among other things, damages for past infringement. On March 7, 2007, the United States District Court for the Eastern District of Texas granted our motion to intervene in the patent infringement case brought by Positive Technologies, Inc. On November 7, 2008, Positive Technologies, Inc. and we signed a settlement agreement and the case was dismissed on December 12, 2008.

On February 2, 2007, Anvik Corporation filed a complaint in the United States District Court for the Southern District of New York against us, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of the photo-masking equipments manufactured by Nikon Corporation and the patented methods performed by such system in producing TFT-LCD panels. Anvik is seeking monetary damages for past infringement and an injunction against future infringement.

On December 15, 2008, O2Micro International Ltd. and O2Micro Inc. filed a petition with the United States International Trade Commission to commence trade remedy investigations against us, our subsidiary, LG Display America, Inc., and other manufacturing companies, claiming infringement of patents relating to inverter circuits.

## ***Antitrust***

In December 2006, we received notice that we were under investigation by the Korea Fair Trade Commission, the Japan Fair Trade Commission, the Antitrust Division of the U.S. Department of Justice, and the European Commission with respect to possible anti-competitive activities in the TFT-LCD industry. We later received notice that we were under similar investigations by the Canadian Competition Bureau and the Taiwan Fair Trade Commission. In November 2008, we executed an agreement with the U.S. Department of Justice under which we and our subsidiary, LG Display America, Inc., would plead guilty to a criminal Sherman Act violation and pay a single total fine of US\$400 million. In December 2008, the United States District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment that sentenced us and LG Display America, Inc. to pay the US\$400 million according to the following schedule: US\$20 million, and interest thereon, by June 15, 2009, and US\$76 million, and interest thereon, by each of June 15, 2010, June 15, 2011, June 15, 2012, June 15, 2013 and December 15, 2013, respectively.



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The agreement resolves all federal criminal charges against us in the United States in connection with this matter, provided we continue to cooperate with the ongoing investigation. We are cooperating with the ongoing investigations by the U.S. Department of Justice and other regulatory bodies.

Subsequent to the commencement of the U.S. Department of Justice investigation, a number of purported class action lawsuits were filed against us and other TFT-LCD panel manufacturers in various U.S. federal district courts, alleging violation of U.S. antitrust laws and other related laws. In a series of decisions in 2007 and 2008, all of such cases were transferred to the Northern District of California for pretrial proceedings. An additional claim by a customer's assignee has also been filed in the Northern District of California. Purported class action complaints have also been filed against us in various Canadian courts, alleging violation of Canadian antitrust laws. We intend to defend these suits vigorously.

In addition, purported class action lawsuits have been brought against us, and certain of our officers and directors, in the United States District Court for the Southern District of New York in 2007, alleging, among other things, that we and certain of our officers and directors violated the U.S. Securities Exchange Act of 1934, or the Exchange Act, in connection with possible anti-competitive activities in the TFT-LCD industry. We intend to defend these suits vigorously.

In connection with these ongoing proceedings and claims, our management evaluates, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case (other than the U.S. federal criminal case), our management has determined that no provision was required to be taken at this time, as the conditions for taking such a provision (i.e., that a loss be both probable and reasonably estimable) had not been met. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of these proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and regulatory agencies. In addition, estimates of the potential costs associated with legal and regulatory proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome.

## **Dividends**

Annual dividends must be approved by the shareholders at the annual general meeting of shareholders and interim dividends must be approved by the board of directors. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves.

We did not declare or pay any dividends in respect of the fiscal years ended December 31, 2001 through 2006. On February 29, 2008, we declared a cash dividend of (Won)268.4 billion to our shareholders of record as of December 31, 2007 and distributed the cash dividend to such shareholders on March 21, 2008. On March 13, 2009, we declared a cash dividend of (Won)178.9 billion to our shareholders of record as of December 31, 2008 and distributed the cash dividend to such shareholders on April 3, 2009.

## **Item 8.B. *Significant Changes***

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **Item 9. THE OFFER AND LISTING**

### **Item 9.A. *Offer and Listing Details.***

#### **Market Price Information**

The principal trading market for our common stock is the Korea Exchange. Our common stock, which is in registered form and has a par value of (Won)5,000 per share of common stock, has been listed on the Korea Exchange since July 23, 2004 under the identifying code 034220. As of December 31, 2008, 357,815,700 shares of common stock were outstanding. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank as ADS depository and have been listed on the New York Stock Exchange under the symbol LPL since July 22, 2004. One ADS represents one-half of one share of common stock. As of December 31, 2008, 24,098,150 ADSs were outstanding.

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The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs:

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|                        | Korea Exchange                 |             |  | New York Stock Exchange |            |   |
|------------------------|--------------------------------|-------------|--|-------------------------|------------|---|
|                        | Closing Price Per Common Stock |             | Average Daily Trading Volume<br>(in thousands of shares) | Closing Price Per ADS   |            | Average Daily Trading Volume<br>(in thousands of DRs) |
| High                   | Low                            | High        |  | Low                     |            |   |
| <b>2005</b>            | 53,500                         | 36,000      | 1,048  | 26.39                   | 16.85      | 818   |
| <b>2006</b>            | (Won)46,600                    | (Won)25,550 | 1,181  | US \$24.40              | US\$ 14.06 | 1,096   |
| <b>2007</b>            | 56,000                         | 26,250      | 2,248  | 31.13                   | 14.01      | 1,091   |
| <b>2008</b>            | 50,600                         | 16,650      | 3,557  | 24.99                   | 5.54       | 1,113   |
| <b>2007</b>            |                                |             |  |                         |            |   |
| <b>First Quarter</b>   | 35,150                         | 26,250      | 1,052  | 18.29                   | 14.01      | 958   |
| <b>Second Quarter</b>  | 45,450                         | 32,400      | 1,673  | 24.03                   | 17.71      | 1,006   |
| <b>Third Quarter</b>   | 46,700                         | 38,200      | 2,042  | 25.14                   | 20.73      | 1,098   |
| <b>Fourth Quarter</b>  | 56,000                         | 40,200      | 4,217  | 31.13                   | 21.73      | 1,293   |
| <b>2008</b>            |                                |             |  |                         |            |   |
| <b>First Quarter</b>   | 47,600                         | 39,000      | 3,181  | 24.99                   | 19.98      | 1,461   |
| <b>Second Quarter</b>  | 50,600                         | 39,200      | 4,009  | 24.42                   | 18.68      | 974   |
| <b>Third Quarter</b>   | 38,750                         | 24,500      | 3,636  | 18.32                   | 10.93      | 1,145   |
| <b>Fourth Quarter</b>  | 29,950                         | 16,650      | 3,410  | 12.82                   | 5.54       | 889   |
| November               | 24,000                         | 17,800      | 3,349  | 9.40                    | 5.62       | 944   |
| December               | 24,900                         | 20,650      | 2,572  | 9.59                    | 6.74       | 554   |
| <b>2009</b>            |                                |             |  |                         |            |   |
| <b>First Quarter</b>   | 28,800                         | 22,800      | 4,237  | 11.12                   | 7.78       | 1,444   |
| January                | 26,800                         | 22,800      | 2,535  | 10.13                   | 8.43       | 900   |
| February               | 28,650                         | 24,550      | 2,777  | 10.69                   | 8.33       | 1,349   |
| March                  | 28,800                         | 24,650      | 7,035  | 11.12                   | 7.78       | 2,011   |
| <b>Second Quarter</b>  |                                |             |  |                         |            |   |
| April                  | 34,100                         | 28,750      | 4,447  | 12.95                   | 10.67      | 1,576   |
| May                    | 31,950                         | 28,000      | 4,573  | 12.84                   | 11.15      | 1,515   |
| June (through June 22) | 31,550                         | 28,650      | 4,273  | 12.77                   | 11.45      | 1,278   |

Source: Korea Exchange; New York Stock Exchange.

**Item 9.B. Plan of Distribution**

Not applicable

**Item 9.C. Markets****The Korea Exchange**

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign securities companies.

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As of December 31, 2008, the aggregate market value of equity securities listed on the Korea Exchange was approximately (Won)576.9 trillion. The average daily trading volume of equity securities for 2008 was approximately 355.2 million shares with an average transaction value of (Won)5,189.6 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

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The government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios:

|                        | Opening  | High     | Low      | Closing  |
|------------------------|----------|----------|----------|----------|
| 1979                   | 131.28   | 131.28   | 104.38   | 118.97   |
| 1980                   | 100.00   | 119.36   | 100.00   | 106.87   |
| 1981                   | 97.95    | 165.95   | 93.14    | 131.37   |
| 1982                   | 123.60   | 134.48   | 106.00   | 128.99   |
| 1983                   | 122.52   | 134.46   | 115.59   | 121.21   |
| 1984                   | 115.25   | 142.46   | 115.25   | 142.46   |
| 1985                   | 139.53   | 163.37   | 131.40   | 163.37   |
| 1986                   | 161.40   | 279.67   | 153.85   | 272.61   |
| 1987                   | 264.82   | 525.11   | 264.82   | 525.11   |
| 1988                   | 532.04   | 922.56   | 527.89   | 907.20   |
| 1989                   | 919.61   | 1,007.77 | 844.75   | 909.72   |
| 1990                   | 908.59   | 928.82   | 566.27   | 696.11   |
| 1991                   | 679.75   | 763.10   | 586.51   | 610.92   |
| 1992                   | 624.23   | 691.48   | 459.07   | 678.44   |
| 1993                   | 697.41   | 874.10   | 605.93   | 866.18   |
| 1994                   | 879.32   | 1,138.75 | 855.37   | 1,027.37 |
| 1995                   | 1,013.57 | 1,016.77 | 847.09   | 882.94   |
| 1996                   | 888.85   | 986.84   | 651.22   | 651.22   |
| 1997                   | 653.79   | 792.29   | 350.68   | 376.31   |
| 1998                   | 385.49   | 579.86   | 280.00   | 562.46   |
| 1999                   | 587.57   | 1,028.07 | 498.42   | 1,028.07 |
| 2000                   | 1,059.04 | 1,059.04 | 500.60   | 504.62   |
| 2001                   | 520.95   | 704.50   | 468.76   | 693.70   |
| 2002                   | 724.95   | 937.61   | 584.04   | 627.55   |
| 2003                   | 635.17   | 822.16   | 515.24   | 810.71   |
| 2004                   | 821.26   | 936.06   | 719.59   | 895.92   |
| 2005                   | 893.71   | 1,379.37 | 870.84   | 1,379.37 |
| 2006                   | 1,389.27 | 1,464.70 | 1,203.86 | 1,434.46 |
| 2007                   | 1,435.26 | 2,064.85 | 1,355.79 | 1,897.13 |
| 2008                   | 1,853.45 | 1,888.88 | 938.75   | 1,124.47 |
| 2009 (through June 22) | 1,157.4  | 1,435.7  | 1,018.8  | 1,399.7  |

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.





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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

| Previous Day's Closing Price (Won) | Rounded Down to (Won) |
|------------------------------------|-----------------------|
| Less than 5,000                    | 5                     |
| 5,000 to less than 10,000          | 10                    |
| 10,000 to less than 50,000         | 50                    |
| 50,000 to less than 100,000        | 100                   |
| 100,000 to less than 500,000       | 500                   |
| 500,000 or more                    | 1,000                 |

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

| Year | Market Capitalization on<br>the Last Day of Each Period |                      |                                      | Average Daily Trading Volume, Value |                      |                                       |
|------|---|----------------------|--------------------------------------|-------------------------------------|----------------------|---------------------------------------|
|      | Number of<br>Listed<br>Companies                        | (Billions<br>of Won) | (Millions<br>of US\$) <sup>(1)</sup> | Thousands<br>of Shares              | (Millions<br>of Won) | (Thousands<br>of US\$) <sup>(1)</sup> |
| 1981 | 343   | (Won) 2,959          | US\$ 4,223                           | 10,565                              | (Won) 8,708          | US\$ 12,427                           |
| 1982 | 334   | 3,001                | 4,012                                | 9,704                               | 6,667                | 8,914                                 |
| 1983 | 328   | 3,490                | 4,361                                | 9,325                               | 5,941                | 7,425                                 |
| 1984 | 336   | 5,149                | 6,207                                | 14,847                              | 10,642               | 12,829                                |
| 1985 | 342   | 6,570                | 7,362                                | 18,925                              | 12,315               | 13,798                                |
| 1986 | 355   | 11,994               | 13,863                               | 31,755                              | 32,870               | 37,991                                |
| 1987 | 389   | 26,172               | 32,884                               | 20,353                              | 70,185               | 88,183                                |
| 1988 | 502   | 64,544               | 93,895                               | 10,367                              | 198,364              | 288,571                               |
| 1989 | 626   | 95,477               | 140,119                              | 11,757                              | 280,967              | 412,338                               |
| 1990 | 669   | 79,020               | 109,872                              | 10,866                              | 183,692              | 255,412                               |
| 1991 | 686   | 73,118               | 95,541                               | 14,022                              | 214,263              | 279,973                               |
| 1992 | 688   | 84,712               | 107,027                              | 24,028                              | 308,246              | 389,445                               |
| 1993 | 693   | 112,665              | 138,870                              | 35,130                              | 574,048              | 707,566                               |
| 1994 | 699   | 151,217              | 190,762                              | 36,862                              | 776,257              | 979,257                               |
| 1995 | 721   | 141,151              | 181,943                              | 26,130                              | 487,762              | 628,721                               |
| 1996 | 760   | 117,370              | 138,490                              | 26,571                              | 486,834              | 928,418                               |
| 1997 | 776   | 70,989               | 41,881                               | 41,525                              | 555,759              | 327,881                               |
| 1998 | 748   | 137,799              | 114,261                              | 97,716                              | 660,429              | 547,619                               |
| 1999 | 725   | 349,504              | 307,662                              | 278,551                             | 3,481,620            | 3,064,806                             |
| 2000 | 704   | 188,042              | 148,415                              | 306,163                             | 2,602,211            | 2,053,837                             |
| 2001 | 689   | 255,850              | 194,785                              | 473,241                             | 1,997,420            | 1,520,685                             |
| 2002 | 683   | 258,681              | 216,071                              | 857,245                             | 3,041,595            | 2,540,590                             |
| 2003 | 684   | 355,363              | 298,624                              | 542,010                             | 2,216,636            | 1,862,719                             |

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|                        |     |         |           |         |           |           |
|------------------------|-----|---------|-----------|---------|-----------|-----------|
| 2004                   | 683 | 412,588 | 398,597   | 372,895 | 2,232,109 | 2,156,419 |
| 2005                   | 702 | 655,075 | 648,589   | 467,629 | 3,157,662 | 3,126,398 |
| 2006                   | 731 | 704,588 | 757,622   | 279,096 | 3,435,180 | 3,693,742 |
| 2007                   | 745 | 951,900 | 1,017,205 | 363,741 | 5,539,653 | 5,919,697 |
| 2008                   | 763 | 576,888 | 457,122   | 355,205 | 5,189,644 | 4,112,238 |
| 2009 (through June 22) | 757 | 727,930 | 575,803   | 567,486 | 5,900,862 | 4,667,665 |

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Source: The Korea Exchange

(1) Converted at the Federal Reserve Noon Rate on the last business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. In addition, it also regulates the securities and derivatives markets in Korea.

**Further Opening of the Korean Securities Market**

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the KRX KOSPI Market or the KRX KOSDAQ Market, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002, the Korea Exchange opened a new options market for the stock of seven companies (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company). On September 26, 2005, the Korea Exchange expanded this market to include the stock of 23 additional companies (namely LG Electronics, SK Corporation, Shinhan Financial Group Co., Ltd., Samsung SDI, KT&G, Hana Financial Group Inc., Hyundai Mobis, Kia Motors Corp., LG Corporation, Samsung Fire & Marine Insurance, Kangwon Land Corporation, LG Chem, Ltd., Hyundai Heavy Industries Co., Ltd., Korea Gas Corporation, Samsung Corporation, Samsung Electro-Mechanics Co., Ltd., GS Holdings Corp., CJ Corp., Hankook Tire, Hanjin Shipping Co., Ltd., Samsung Securities Co., Ltd., Korean Air and Hyundai Steel (formerly INI Steel)). Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Services Commission sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. In accordance with the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain other securities including shares of Korean companies that are not listed on the Korea Exchange and in bonds that are not listed.

**Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies**

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of the financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and such financial investment company places a sell order with another financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

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Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ

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Market. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to (Won)50 million of cash deposited with such financial investment company in case of such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment company is prohibited. The premiums related to this insurance are paid by such financial investment company.

**Item 9.D. *Selling Shareholders***

Not applicable

**Item 9.E. *Dilution***

Not applicable

**Item 9.F. *Expenses of the Issue***

Not applicable

**Item 10. ADDITIONAL INFORMATION**

**Item 10.A. *Share Capital***

Not applicable

**Item 10.B. *Memorandum and Articles of Association***

**Description of Capital Stock**

This section provides information relating to our capital stock, including brief summaries of material provisions of our current articles of incorporation, the Financial Investment Services and Capital Markets Act and the Commercial Code of Korea. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act and the Commercial Code.

**General**

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Under our articles of incorporation, as amended in March 2009, the total number of shares authorized to be issued by us is 500,000,000 shares, which consists of shares of common stock and non-voting preferred stock, both with par value of (Won)5,000 per share. We are authorized to issue preferred stock of up to 40,000,000 shares. As of December 31, 2008, 357,815,700 shares of common stock were issued. All of the issued and outstanding shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

### **Dividends**

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The shares represented by the ADSs have the same dividend rights as other outstanding shares.

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Holders of preferred shares are entitled to receive dividends in priority to the holders of common stock. The amount of dividends for preferred shares is determined by our board of directors within a range of 1% to 10% of par value at the time the shares are issued, provided that if the dividend amount on the shares of common stock exceeds that on the preferred shares, holders of preferred shares will also participate in the distribution of the excess dividend amount in the same proportion as holders of common stock. If the amount available for dividends is less than the aggregate amount of such minimum dividend, the holders of preferred shares will be entitled to receive the accumulated unpaid dividends in priority to the holders of common stock from the dividends payable in respect of the next fiscal year.

We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. If the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside a legal reserve in an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. Financial Services Commission regulations applicable to companies listed on the Korea Exchange require companies to set aside specified amounts as financial structure improvement reserves until the ratio of stockholders' equity to total assets reaches 30.0%. We may not use legal reserves to pay cash dividends but may transfer amounts from legal reserves to capital stock or use legal reserves to reduce an accumulated deficit.

Also, we may pay quarterly dividends in accordance with a resolution of the board of directors to our shareholders who are registered in the shareholders' register as of the end of March, June or September, and such quarterly dividends shall be made in cash.

### **Distribution of Free Shares**

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. Free shares are shares newly issued to existing shareholders without consideration, much like stock dividends, except that in the case of free shares a portion of the reserves, as opposed to earnings, is transferred to capital. We must distribute such free shares to all of our shareholders in proportion to their existing shareholdings. We may distribute free shares when we determine that our capital surplus or legal reserves are too large relative to our paid-in capital.

### **Preemptive Rights and Issuance of Additional Shares**

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All of our shareholders are generally entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record date. However, under the Commercial Code, we may vary the specific terms of these preemptive rights for different classes of shares without shareholder approval. To the extent that such different terms result in placing any particular class of shareholders at a disadvantage relative to other classes, a special resolution by that disadvantaged class of shareholders is necessary.

We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under our articles of incorporation, as amended in March 2009, we may issue new shares pursuant to a board resolution to persons other than existing shareholders, who however will not have preemptive rights, if the new shares are, among others:

publicly offered pursuant to the Financial Investment Services and Capital Markets Act;

issued to members of our employee stock ownership association;

represented by depositary receipts;

issued upon exercise of stock options granted to our officers and employees;



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issued to corporations, institutional investors or domestic or overseas financial institutions to achieve our operational objectives; or

issued for the purpose of drawing foreign investment when we deem it necessary for our business needs; provided that the aggregate number of shares so issued do not exceed 20% of the total number of issued and outstanding shares.

In addition, we may issue convertible bonds or bonds with warrants, respectively, up to an aggregate face amount of (Won)1 trillion to persons other than existing shareholders. The classes of shares to be issued upon conversion of bonds or exercise of warrants shall be common stock.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. As of December 31, 2008, approximately 0.1% of the outstanding shares were held by our employee stock ownership association.

### **General Meeting of Shareholders**

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares for at least six months; or

at the request of our audit committee.

Holders of preferred shares may request a general meeting of shareholders only after the preferred shares become entitled to vote or are enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. We will use *Maeil Business Newspaper* and *The Chosun Ilbo*, published in Seoul, for public notice purposes. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders.

The place of our general meetings of shareholders is decided by our board of directors, which can be our head office, our Paju Display Cluster or any other place as designated by our board of directors.

### **Voting Rights**

Holders of our common stock are entitled to one vote for each share of common stock, except that voting rights of shares of common stock held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. The Commercial Code permits cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director. However, our articles of incorporation prohibit cumulative voting.

According to our current articles of incorporation, our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others,

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require approval by the holders of at least two-thirds of the shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

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effecting our acquisition of all of the business of any other company;

effecting our acquisition of a part of the business of any other company that has a material effect on our business; or

issuing any new shares at a price lower than their par value.

In general, holders of preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, any merger or consolidation involving us, capital reductions or in certain other cases in which the rights or interests of the preferred shares are affected, approval of the holders of preferred shares is required. We may obtain such approval by a resolution of holders of at least two-thirds of the preferred shares present or represented at a class meeting of the holders of preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding preferred shares. In addition, if we are unable to pay dividends on preferred shares as provided in our articles of incorporation, the holders of preferred shares will become enfranchised and will be entitled to exercise voting rights until those dividends are paid. The holders of enfranchised preferred shares have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy.

Holders of ADRs exercise their voting rights through the ADR depository, an agent of which is the record holder of the underlying shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depository how to vote the shares underlying their ADSs.

### **Rights of Dissenting Shareholders**

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders no later than one month after the end of such 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily closing prices of shares on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily closing price of shares on the Korea Exchange for the one-month period before the date of the adoption of the relevant board resolution and (3) the weighted average of the daily closing price of shares on the Korea Exchange for the one-week period before the date of the adoption of the relevant board resolution. If we or the dissenting shareholders that had requested the purchase of their shares do not accept the purchase price, we or the dissenting shareholders may request a court to determine the purchase price. Holders of ADSs will not be able to exercise dissenters' rights unless they have withdrawn the underlying common stock and become our direct shareholders.

### **Register of Shareholders and Record Dates**

Our transfer agent, Korea Securities Depository, maintains the register of our shareholders at its office in Seoul, Korea. It will register transfers of shares on the register of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 15 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months.

### **Business Report**

At least one week before the annual general meeting of shareholders, we must make our business report and audited non-consolidated Korean GAAP financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of business reports, the audited non-consolidated Korean GAAP financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

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Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange (1) a yearly report (including audited non-consolidated financial statements and audited consolidated financial statements) within 90 days after the end of our fiscal year; provided that the audited consolidated financial statements may be separately submitted within 120 calendar days of the end of the fiscal year, and (2) interim reports with respect to the

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three-month period, six-month period and nine-month period from the beginning of each fiscal year within 45 calendar days following the end of each period. Copies of these reports will be available for public inspection at the Financial Services Commission and the Korea Exchange.

### **Transfer of Shares**

Under the Commercial Code, the transfer of shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with us. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 10.D. Exchange Controls.

### **Acquisition of Shares by Us**

In principle, we may not acquire our own shares except in limited circumstances, such as a reduction in capital.

Notwithstanding the foregoing restriction, we may acquire shares through purchases on the Korea Exchange or through a tender offer. We may also acquire interests in our own shares through agreements with trust companies or retrieve our own shares from a trust company upon termination of the trust agreement. The aggregate purchase price for shares purchased through such means may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year, subject to certain procedural requirements.

### **Liquidation Rights**

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of preferred shares have no preference in liquidation.

### **Item 10.C. *Material Contracts***

On December 17, 2007, we entered into an investment agreement with HannStar Display Corporation, or HannStar, whereby we agreed to purchase 180,000,000 shares of non-voting preferred stock, par value NT\$10, of HannStar. The aggregate issue price for the preferred shares was NT\$3,170,250,000, which we paid in cash on February 27, 2008. The preferred shares are convertible into shares of common stock of HannStar at our option until the third anniversary of the issue date and are subject to certain put and call options. Any preferred shares that have not been converted or redeemed by the third anniversary of the issue date are mandatorily redeemable by HannStar. On January 1, 2008, we also entered into a purchase agreement with HannStar, whereby HannStar agreed to supply us, on a monthly basis, with TFT-LCD modules and cells to be used in TFT-LCD products. The agreement has a term of three years but will be automatically renewed unless either party provides the other with prior notice to terminate. We pay the purchase price for the modules and cells on a delivery basis.

On January 17, 2008, Skyworth TV Holdings Limited, or Skyworth, agreed to invest US\$14 million in our subsidiary, LG Display Guangzhou Co., Ltd. (f/k/a LG.Philips LCD Guangzhou Co., Ltd.). On the same date, we also entered into a long term business strategic agreement with Skyworth whereby we agreed to supply Skyworth with TFT-LCD panels to be used in TFT-LCD products. The agreement remains effective until the definitive agreement for Skyworth's minority investment in LG Display Guangzhou Co., Ltd. is terminated. On July 11, 2008, we and Skyworth-RGB Electronics Co., Ltd., or Skyworth-RGB, founded a research and development joint venture company, Guangzhou New Vision Technology Research and Development Ltd. Skyworth-RGB and we each invested RMB 25 million in Guangzhou New Vision Technology Research and Development Ltd. for a 50-50 equity interest in the company. The joint venture company is expected to conduct product planning, design and development tailored to meet the needs of Chinese customers with respect to a range of products from TFT-LCD modules to television sets.

On August 29, 2008, we entered into a joint venture agreement with AmTRAN Technology Co., Ltd., to establish a manufacturing joint venture company, Suzhou Raken Technology Ltd. (China). We agreed to invest US\$10.41 million in return for a 51% equity interest in the joint venture company. The joint venture company will supply both parties with TFT-LCD modules and TFT-LCD televisions.



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On January 9, 2009, we entered into a long-term supply agreement with Apple Inc. to supply display panels to Apple Inc. for five years. In connection with the agreement, we received long-term advances in the amount of US\$500 million from Apple Inc.

On April 16, 2009, we entered into an agreement with Wooree LED Co., Ltd. to purchase 6,800,000 shares of its common stock, which is approximately 29.8% of its outstanding shares, at a purchase price of (Won)11.9 billion. Wooree LED Co., Ltd. is an LED packaging company.

### **Item 10.D. *Exchange Controls***

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investments by foreigners in Korean securities and regulate issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental agencies or financial institutions; and

if the government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea or certain other governmental agencies or financial institutions.

### **Government Review of Issuance of ADSs**

In order for us to issue ADSs outside Korea, we are required to submit a report to the Ministry of Strategy and Finance or our designated foreign exchange bank (depending on the aggregate issue amount) with respect to the issuance of the ADSs. No further governmental approval is necessary for the offering and issuance of the ADSs.

Under current Korean laws and regulations and the terms of the deposit agreement, the depositary is required to obtain our consent for the number of shares of common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit.

We can give no assurance that we would, subject to governmental authorization, grant our consent, if our consent is required. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

### **Reporting Requirements for Holders of Substantial Interests**

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Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds, bonds with warrants and exchangeable bonds, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding equity securities, is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of



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the issuer) of the holdings to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change (i) in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding equity securities from the previous report or (ii) in the shareholding purpose, is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (or, in the case of a person with no intent to seek management control or an institutional investor prescribed by the Financial Services Commission, within ten days of the end of the month in which the change occurred).

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or prohibition on the exercise of voting rights with respect to the ownership of equity securities exceeding the reported number of shares. Furthermore, the Financial Services Commission may order the disposal of the unreported equity securities.

When a person's shareholding ratio reaches or exceeds ten percent or more of the company's issued and outstanding shares with voting rights, the person must file a report to the Securities and Futures Commission and to the Korea Exchange within five business days following the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission and to the Korea Exchange regarding any subsequent change in his/her shareholding. These subsequent reports on changes in shareholding are required within five business days after the relevant change has occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

**Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided, that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

**Restrictions Applicable to Shares**

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations, adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

odd-lot trading of shares;

acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

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shares acquired by way of direct investment and/or the disposal of such shares by the investor;

the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

the disposal of shares in connection with a tender offer;

the acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;

the acquisition and disposal of shares through an overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

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arm s-length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person. For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from financial investment companies with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares and shares being issued for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment unless it has previously registered. However, the registration requirement does not apply to foreign investors who acquire converted shares (including upon conversion of ADSs into shares and upon exercise of conversion rights of convertible bonds) with the intention of selling such converted shares within three months from the date of acquisition of the converted shares. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the Financial Investment Services and Capital Markets Act. All Korean branch offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation located outside of Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the financial investment company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

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% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation

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which has no ceiling specifically set for foreign shareholders but has set a ceiling on the acquisition of shares by a single person regardless of its nationality within 3% of the total number of shares by its articles of incorporation. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the foreign exchange bank or Korea Trade-Investment Promotion Agency designated by the Ministry of Knowledge Economy prior to such investment (within 30 days from the date of such investment, if the company is listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company.

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 Korean 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 Korean Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Korean Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Korean Won account with the investor's financial investment company or in his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Korean 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.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean 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 the tax laws of the United States and the Republic of Korea as in effect on the date of this annual report, 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 so long as you are not:

a resident of Korea;

a corporation having its head office, principal place of business or place of effective management in Korea (i.e., a Korean corporation); or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

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

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We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including resident surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See [Tax Treaties](#) below for a discussion of treaty benefits. 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 subject to Korean withholding tax.

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In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities may require in order to establish your entitlement to the benefits of the applicable tax treaty. A holder of ADSs may submit evidence of tax residence to us through the depository.

### ***Taxation of Capital Gains from Transfer of Shares of Common Stock or ADSs***

As a general rule, capital gains earned by non-residents upon transfer of shares of our common stock or ADSs are subject to Korean withholding tax at the lower of (1) 11% (including resident surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the shares or ADSs, 22% (including resident surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See *Tax Treaties* below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Under the tax law amendments effective for capital gains recognized or to be recognized from disposition of ADSs on or after January 1, 2008, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company, is required to withhold Korean tax from the sales price in an amount equal to 11% (including resident surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the financial investment company, or through the ADR depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under *Tax Treaties* below for an additional explanation of claiming treaty benefits.

### ***Tax Treaties***

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on dividend income and capital gains on transfer of shares of common stock or ADSs. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including resident surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a United States corporation, (2) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.



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You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, effective from July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency along with the application for tax exemption. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depository receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50% based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

***Securities Transaction Tax***

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfers of ADSs, a tax ruling issued in 2004 by the Korean tax authority appears to hold that depository receipts, which the ADSs constitute, are treated as share certificates subject to the securities transaction tax. In May 2007, the Seoul Administrative Court held that depository receipts do not constitute share certificates subject to the securities transaction tax. In 2008, the case was upheld by the Seoul High Court and was further upheld by the Supreme Court. However, having dismissed the tax authorities' appeal without ruling on the substantive law issue, it is not clear if the Supreme Court's decision for this case will serve as the Supreme Court's precedent on this issue. Even if depository receipts, which the ADSs constitute, are treated as share certificates subject to the securities transaction tax under the Securities Transaction Tax Law, capital gains from a transfer of depository receipts listed on the New York Stock Exchange, the Nasdaq National Market or other qualified foreign exchanges are exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or certain rights including rights to subscribe to each share. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

**United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of ADSs. This summary applies to you only if you hold the 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 securities holdings;

a bank;

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a life insurance company;

a tax-exempt organization;

a person that holds ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds 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 the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the consequences of purchasing, owning, and disposing of ADSs in your particular circumstances, including the possible application of state, local, non-U.S. or other tax laws.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of an ADS and you are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the 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 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 Korean 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 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 (60 days or less) and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of ADSs before January 1, 2011 generally will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States 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 ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. 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 2007 or 2008 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 2009 taxable year.

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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 dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. U.S. holders of ADSs and common stock should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Distributions of additional shares in respect of ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

### ***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of ADSs will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the ADSs were 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 a reduced rate.

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***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 cash dividends on the ADSs, so long as you have owned the ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming 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. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S. related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

**Item 10.F. *Dividends and Paying Agents***

Not applicable

**Item 10.G. *Statements by Experts***

Not applicable

**Item 10.H. *Documents on Display***

We are subject to the information requirements of the Exchange Act and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

**Item 10.I. *Subsidiary Information***

Not applicable

**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
Overview**

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Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various financial market risks in our ordinary course business transactions, primarily from changes in interest rates and foreign exchange rates, and we utilize derivative financial instruments to mitigate these risks. We also used various derivative instruments, principally forward contracts with maturities of one year or less, to manage our exposure associated with net asset and liability positions and cash flows denominated in foreign currencies. We have used, and intend to continue to use, these derivative financial instruments only for hedging purposes and not for speculative purposes.

Our primary market risk exposures relate to interest rate movements on variable rate borrowings and exchange rate movements on foreign currency-denominated accounts receivable, as well as foreign currency-denominated future cash flows, mostly denominated in U.S. dollars, Euro and Japanese Yen, and foreign currency-denominated accounts payable for purchases

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of raw materials and supplies, primarily denominated in Japanese Yen. The fair value of our financial instruments has been determined as the price, as of the applicable measurement date, that we would receive when selling an asset or that we would pay when transferring a liability, in an orderly transaction between market participants. Fair value is based on quoted market prices where available.

**Interest Rate Risks**

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which are typically incurred to fund capital expenditures and repay maturing debt, as well as for working capital and other general corporate purposes. As of December 31, 2008, we had outstanding long-term debt, including current portion, in the amount of (Won)3,513.2 billion (US\$2,783.8 million).

We have entered into interest rate swap contracts with regard to interest rates for our existing U.S. dollar-denominated floating rate long-term debt. As of December 31, 2008, US\$300 million of our US\$901.7 million aggregate principal amount of U.S. dollar-denominated floating rate long-term borrowings are hedged against interest rate fluctuations. We may enter into similar arrangements in the future to manage our exposure to changes in interest rates. Under our interest rate swap contracts, we recognized a net valuation loss of (Won)11.1 billion as accumulated other comprehensive income in 2008. Details of interest rate swap contracts and cross-currency interest rate swap contracts outstanding as of December 31, 2008 are as follows:

| Bank                   | Contract amount<br>(in millions of US\$) |       | Receiving Interest Rate         | Paying Interest Rate    | Termination Date | Change in<br>Fair Value at                |       |
|------------------------|--|-------|---------------------------------|-------------------------|------------------|---|-------|
|                        |  |       |                                 |                         |                  | December 31, 2008<br>(in billions of Won) |       |
| SC First Bank          | US\$                                     | 50.0  | Variable; 6-month LIBOR         | Fixed; 5.375%           | May 21, 2009     | (Won)                                     | (3.2) |
| SC First Bank          | US\$                                     | 100.0 | Variable; 6-month LIBOR         | Fixed; 5.644%           | May 24, 2010     | (Won)                                     | 0.1   |
| Kookmin Bank           | US\$                                     | 100.0 | Variable; 3-month LIBOR         | Fixed; 4.540%<br>in KRW | Aug 29, 2011     | (Won)                                     | (6.0) |
| Korea Development Bank | US\$                                     | 50.0  | Variable; 3-month<br>LIBOR+0.53 | Fixed; 5.350%<br>in KRW | Jan 31, 2012     | (Won)                                     | (2.0) |

We may be exposed to interest rate risks on additional debt financing that we may periodically undertake to fund capital expenditures required for our capacity expansion. Upward fluctuations in interest rates increase the cost of new debt. The interest rate that we will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates we have secured on our current debt.

As of December 31, 2008, we had US\$901.7 million aggregate principal amount of U.S. dollar-denominated long-term loans, 70 million aggregate principal amount of Euro-denominated long-term loan and RMB 70 million aggregate principal amount of RMB-denominated long-term loan. The interest rate on these loans is set based on three-month LIBOR plus 0.35 to 0.66%, six-month LIBOR plus 0.41% to 0.69%, three-month Euribor plus 0.6% or 95% of the rates published by People's Bank of China. The table below provides information about our financial instruments that are sensitive to changes in interest rates. The risk associated with fluctuating interest expense is principally limited to our U.S. dollar-denominated and Euro-denominated term loans, and we do not believe that a near-term 10% change in the effective interest rate would have a significant impact on our cash flows. We currently do not have any capital lease obligations.

|                            | Expected Maturity Dates                    |           |           |         |         |            |             | Fair Value at        |       |
|----------------------------|--|-----------|-----------|---------|---------|------------|-------------|----------------------|-------|
|                            | 2009                                       | 2010      | 2011      | 2012    | 2013    | Thereafter | Total       | December 31,<br>2008 |       |
|                            | (in billions of Won, except interest rate) |           |           |         |         |            |             |                      |       |
| Long-term debt obligations |  |           |           |         |         |            |             |                      |       |
| Fixed rate ((Won))         | (Won) 468                                  | (Won) 588 | (Won) 400 |         |         |            | (Won) 1,456 | (Won)                | 1,423 |
| Average interest rate      | 4.3%                                       | 5.0%      | 5.4%      |         |         |            |             |                      |       |
| Variable Rate ((Won))      | (Won) 31                                   | (Won) 10  | (Won) 4   | (Won) 4 | (Won) 4 | (Won) 5    | (Won) 58    | (Won)                | 58    |
| Average interest rate      | 7.1%                                       | 6.5%      | 4.3%      | 4.3%    | 4.3%    | 4.3%       |             |                      |       |
| Variable rate (RMB)        |  | (Won) 7   | (Won) 7   |         |         |            | (Won) 14    | (Won)                | 14    |
| Average interest rate      |  | 7.4%      | 7.4%      |         |         |            |             |                      |       |

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|                       |          |          |           |           |          |             |             |
|-----------------------|----------|----------|-----------|-----------|----------|-------------|-------------|
| Variable rate (EUR)   |          | (Won) 29 | (Won) 38  | (Won) 38  | (Won) 19 | (Won) 124   | (Won) 124   |
| Average interest rate |          | 5.7%     | 5.7%      | 5.7%      | 5.7%     |             |             |
| Variable rate (US\$)  | (Won) 54 | (Won) 76 | (Won) 657 | (Won) 314 | (Won) 31 | (Won) 1,132 | (Won) 1,132 |
| Average interest rate | 3.1%     | 3.2%     | 3.0%      | 2.9%      | 3.8%     |             |             |
| Fixed rate (US\$)     |          |          |           | (Won) 729 |          | (Won) 729   | (Won) 631   |
| Average interest rate |          |          |           | 5.2%      |          |             |             |

**Table of Contents****Foreign Currency Risk**

The primary foreign currency to which we are exposed is the U.S. dollar. We are also exposed, to a lesser extent, to other foreign currencies, including the Euro and the Japanese Yen. As of December 31, 2008, we had U.S. dollar-denominated sales-related accounts receivable of US\$1,524.7 million, which represented 95.1% of our total sales-related accounts receivable balance. As of December 31, 2008, we also had Japanese Yen-denominated sales-related accounts receivable of ¥1,427.2 million and Euro-denominated sales-related accounts receivable of 10.7 million, which represented 1.0% and 0.9% of our total sales-related accounts receivable balance, respectively.

In addition to relying on natural hedges created by foreign currency payables and receivables, we enter into short-term, foreign currency forward contracts with major financial institutions to minimize the impact of foreign currency fluctuations on our results of operations. Gains and losses on foreign currency forward contracts are recorded in the period of the exchange rate changes as foreign exchange gain or loss or capital adjustment.

The table below sets forth our outstanding foreign currency forward contracts as of December 31, 2008. The number of foreign currency forward contracts that we entered into, and the aggregate contract amount thereof, decreased in 2008, compared to 2007, due primarily to a change in our internal risk management policy. Based on our overall foreign currency exposure as of December 31, 2008, a short-term 10% appreciation or depreciation of the U.S. dollar against the Korean Won may have a material effect on our short-term financial condition, results of operations or cash flows.

We hedge against the effect of exchange rate fluctuations of the U.S. dollar against the Korean Won on our U.S. dollar debt exposure using cross-currency swap contracts and sales exposure using forward contracts. As of December 31, 2008, US\$150 million of our US\$901.7 million aggregate principal amount of U.S. dollar-denominated floating rate long-term borrowings are hedged against foreign exchange rate and interest rate fluctuations. The table below sets out our foreign currency forward contracts and cross currency interest rate swap contracts as of December 31, 2008.

**Foreign Currency Forward Contracts:**

Contracts to sell US\$/buy Korean (Won):

|                                   |       |               |
|-----------------------------------|-------|---------------|
| Aggregate contract amount         | US\$  | 245 million   |
| Average contractual exchange rate | (Won) | 1,337.80/US\$ |
| Change in fair value              | (Won) | 20.5 billion  |

**Cross Currency Interest Rate Swap:**

Contracts to sell Korea (Won)/buy US\$:

|                                   |       |              |
|-----------------------------------|-------|--------------|
| Aggregate contract amount         | US\$  | 150 million  |
| Average contractual exchange rate | (Won) | 955.13/US\$  |
| Change in fair value              | (Won) | 47.9 billion |

**Other Risks**

We are exposed to credit risk in the event of non-performance by the counterparties under our foreign currency forward contracts at maturity. In order to minimize this risk, we limit the transaction amount with any one party and continually monitor the credit quality of the counterparties to these financial instruments. We do not anticipate any material losses from these contracts, and we believe the risk of non-performance by the counterparties under these contracts is remote.

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers, including our largest shareholder as an end-brand customer, together accounted for 71.3% of our sales in 2006, 73.7% in 2007 and 76.5% in 2008. While we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers designated system integrators. In addition, a significant amount of our sales to end-brand customers and their system integrators located in certain regions are sold through LG International's overseas subsidiaries. Our sales to LG International and its subsidiaries accounted for 9.0%, 8.3% and 6.2% in 2006, 2007 and 2008, respectively. As a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the significant amount of sales we make to our affiliated trading company, LG International, and its



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subsidiaries, we are exposed to credit risks associated with these entities. We have established certain measures, such as factoring arrangements and requirement of credit insurance from customers, to protect us from excessive exposure to such credit risks.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have been collected within 65 days. We manage our accounts receivable and credit exposure to customers by establishing credit limits for each customer to whom we supply products on an open account basis in accordance with our internal credit guidelines. We assess credit risk through quantitative and qualitative analysis, and based on this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or stand-by letter of credit, obtaining credit insurance or through factoring of all or part of accounts receivables. Our credit policy does not require credit limits on accounts receivable created on letters of credit. To date we have not experienced any material problems relating to customer payments.

Inflation in Korea, which was 2.2% in 2006, 2.5% in 2007 and 5.6% in 2008, has not had a material impact on our results of operations in recent years.

### **Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable

## **PART II**

### **Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable

### **Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable

### **Item 15. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2008. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our

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chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by KPMG Samjong Accounting Corp., an independent registered public accounting firm, as stated in its report which is included herein.

**Table of Contents****Attestation Report of the Registered Public Accounting Firm**

The attestation report of our independent registered public accounting firm is furnished in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [RESERVED]****Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Ingoo Han qualifies as an audit committee financial expert and is independent within the meaning of this Item 16A.

**Item 16B. CODE OF ETHICS**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our Code of Ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our non-executive directors and other officers and employees. Our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com). If we amend the provisions of our Code of Ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees billed to us by our former independent auditors, Samil PricewaterhouseCoopers, the member firms of PricewaterhouseCoopers, and their respective affiliates, during the fiscal year ended December 31, 2007 and the fees billed to us by our current independent auditors, KPMG Samjong Accounting Corp., during the fiscal year ended December 31, 2008:

|                    | Year ended December 31, |                    |
|--------------------|-------------------------|--------------------|
|                    | 2007                    | 2008               |
|                    | (in millions of Won)    |                    |
| Audit fees         | (Won) 2,958             | (Won) 1,820        |
| Audit-related fees | 35                      |                    |
| Tax fees           | 276                     | 16                 |
| Other fees         |                         | 361                |
| <b>Total fees</b>  | <b>(Won) 3,269</b>      | <b>(Won) 2,197</b> |

Audit fees in the above table are the fees billed by Samil PricewaterhouseCoopers and KPMG Samjong Accounting Corp., respectively, in connection with the audit of our annual financial statements and the review of our interim financial statements.

Audit-related fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers and KPMG Samjong Accounting Corp., respectively, for the issuance of comfort letters in connection with the issuance of securities, accounting consultations as well as agreed upon procedures related to various transactions involving us and our subsidiaries.

Tax fees in the above table are fees billed by Samil PricewaterhouseCoopers and KPMG Samjong Accounting Corp., respectively, for tax compliance services and other tax advice.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

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The audit committee is permitted to approve certain fees for audit and non-audit services before the completion of the engagement that are recurring, in the ordinary course of business and otherwise comply with the *de minimis* exception to the applicable rules of the U.S Securities and Exchange Commission. In 2008, no fees were approved pursuant to the *de minimis* exception.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law.

| NYSE Corporate Governance Standards  | LG Display's Corporate Governance Practice  |
|--|---|
| <p><b>Nomination/Corporate Governance Committee</b><br/>Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.</p>   | <p>We have established an Outside Director Nomination and Corporate Governance Committee composed of two outside directors and one non-outside director.</p>  |
| <p><b>Compensation Committee</b><br/>Listed companies must have a compensation committee composed entirely of independent directors.</p>   | <p>We have established a Remuneration Committee composed of two outside directors and one non-outside director.</p>   |
| <p><b>Executive Session</b><br/>Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.</p>  | <p>We do not normally hold executive sessions solely attended by non-management directors as that is not required under Korean law but we may elect to do so at the discretion of the directors.</p>  |
| <p><b>Audit Committee</b><br/>Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.</p>  | <p>We have established an Audit Committee composed of three outside directors who meet the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.</p>   |
| <p><b>Audit Committee Additional Requirements</b><br/>Listed companies must have an audit committee that is composed of at least three directors.</p>  | <p>Our Audit Committee has three directors, as described above.</p>   |
| <p><b>Shareholder Approval of Equity Compensation Plan</b><br/>Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.</p> | <p>We currently have two equity compensation plans: one providing for the grant of stock options to officers and key employees and an Employee Stock Ownership Plan, or ESOP.</p> <p>Stock options to officers and key employees may be granted pursuant to a resolution of the shareholders in an amount not to exceed 15% of the total number of our issued</p> |



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and outstanding shares. However, the board of directors may grant stock options to non-director officers and employees up to 1% of the total number of our issued and outstanding shares, which grant must be approved by a resolution of the subsequent general meeting of shareholders, except for the stock options granted before March 30, 2006.

All material matters related to the granting of stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval. Matters related to the ESOP are not subject to shareholders' approval under Korean law.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We do not maintain formal corporate governance guidelines. Our Outside Director Nomination and Corporate Governance Committee is responsible for overseeing our policies, practices and procedures in the area of corporate governance.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted the Code of Ethics for all directors, officers and employees. A copy of our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com).

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**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable

**Item 18. FINANCIAL STATEMENTS**

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| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 1.1           | Articles of Incorporation (translation in English)   |
| 2.1*          | Form of Common Stock Certificate (translation in English) (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement (No. 333-116819) on Form F-1, filed on July 13, 2004)   |
| 2.2*          | Deposit Agreement (including Form of American Depositary Receipt) (incorporated by reference to Exhibit (a) to the Registrant's Registration Statement (No. 333-147661) on Form F-6, filed on November 28, 2007)   |
| 2.3*          | Letter from Citibank, N.A., as depositary, dated as of November 29, 2007, to the Registrant relating to the direct registration system for the American depositary receipts (incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report (No. 001-32238) on Form 20-F, filed on April 16, 2008) |
| 4.1*          | Joint Venture Agreement by LG Display and Nippon Electric Glass Co., Ltd. (incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report (No. 001-32238) on Form 20-F, filed on April 11, 2005)   |
| 8.1**         | List of subsidiaries of LG Display Co., Ltd.   |
| 12.1          | Section 302 certification of the Chief Executive Officer   |
| 12.2          | Section 302 certification of the Chief Financial Officer   |
| 13.1          | Section 906 certification of the Chief Executive Officer   |
| 13.2          | Section 906 certification of the Chief Financial Officer   |

\* Filed previously.

\*\* Incorporated by reference to Note 1 of the notes to the consolidated financial statements of LG Display Co., Ltd. included in this annual report.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

LG Display Co., Ltd. (formerly, LG.Philips LCD Co., Ltd.)

In our opinion, the consolidated balance sheet as of December 31, 2007 and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for each of two years in the period ended December 31, 2007 present fairly, in all material respects, the financial position of LG Display Co., Ltd (formerly, LG.Philips LCD Co., Ltd.) and its subsidiaries (the Company) at December 31, 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ Samil PricewaterhouseCoopers  
Seoul, Korea  
April 7, 2008

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

LG Display Co., Ltd.:

We have audited the accompanying consolidated balance sheet of LG Display Co., Ltd. and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. We also have audited LG Display Co., Ltd.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). LG Display Co., Ltd.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Display Co., Ltd. and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, LG Display Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea  
June 19, 2009

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2007 and 2008

| (In millions of Korean Won, and thousands of U.S. dollars, except share data) | 2007                    | 2008                    | 2008<br>(note 3)     |
|---|-------------------------|-------------------------|----------------------|
| <b>Assets</b>   |                         |                         |                      |
| Current assets:   |                         |                         |                      |
| Cash and cash equivalents   | (Won) 1,196,423         | (Won) 1,352,752         | \$ 1,071,911         |
| Short-term financial instruments  | 785,000                 | 2,055,000               | 1,628,368            |
| Accounts receivable, net (note 4)   |                         |                         |                      |
| Trade, net  | 1,565,223               | 1,209,890               | 958,708              |
| Due from related parties  | 774,467                 | 804,810                 | 637,726              |
| Others, net   | 97,098                  | 36,088                  | 28,596               |
| Prepaid expenses  | 41,435                  | 43,589                  | 34,540               |
| Prepaid value added tax   | 105,924                 | 176,379                 | 139,761              |
| Deferred income tax assets (note 15)  | 335,347                 | 85,753                  | 67,950               |
| Inventories (note 6)  | 823,924                 | 1,136,673               | 900,692              |
| Investment securities (notes 5 and 20)  | 63                      | 74                      | 59                   |
| Other current assets  | 29,472                  | 119,836                 | 94,957               |
| <b>Total current assets</b>   | <b>5,754,376</b>        | <b>7,020,844</b>        | <b>5,563,268</b>     |
| Long-term prepaid expenses  | 181,511                 | 171,219                 | 135,673              |
| Property, plant and equipment, net (notes 9 and 25)                           | 7,591,654               | 9,296,364               | 7,366,374            |
| Intangible assets, net (note 10)  | 52,573                  | 171,019                 | 135,514              |
| Deferred income tax assets (note 15)  | 160,464                 | 494,263                 | 391,651              |
| Investment securities (notes 5 and 20)  | 1                       | 126,455                 | 100,202              |
| Equity method investments (note 7)  | 24,704                  | 79,474                  | 62,975               |
| Other non-current assets  | 79,417                  | 152,435                 | 120,788              |
| <b>Total assets</b>   | <b>(Won) 13,844,700</b> | <b>(Won) 17,512,073</b> | <b>\$ 13,876,445</b> |
| <b>Liabilities, Minority Interest and Stockholders Equity</b>                 |                         |                         |                      |
| Current liabilities:  |                         |                         |                      |
| Short-term borrowings (notes 12 and 19)                                       | (Won) 4,660             | (Won) 601,068           | \$ 476,282           |
| Current installments of long-term debt and debentures (notes 13 and 20)       | 409,236                 | 553,430                 | 438,534              |
| Trade accounts payable  |                         |                         |                      |
| Trade   | 714,814                 | 633,405                 | 501,906              |
| Due to related parties  | 279,887                 | 354,606                 | 280,987              |
| Other accounts payable (note 25)  |                         |                         |                      |
| Others  | 458,764                 | 1,166,104               | 924,013              |
| Due to related parties  | 156,140                 | 877,602                 | 695,406              |
| Accrued expenses  | 99,288                  | 203,488                 | 161,242              |
| Income taxes payable (note 15)  | 78,133                  | 294,494                 | 233,355              |
| Other current liabilities   | 248,377                 | 108,981                 | 86,356               |
| <b>Total current liabilities</b>  | <b>2,449,299</b>        | <b>4,793,178</b>        | <b>3,798,081</b>     |
| Long-term debt, excluding current installments (notes 13, 19 and 20)          | 3,044,252               | 2,959,779               | 2,345,308            |
| Long-term other payables (notes 1 and 20)                                     | 31,046                  | 531,757                 | 421,361              |
| Accrued expenses  | 17,828                  | 16,471                  | 13,052               |

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|   |                         |                         |                      |
|---|-------------------------|-------------------------|----------------------|
| Accrued severance benefits, net (note 14)   | 53,496                  | 70,232                  | 55,651               |
| Other non-current liabilities   |                         | 89,856                  | 71,201               |
| <b>Total liabilities</b>  | <b>5,595,921</b>        | <b>8,461,273</b>        | <b>6,704,654</b>     |
| <b>Minority interest</b>  | <b>86</b>               |                         |                      |
| <b>Stockholders' equity (note 16)</b>   |                         |                         |                      |
| Common stock, (Won)5,000 par value. Authorized 500,000,000 shares; issued and outstanding 357,815,700 shares in 2007 and 2008 | 1,789,078               | 1,789,078               | 1,417,653            |
| Capital surplus   | 2,249,638               | 2,253,445               | 1,785,614            |
| Accumulated other comprehensive income  | 15,686                  | 176,949                 | 140,213              |
| Retained earnings   | 4,194,291               | 4,831,328               | 3,828,311            |
| <b>Total stockholders' equity</b>   | <b>8,248,693</b>        | <b>9,050,800</b>        | <b>7,171,791</b>     |
| <b>Commitments and contingencies (note 19)</b>  |                         |                         |                      |
| <b>Total liabilities, minority interest and stockholders' equity</b>  | <b>(Won) 13,844,700</b> | <b>(Won) 17,512,073</b> | <b>\$ 13,876,445</b> |

See accompanying notes to consolidated financial statements.

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Operations

Years ended December 31, 2006, 2007 and 2008

(In millions of Korean Won, and thousands of U.S. dollars, except earnings per share)

|  | 2006            | 2007            | 2008            | 2008<br>(note 3) |
|--|-----------------|-----------------|-----------------|------------------|
| <b>Sales (note 22)</b>                                     |                 |                 |                 |                  |
| Related parties  | (Won) 4,061,486 | (Won) 5,475,969 | (Won) 6,401,173 | \$ 5,072,245     |
| Others   | 6,562,714       | 8,875,997       | 9,872,945       | 7,823,253        |
|  | 10,624,200      | 14,351,966      | 16,274,118      | 12,895,498       |
| <b>Cost of sales</b>                                       | 10,910,268      | 12,072,257      | 13,609,094      | 10,783,752       |
| <b>Gross profit (loss)</b>                                 | (286,068)       | 2,279,709       | 2,665,024       | 2,111,746        |
| Selling, general and administrative expenses               | 595,781         | 801,406         | 895,919         | 709,919          |
| Antitrust fine (note 19)                                   |                 |                 | 534,800         | 423,772          |
| <b>Operating income (loss)</b>                             | (881,849)       | 1,478,303       | 1,234,305       | 978,055          |
| <b>Other income (expense)</b>                              |                 |                 |                 |                  |
| Interest income  | 29,309          | 58,348          | 212,651         | 168,503          |
| Interest expense   | (169,598)       | (206,670)       | (152,197)       | (120,600)        |
| Foreign exchange gain (loss), net                          | 52,400          | 71,046          | (242,748)       | (192,352)        |
| Rental income  | 7,811           | 3,796           | 3,203           | 2,538            |
| Legal settlement (note 19)                                 |                 | 146,606         |                 |                  |
| Gain (loss) from redemption of debentures, net (note 13)   |                 | (17,632)        | 1,140           | 903              |
| Others, net  | 27,045          | 19,472          | 17,058          | 13,517           |
| <b>Total other income (expense), net</b>                   | (53,033)        | 74,966          | (160,893)       | (127,491)        |
| <b>Earnings (loss) before income tax expense (benefit)</b> | (934,882)       | 1,553,269       | 1,073,412       | 850,564          |
| Income tax expense (benefit) (note 15)                     | (242,103)       | 208,890         | 168,011         | 133,130          |
| Minority interest  |                 |                 | 2               | 2                |
| <b>Net income (loss)</b>                                   | (Won) (692,779) | (Won) 1,344,379 | (Won) 905,399   | \$ 717,432       |
| <b>Earnings (loss) per share (note 18)</b>                 |                 |                 |                 |                  |
| Basic  | (Won) (1,936)   | (Won) 3,755     | (Won) 2,529     | \$ 2.00          |
| Diluted  | (Won) (1,936)   | (Won) 3,708     | (Won) 2,497     | \$ 1.98          |

See accompanying notes to consolidated financial statements.





**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss)

Years ended December 31, 2006, 2007 and 2008

| (In millions of Korean Won except<br>number of shares)                                 | Common Stock |                 | Capital<br>Surplus | Retained<br>Earnings | Accumulated                             | Total           |
|--|--------------|-----------------|--------------------|----------------------|---|-----------------|
|  | Shares       | Amount          |                    |                      | Other<br>Comprehensive<br>Income (Loss) |                 |
| Balance as of December 31, 2005  | 357,815,700  | (Won) 1,789,078 | (Won) 2,243,800    | (Won) 3,542,691      | (Won) (1,367)                           | (Won) 7,574,202 |
| Stock compensation expense   |              |                 | 3,147              |                      |   | 3,147           |
| Comprehensive income:  |              |                 |                    |                      |   |                 |
| Net loss   |              |                 |                    | (692,779)            |   | (692,779)       |
| Cumulative translation adjustment,<br>net of tax                                       |              |                 |                    |                      | (14,396)                                | (14,396)        |
| Net unrealized gain in cash flow<br>hedge derivatives, net of tax                      |              |                 |                    |                      | 3,396                                   | 3,396           |
| Total comprehensive income   |              |                 |                    |                      |   | (703,779)       |
| Balance as of December 31, 2006  | 357,815,700  | (Won) 1,789,078 | (Won) 2,246,947    | (Won) 2,849,912      | (Won) (12,367)                          | (Won) 6,873,570 |
| Stock compensation expense   |              |                 | 2,691              |                      |   | 2,691           |
| Comprehensive income:  |              |                 |                    |                      |   |                 |
| Net income   |              |                 |                    | 1,344,379            |   | 1,344,379       |
| Cumulative translation adjustment,<br>net of tax                                       |              |                 |                    |                      | 46,693                                  | 46,693          |
| Net unrealized loss in cash flow<br>hedge derivatives, net of tax                      |              |                 |                    |                      | (18,640)                                | (18,640)        |
| Total comprehensive income   |              |                 |                    |                      |   | 1,372,432       |
| Balance as of December 31, 2007  | 357,815,700  | (Won) 1,789,078 | (Won) 2,249,638    | (Won) 4,194,291      | (Won) 15,686                            | (Won) 8,248,693 |
| Stock compensation expense   |              |                 | 1,474              |                      |   | 1,474           |
| Payment of dividend  |              |                 |                    | (268,362)            |   | (268,362)       |
| Beneficial conversion feature<br>related to US dollar-denominated<br>convertible bonds |              |                 | 2,333              |                      |   | 2,333           |
| Comprehensive income:  |              |                 |                    |                      |   |                 |
| Net income   |              |                 |                    | 905,399              |   | 905,399         |
| Unrealized gains on investment<br>securities, net of tax                               |              |                 |                    |                      | 21,899                                  | 21,899          |
| Cumulative translation adjustment,<br>net of tax                                       |              |                 |                    |                      | 136,692                                 | 136,692         |
| Net unrealized gain in cash flow<br>hedge derivatives, net of tax                      |              |                 |                    |                      | 2,672                                   | 2,672           |
| Total comprehensive income   |              |                 |                    |                      |   | 1,066,662       |
| Balance as of December 31, 2008  | 357,815,700  | (Won) 1,789,078 | (Won) 2,253,445    | (Won) 4,831,328      | (Won) 176,949                           | (Won) 9,050,800 |



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| (In thousands of U.S. dollars) (Note 3)  | Common Stock |              | Accumulated Other Comprehensive Income (Loss) |                   |               |              |
|--|--------------|--------------|---|-------------------|---------------|--------------|
|  | Shares       | Amount       | Capital Surplus                               | Retained Earnings | Income (Loss) | Total        |
| Balance as of December 31, 2007  | 357,815,700  | \$ 1,417,653 | \$ 1,782,597                                  | \$ 3,323,527      | \$ 12,429     | \$ 6,536,206 |
| Stock compensation expense   |              |              | 1,168   |                   |               | 1,168        |
| Payment of dividend  |              |              |   | (212,648)         |               | (212,648)    |
| Beneficial conversion feature related to US dollar-denominated convertible bonds |              |              | 1,849   |                   |               | 1,849        |
| Comprehensive income:  |              |              |   |                   |               |              |
| Net income   |              |              |   | 717,432           |               | 717,432      |
| Unrealized gains on investment securities, net of tax                            |              |              |   |                   | 17,353        | 17,353       |
| Cumulative translation adjustment, net of tax                                    |              |              |   |                   | 108,314       | 108,314      |
| Net unrealized gain in cash flow hedge derivatives, net of tax                   |              |              |   |                   | 2,117         | 2,117        |
| Total comprehensive income   |              |              |   |                   |               | 845,216      |
| Balance as of December 31, 2008  | 357,815,700  | \$ 1,417,653 | \$ 1,785,614                                  | \$ 3,828,311      | \$ 140,213    | \$ 7,171,791 |

See accompanying notes to consolidated financial statements.

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2007 and 2008

| (In millions of Korean Won, and thousands of U.S. dollars)    | 2006            | 2007            | 2008          | 2008<br>(note 3) |
|---|-----------------|-----------------|---------------|------------------|
| <b>Cash flows from operating activities:</b>                  |                 |                 |               |                  |
| Net income (loss)   | (Won) (692,779) | (Won) 1,344,379 | (Won) 905,399 | \$ 717,432       |
| <b>Adjustments for:</b>                                       |                 |                 |               |                  |
| Depreciation  | 2,597,479       | 2,780,812       | 2,493,512     | 1,975,842        |
| Amortization of intangible assets                             | 6,766           | 15,824          | 13,184        | 10,447           |
| Loss (gain) on disposal of property, plant and equipment, net | 575             | 2,656           | (311)         | (246)            |
| Impairment losses on property, plant and equipment            |                 | 44,398          | 83            | 66               |
| Loss (gain) from redemption of debentures, net                |                 | 17,632          | (1,140)       | (903)            |
| Loss (gain) on foreign currency translation, net              | (92,572)        | 836             | 411,479       | 326,053          |
| Amortization of debt issuance cost                            | 4,810           | 1,717           | 1,805         | 1,430            |
| Provision for warranty reserve                                | 46,013          | 77,852          | 90,063        | 71,365           |
| Provision for severance benefits                              | 55,183          | 62,828          | 68,992        | 54,669           |
| Deferred income tax expense (benefit)                         | (249,420)       | 122,361         | (157,626)     | (124,902)        |
| Minority interest   |                 |                 | 2             | 2                |
| Others, net   | 2,369           | 101,669         | 12,878        | 10,204           |
| <b>Changes in operating assets and liabilities:</b>           |                 |                 |               |                  |
| Decrease (increase) in accounts receivable                    | 409,123         | (1,446,420)     | 177,936       | 140,995          |
| Decrease (increase) in inventories                            | (362,013)       | 227,666         | (312,749)     | (247,820)        |
| Decrease in prepaid expenses                                  | 23,947          | 18,405          | 26,870        | 21,292           |
| Decrease (increase) in prepaid value added tax                | 38,172          | (10,506)        | (70,455)      | (55,828)         |
| Decrease (increase) in other current assets                   | (31,053)        | 10,139          | (18,668)      | (14,792)         |
| Increase in other non-current assets                          | (78,893)        | (78,049)        | (23,647)      | (18,738)         |
| Increase in trade accounts payable                            | 256,642         | 36,778          | 83,729        | 66,346           |
| Increase (decrease) in other accounts payable                 | 22,767          | (19,853)        | 195,692       | 155,065          |
| Increase (decrease) in accrued expenses                       | (14,101)        | 43,421          | 102,689       | 81,370           |
| Increase (decrease) in other current liabilities              | (60,236)        | 42,607          | 62,120        | 49,223           |
| Increase (decrease) in other non-current liabilities          | (16,742)        | (88,188)        | 463,631       | 367,378          |
| <b>Net cash provided by operating activities</b>              | 1,866,037       | 3,308,964       | 4,525,468     | 3,585,950        |
| <b>Cash flows from investing activities:</b>                  |                 |                 |               |                  |
| Acquisition of short-term financial instruments               |                 | (785,000)       | (3,320,000)   | (2,630,745)      |
| Proceeds from disposal of short-term financial instruments    |                 |                 | 2,050,000     | 1,624,406        |
| Acquisition of available-for-sale securities                  | (53)            | (39)            | (96,260)      | (76,276)         |
| Acquisition of property, plant and equipment                  |                 |                 |               |                  |
| From related parties  | (797,486)       | (408,244)       | (1,238,009)   | (980,990)        |
| From others   | (2,278,499)     | (1,169,075)     | (1,510,568)   | (1,196,963)      |
| Proceeds from disposal of property, plant and equipment       | 11,252          | 5,547           | 2,975         | 2,357            |
| Acquisition of intangible assets                              | (8,251)         | (18,651)        | (125,413)     | (99,376)         |
| Acquisition of equity method investments                      |                 |                 | (46,755)      | (37,048)         |
| Others, net   | 5,842           | (6,612)         | (6,220)       | (4,929)          |
| <b>Net cash used in investing activities</b>                  | (3,067,195)     | (2,382,074)     | (4,290,250)   | (3,399,564)      |

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|   |                      |                        |                        |                     |
|---|----------------------|------------------------|------------------------|---------------------|
| <b>Cash flows from financing activities:</b>  |                      |                        |                        |                     |
| Proceeds from short-term borrowings   |                      |                        | 596,407                | 472,589             |
| Proceeds from issuance of long-term debts   | 1,078,160            | 887,434                | 23,637                 | 18,730              |
| Repayment of short-term borrowings  | (58,307)             | (245,335)              |                        |                     |
| Repayment of long-term debt   | (442,848)            | (1,364,400)            | (503,916)              | (399,300)           |
| Proceeds from long-term other payables  |                      | 39,843                 | 14,608                 | 11,575              |
| Payment of debt issuance cost   | (400)                |                        |                        |                     |
| Payment of dividend   |                      |                        | (268,362)              | (212,648)           |
| Distribution to minority interest holders   |                      |                        | (88)                   | (70)                |
| <b>Net cash provided by (used in) financing activities</b>                                | <b>576,605</b>       | <b>(682,458)</b>       | <b>(137,714)</b>       | <b>(109,124)</b>    |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                       |                      |                        |                        |                     |
|   | (537)                | (2,457)                | 58,825                 | 46,612              |
| <b>Net increase in cash and cash equivalents from change in consolidated subsidiaries</b> |                      |                        |                        |                     |
|   |                      | 86                     |                        |                     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                               | <b>(625,090)</b>     | <b>242,061</b>         | <b>156,329</b>         | <b>123,874</b>      |
| Cash and cash equivalents, beginning of the year  | 1,579,452            | 954,362                | 1,196,423              | 948,037             |
| <b>Cash and cash equivalents, end of the year</b>   | <b>(Won) 954,362</b> | <b>(Won) 1,196,423</b> | <b>(Won) 1,352,752</b> | <b>\$ 1,071,911</b> |

See accompanying notes to consolidated financial statements.

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2006, 2007 and 2008

**1. Organization and Nature of Business**

LG Display Co., Ltd. and its subsidiaries' principal activities are the manufacture and supply of Thin Film Transistor Liquid Crystal Displays ( TFT-LCD ) to Original Equipment Manufacturers ( OEMs ) and multinational corporations.

The accompanying consolidated financial statements include the accounts of LG Display Co., Ltd. ( LGD or the Controlling Company ) and its consolidated subsidiaries (hereinafter collectively referred to as the Company ).

LG Display Co., Ltd. was incorporated in 1985 in the Republic of Korea under the original name of LG Soft, Ltd.

On February 29, 2008, the Controlling Company changed its name from LG.Philips LCD Co., Ltd. to LG Display Co., Ltd. upon the approval of shareholders at the general shareholders' meeting on the same date as a result of the decrease in Philips's share interest in the Controlling Company and the possibility of its business expansion to Organic Light Emitting Diode ( OLED ) and Flexible Display products.

As of December 31, 2008, the Controlling Company's shareholders are as follows:

|                                       | Number of<br>Shares | Percentage of<br>Ownership (%) |
|---------------------------------------|---------------------|--------------------------------|
| LG Electronics Inc.                   | 135,625,000         | 37.90                          |
| Koninklijke Philips Electronics N. V. | 47,225,000          | 13.20                          |
| Others                                | 174,965,700         | 48.90                          |
|                                       | 357,815,700         | 100.00                         |

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to Consolidated Financial Statements

December 31, 2006, 2007 and 2008

The Controlling Company's subsidiaries as of December 31, 2008 are as follows:

| Subsidiaries                                   | Country of Incorporation | Percentage of Ownership (%) |      |      |
|--|--------------------------|-----------------------------|------|------|
|  |                          | 2006                        | 2007 | 2008 |
| LG Display America, Inc.                       | US                       | 100                         | 100  | 100  |
| LG Display Japan Co., Ltd.                     | Japan                    | 100                         | 100  | 100  |
| LG Display Germany GmbH                        |                          |                             |      |      |
| (Formerly, LG.Philips LCD Germany GmbH)        | Germany                  | 100                         | 100  | 100  |
| LG Display Taiwan Co., Ltd.                    | Taiwan                   | 100                         | 100  | 100  |
| LG Display Nanjing Co., Ltd.                   |                          |                             |      |      |
| (Formerly, LG.Philips LCD Nanjing Co., Ltd.)   | China                    | 100                         | 100  | 100  |
| LG Display Hong Kong Co., Ltd.                 | China                    | 100                         | 100  | 100  |
| LG Display Shanghai Co., Ltd.                  |                          |                             |      |      |
| (Formerly, LG.Philips LCD Shanghai Co., Ltd.)  | China                    | 100                         | 100  | 100  |
| LG Display Poland Sp. zo.o.                    |                          |                             |      |      |
| (Formerly, LG.Philips LCD Poland Sp. zo.o.)    | Poland                   | 100                         | 80   | 80   |
| LG Display Guangzhou Co., Ltd.                 |                          |                             |      |      |
| (Formerly, LG.Philips LCD Guangzhou Co., Ltd.) | China                    | 100                         | 100  | 84   |
| LG Display Shenzhen Co., Ltd.                  |                          |                             |      |      |
| (Formerly, LG.Philips LCD Shenzhen Co., Ltd.)  | China                    |                             | 100  | 100  |

Global Professional Sourcing Co., Ltd., a subsidiary of LG Display Taiwan Co., Ltd., was liquidated in November 2008. Voluntary liquidation of LG Display Hong Kong Co., Ltd. is planned in 2009.

In December 2007, Toshiba Corporation ( Toshiba ) acquired a 20% interest in LG Display Poland Sp. zo.o. ( LG Display Poland ). In connection with the transaction, Toshiba, LGD and LG Display Poland entered into an agreement whereby LGD or LG Display Poland each has a call option to repurchase Toshiba's 20% interest in LG Display Poland and Toshiba has a put option to sell its 20% interest in LG Display Poland to LGD or LG Display Poland at a fixed price that equals Toshiba's investment at cost. The call and put options are exercisable after five years from the date of acquisition and on each anniversary thereafter with no stated expiry date in whole or in part. In accordance with EITF 00-4,

*Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary*, LG Display Poland is consolidated as a wholly owned subsidiary and Toshiba's 20% interest in LG Display Poland is accounted for as a financing and recorded as long-term other payables in the amount of (Won)29,624 million and (Won)38,445 million as of December 31, 2007 and 2008, respectively.

In June 2008, Skyworth TV Holdings Limited ( Skyworth ) acquired a 16% interest in LG Display Guangzhou Co., Ltd. ( LG Display Guangzhou ). In connection with the transaction, Skyworth and LGD entered into an agreement whereby LGD has a call option to buy Skyworth's 16% interest in LG Display Guangzhou and Skyworth has a put option to sell its 16% interest in LG Display Guangzhou to LGD at a fixed price that equals Skyworth's investment at cost. The call and put options are





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exercisable after five years from the date of acquisition with no stated expiry date in whole or in part. In accordance with EITF 00-4, LG Display Guangzhou is consolidated as a wholly owned subsidiary and Skyworth's 16% interest in LG Display Guangzhou is accounted for as a financing and recorded as long-term other payables in the amount of (Won)14,356 million as of December 31, 2008.

**2. Summary of Significant Accounting Policies**

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

**Principles of Consolidation**

The consolidated financial statements include the accounts of LG Display Co., Ltd. and its majority-owned subsidiaries. When the Company does not have a controlling financial interest in an entity, but has the ability to exercise significant influence over the entity, the affiliated entity is accounting for using the equity method. All significant intercompany transactions and balances with the consolidated subsidiaries have been eliminated upon consolidation.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. The most significant estimates and assumptions relate to the allowance for uncollectible accounts receivable, warranty obligations, recoverability of long-lived assets, valuation of inventories and deferred tax assets, assessments of tax uncertainties, assessment of pending and threatened litigation and other contingent liabilities, and the determination of fair value of financial instruments. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

**Foreign Currency Transactions and Translation**

The functional currency of the Controlling Company's subsidiaries in Nanjing and Guangzhou, China is the Chinese Renminbi. The functional currency of the Controlling Company's subsidiary in Poland is Zloty and that of the remaining foreign subsidiaries is the US dollar. The functional currency of the Controlling Company is the Korean Won. Transactions that are denominated in currencies other than the functional currency of the respective entity are re-measured into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at each balance sheet date. The resulting foreign currency transaction gains and losses are included as foreign exchange gain (loss), a component of other income (expense) in the consolidated statements of operations.

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The Controlling Company's reporting currency is the Korean Won. Asset and liabilities of foreign operations with a functional currency other than the Korean Won are translated into Korean Won using the exchange rates at each balance sheet date. Revenues and expenses are translated into Korean Won at average rates prevailing during the reporting period. The gains and losses, net of tax, resulting from translation into Korean Won are reported as a separate component of accumulated other comprehensive income (loss) within stockholders' equity.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments, including time deposits and short-term financial instruments which are readily convertible into known amounts of cash and have an original maturity of three months or less.

**Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. From 2008, accounts receivable from certain customers are insured under accounts receivable insurance programs which cover 90 to 95 percent of the insured customers' accounts receivable balance. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The Company has an accounts receivable securitization program whereby the Company sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. When trade accounts receivable are identified for sale, the receivables are transferred into held-for-sale classification and carried at the lower of cost or fair value on an individual receivable basis. The buyer is responsible for servicing the receivables. The sale of the receivables was accounted for under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). Under that guidance, receivables are considered sold when they are transferred beyond the reach of the Company and its creditors, the purchaser has the right to pledge or exchange the receivables, and the Company has surrendered control over the transferred receivables. The accounts receivable securitization program was terminated in 2008 (note 4).

In addition, the Controlling Company has agreements with banks and other financial institutions for accounts receivable negotiating facilities under which the Controlling Company sells accounts receivable due from its subsidiaries. The Company accounts for the sale of accounts receivable as short-term borrowings in the consolidated balance sheets (note 12) in accordance with SFAS 140.

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**Inventories**

Inventories are valued at the lower of cost or market value, with cost being determined on a weighted-average cost basis, except for the cost of materials in transit which is determined by the specific identification method.

**Short-term Financial Instruments**

Short-term financial instruments primarily include certificate of deposits and time deposits placed with financial institutions which have an original maturity greater than three months but less than one year.

**Investment Securities**

The Company classifies its debt securities in one of three categories: trading, available-for-sale, or held-to-maturity and its equity securities that have readily determinable fair values into trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt securities are those debt securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale. Investment securities at December 31, 2008 consist primarily of non-voting mandatorily redeemable convertible preferred stock of HannStar Display Corporation, which is redeemable at the option of the Company (see note 5) and is classified as an available-for-sale debt security.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective-interest method. Such amortization and accretion is included in the Interest Expense line item in the consolidated statements of operations. Dividend and interest income are recognized when earned.

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**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives.

|                                   |               |
|-----------------------------------|---------------|
| Buildings                         | 20 ~ 40 years |
| Machinery, equipment and vehicles | 4 ~ 12 years  |
| Tools, furniture and fixtures     | 3 ~ 5 years   |

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to expense as incurred.

The Company capitalizes interest on borrowings during the construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. Total interest expense incurred amounted to (Won)203,959 million, (Won)239,910 million and (Won)190,275 million for the years ended December 31, 2006, 2007 and 2008, respectively, of which approximately (Won)34,361 million, (Won)33,240 million and (Won)38,078 million, respectively, was capitalized.

**Intangible Assets**

Intangible assets, comprising intellectual property rights (including patents and technology related to the TFT-LCD production process and the like), privileges for industrial water facility, and purchased software, are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives.

|   |              |
|---|--------------|
| Intellectual property rights              | 5 ~ 10 years |
| Privilege for industrial water facilities | 10 years     |
| Purchased software                        | 4 years      |
| Others                                    | 10 years     |

Costs incurred during the application development stage related to the development of software for internal use are capitalized in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. Costs incurred related to the planning and post-implementation phases of development are expensed as incurred.

**Impairment of Long-Lived Assets**

Long-lived assets, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, management first compares the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

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**Stock Appreciation Plan**

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ( SFAS 123(R) ). SFAS 123(R) establishes accounting for share-based awards exchanged for employee services and requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the awards. The Company determines the fair value of the award using the Black-Scholes option-pricing model.

**Accrued Severance Benefits**

Employees and directors with at least one year or more of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits are estimated assuming all eligible employees were to terminate their employment at the balance sheet date. The annual severance benefits expense charged to operations is calculated based on the net change in the accrued severance benefits payable at the balance sheet date, plus the actual payments made during the year.

The contributions to the national pension fund made under the National Pension Plan and the severance insurance deposit are deducted from accrued severance benefit liabilities. Contributed amounts are refunded from the National Pension Plan and the insurance company to employees on their retirement.

**Revenue Recognition**

Revenues from the sale of the Company's products are recognized when : i) persuasive evidence of an arrangement exists, ii) delivery has occurred to the customers, iii) the sales price to the customer is fixed or determinable, and iv) collectibility of relevant receivable is reasonably assured.

The Company generally enters into long-term formal master sales agreements with its significant customers. The Company records reductions to revenue for expected future product returns based on the Company's historical experience.

Transfer of title and risk of loss on the Company's product generally occurs on delivery and acceptance at the customers' premises, at which point revenue is recognized.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

**Research and Development Costs**

Certain costs incurred in connection with the purchase of equipment and facilities used in the Company's research and development activities are capitalized into property, plant and equipment, to the extent that they have alternative future uses. All other research and development costs are expensed as incurred. The Company has expensed (Won)438,867 million,

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(Won)415,081 million and (Won)501,551 million during the years ended December 31, 2006, 2007 and 2008, respectively, for research and development costs which are included in cost of sales and selling, general and administrative expenses. These research and development expenses included depreciation cost of equipment and facilities used specifically for research and development activities amounting to (Won)20,671 million, (Won)19,539 million and (Won)19,503 million for the years ended December 31, 2006, 2007 and 2008, respectively.

**Shipping and Handling Costs**

The Company includes shipping and handling costs in selling, general and administrative expenses. Shipping and handling costs for the years ended December 31, 2006, 2007 and 2008 amounted to (Won)188,796 million, (Won)194,081 million and (Won)209,665 million, respectively.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2006, 2007 and 2008 amounted to (Won)24,143 million, (Won)30,433 million and (Won)48,964 million, respectively.

**Income Taxes**

The Company recognizes deferred tax assets and liabilities related to temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are computed on such temporary differences, including available net operating loss carryforwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. A valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that such deferred tax assets will not be realized. In assessing the likelihood of realization, management considers all currently available evidence for future years, both positive and negative. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred tax assets and liabilities. Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized, deferred tax assets, subject to considerations regarding the need for a valuation allowance, are recognized for the amount carried forward. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS Statement 109* (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain income tax positions. The initial adoption of FIN 48 did not have any impact on our consolidated financial statements. The Company recognizes accrued interest on the underpayment of income taxes as a component of interest expense and penalties associated with tax liabilities as a component of income tax expense.

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**Derivative Financial Instruments**

All derivative financial instruments are recognized as either assets or liabilities in the balance sheet at their fair value.

At the time management designates a hedging relationship, it defines the method it will use to assess the hedge's effectiveness in achieving offsetting cash flows attributable to the risk being hedged. Management formally documents all hedging relationships between the derivatives designated as hedges and hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. The Company links all hedges that are designated as cash flow hedges to the specific forecasted transactions. Management also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives designated as hedges are highly effective in offsetting changes cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting with the effect recorded in earnings.

The derivatives designated as cash flow hedges include foreign exchange forward contracts, which are used for reducing the risk arising from the changes in anticipated foreign currency cash flows from forecasted transactions.

Changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

The derivatives designated for trading comprise cross-currency swap contracts, foreign exchange forward contracts, interest rate swap contracts and currency option contracts. Such contracts are marked-to-market with changes in value, including premiums paid or received, recognized in other income (expense) as foreign exchange gain (loss) except interest rate swap contracts which are recognized as interest expense.

**Deferred Bond Issuance Costs**

Costs that are directly related to the issuance of bonds are capitalized and amortized over the term of the debt using the effective interest rate method.

**Accrued Warranty Obligations**

The Company recognizes a liability for warranty obligations based on the estimated costs expected to be incurred under its basic limited warranty. This warranty covers defective products and is normally applicable for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect the Company's warranty liability include historical and anticipated rate of warranty claims on those repairs and cost per claim to satisfy the Company's warranty obligation. As these factors are impacted by actual experience and future expectations, management periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Accrued warranty obligations are included in the other current liabilities and other non-current liabilities.

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**Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Fair Value Measurements**

On January 1, 2008, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* ( SFAS 157 ), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS 157 were applied prospectively upon adoption and did not have a material impact on the Company's consolidated financial statements. The disclosures required by SFAS 157 are included in Note 20, *Fair Value Measurements*, to the Company's consolidated financial statements.

FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP FAS 157-2 ), delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. On January 1, 2009, the Company will be required to apply the provisions of SFAS 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Management is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ( FSP FAS 157-3 ), which was effective immediately. FSP FAS 157-3 clarifies the application of Statement 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Company has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values during 2008.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how the acquirer in business combinations should recognize and measure identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.



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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires companies to clearly identify and present on the face of the consolidated statement of income, the amount of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. All significant subsidiaries of the Company are wholly owned, so the adoption of SFAS 160 is not expected to have a material impact on its financial position and results of operations.

In March 2008, the FASB issued Statement No. 161 ( SFAS 161 ), *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* . SFAS 161 is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures include, for example:

a tabular summary of the fair values of derivative instruments and their gains and losses,

disclosure of derivative features that are credit-risk-related to provide more information regarding an entity's liquidity, and

cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments.

SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management is currently in the process of evaluating the impact of adopting this standard on the disclosure about its hedging activities and use of derivatives.

In April 2008, the FASB issued FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* . FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management is currently in the process of evaluating the impact, if any, of adopting this FSP on its financial position and results of operations.

**Reclassification**

Certain amounts for prior years have been reclassified to conform to 2008 presentations.

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**3. United States Dollar Convenience Translations**

The Controlling Company operates primarily in Korea and its financial accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplemental information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of (Won)1,262.0 : US \$1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2008. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in the United States of America. These translations should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollars at this or any other rate.

**4. Accounts Receivable**

The following table presents accounts receivable at December 31:

| <i>(in millions of Korean Won)</i> | 2007            | 2008      |
|------------------------------------|-----------------|-----------|
| Trade                              | (Won) 1,574,241 | 1,210,924 |
| Due from related parties           | 774,467         | 804,810   |
| Others                             | 98,341          | 36,364    |
|                                    | 2,447,049       | 2,052,098 |
| Allowance for doubtful accounts    | (10,261)        | (1,310)   |
|                                    | (Won) 2,436,788 | 2,050,788 |

The activity in the allowance for doubtful accounts for the years ended December 31, 2006, 2007 and 2008 follows:

| <i>(in millions of Korean Won)</i>                   | 2006        | 2007   | 2008    |
|--|-------------|--------|---------|
| Allowance for doubtful accounts at beginning of year | (Won) 4,340 | 3,631  | 10,261  |
| Additions/Deductions to bad debt expense             | (346)       | 6,638  | (8,951) |
| Write-offs charged against the allowance             | (363)       | (8)    |         |
| Allowance for doubtful accounts at end of year       | (Won) 3,631 | 10,261 | 1,310   |

Effective June 1, 2008, the Controlling Company entered into accounts receivable insurance programs with insurance companies to reduce collection risk of accounts receivable due from certain customers with relatively low credit ratings. The insurance programs cover 90 to 95 percent of the insured customers' accounts receivable balance.

Trade bills negotiated through banks but has not matured, were recorded as short-term borrowings. Negotiated trade bills amounted to (Won)601,068 million (US \$478 million) as of December 31, 2008, but there was no negotiated trade bills as of December 31, 2007.

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In September 2004, the Company entered into a five-year accounts receivable securitization program (the Program) with a financial institution. The Program allows the Company to sell, on a revolving basis, an undivided interest in up to US \$350 million in eligible accounts receivable of four subsidiaries, including LG Display America, Inc. ( LGDUS ), LG Display Germany GmbH ( LGDDG ), LG Display Taiwan Co., Ltd. ( LGDTW ) and LG Display Japan Co., Ltd. ( LGDJP ), while retaining a subordinated interest in a portion of the receivables. The eligible receivables of LGDUS and LGDDG were sold without legal recourse to third party conduits through LG Display America Finance Corporation, a qualifying bankruptcy-remote special purpose entity, which was wholly owned by LGDUS but was not consolidated for financial reporting purposes. The eligible receivables of LGDTW and LGDJP were sold without legal recourse to third party conduits through ABN AMRO Taipei Branch and ABN AMRO Tokyo Branch, respectively. The Company continued servicing the sold receivables and charges the third party conduits a monthly servicing fee at market rates. Accordingly, no servicing asset or liability has been recorded. The Program was terminated in March 2008 and accordingly, there were no related transactions and balances in 2008.

The Program qualified for sale treatment under SFAS 140. As of December 31, 2006, the outstanding balance of securitized accounts receivable held by the third party conduits totaled (Won)364,785 million of which the Company's subordinated retained interest was (Won)70,643 million. Accordingly, (Won)294,142 million as of December 31, 2006 of accounts receivable balances, net of applicable allowances, were removed from the consolidated balance sheets at December 31, 2006. There was no outstanding balance of securitized accounts receivable held by the third party conduits as of December 31, 2007 and 2008. Losses recognized on the sale of accounts receivable totaled approximately (Won)15,509 million, (Won)9,680 million and nil, respectively, in the years ended December 31, 2006, 2007 and 2008. This cost is primarily related to the loss on sale of receivables and discount on retained interests, net of the related servicing revenues and various program and facility fees associated with the Program. This cost is included in the accompanying consolidated statement of income under the caption selling, general and administrative expenses.

In June 2006, the Company has entered into a Banking Agreement Discounting of Export Bills without Recourse with Standard Chartered Bank ( SCB ), Shanghai Branch. This agreement allows the Company to sell without recourse, on a revolving basis up to US\$200 million in qualifying eligible accounts of LG Display Shanghai Co., Ltd. ( LGDSH ) to SCB with a renewable annual term. This agreement qualifies for sale treatment under SFAS 140. As of December 31, 2006, the outstanding balance of sold accounts receivable held by the third party totaled (Won)41,914 million, but there was no outstanding balance of sold accounts receivable as of December 31, 2007 and 2008. Losses recognized on the sale of accounts receivable totaled approximately (Won)542 million, (Won)434 million and nil, respectively, in the years ended December 31, 2006, 2007 and 2008. The Company did not renew this program in October 2007 and accordingly, there were no related transactions and balances in 2008.

In September 2006, the Company has entered into an agreement for purchase and sale of accounts receivable with ChinaTrust Bank and Taishin International Bank. This agreement allows the Company to sell without recourse, on a revolving basis up to US\$505 million. This agreement qualifies for sale treatment under SFAS 140. As of December 31, 2006, the outstanding

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balance of sold accounts receivable held by the third party totaled (Won)112,715 million, but there was no outstanding balance of sold accounts receivable as of December 31, 2007 and 2008. Losses recognized on the sale of accounts receivable totaled approximately (Won)2,423 million, (Won)3,121 million and nil, respectively, in the years ended December 31, 2006, 2007 and 2008. The Company terminated the agreement in July 2008 and accordingly, there were no related transactions and balances in 2008.

**5. Investment Securities**

Investment securities, which are all classified as available-for-sale securities, as of December 31, 2007 and 2008 are as follows:

(in millions of Korean Won)

|                                 | <b>2007</b>     | <b>Acquisition</b> | <b>2008</b>     |                   |
|---------------------------------|-----------------|--------------------|-----------------|-------------------|
|                                 | <b>Carrying</b> | <b>cost</b>        | <b>Carrying</b> | <b>Fair value</b> |
|                                 | <b>amount</b>   |                    | <b>amount</b>   |                   |
| <b>Debt securities:</b>         |                 |                    |                 |                   |
| HannStar Display Corporation(*) | (Won)           | 96,249             | 126,455         | 126,455           |
| Government bonds                | 63              | 74                 | 74              | 74                |
| <b>Equity securities:</b>       |                 |                    |                 |                   |
| Others                          | 1               |                    |                 |                   |
|                                 | (Won) 64        | 96,323             | 126,529         | 126,529           |

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- (\*) During 2008, the Company purchased 180 million shares of non-voting mandatorily redeemable convertible preferred stock. The preferred stock is convertible into common stock of HannStar Display Corporation at a ratio of 1:1 at the option of the Company from the issue date (February 28, 2008) to the maturity (February 28, 2011). The Company has a put option for total or partial cash redemption of convertible preferred stocks during the period between 18 months from issuance to 91 days prior to maturity and the issuer has a call option to repay, in cash, total preferred stocks during the period between 2 years from issuance to 90 days prior to maturity. The abovementioned convertible preferred stock have been issued pursuant to a private placement under Taiwanese laws, which restrict the sale of the preferred stock and the stock acquired through conversion are not to be traded in the Taiwanese stock exchange until the original maturity of the preferred stock.

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**6. Inventories**

Inventories comprise the following at December 31:

| <i>(in millions of Korean Won)</i> | <b>2007</b>   | <b>2008</b> |
|------------------------------------|---------------|-------------|
| Finished goods                     | (Won) 453,034 | 539,387     |
| Merchandise                        |               | 940         |
| Work-in-process                    | 208,668       | 358,091     |
| Raw materials                      | 108,048       | 168,188     |
| Supplies                           | 54,174        | 70,067      |
|                                    | (Won) 823,924 | 1,136,673   |

**7. Equity Method Investments**

Investments in affiliated companies accounted for under the equity method consist of the following:

*(in millions of Korean Won)*

| <b>Affiliated Company</b>  | <b>Percentage of Ownership (%)</b> | <b>Carrying value</b> |             |
|--|------------------------------------|-----------------------|-------------|
|  |                                    | <b>2007</b>           | <b>2008</b> |
| Paju Electric Glass Co., Ltd.                                    | 40.00                              | (Won) 24,704          | 25,841      |
| TLI Inc. (*1)  | 12.90                              |                       | 13,116      |
| AVACO Co., Ltd. (*1)   | 19.90                              |                       | 5,831       |
| New Optics Ltd.  | 36.68                              |                       | 11,789      |
| Guangzhou New Vision Technology Research and Development Limited | 50.00                              |                       | 4,569       |
| Suzhou Raken Technology Ltd. (*2)                                | 51.00                              |                       | 18,328      |
| <b>Total</b>   |                                    | (Won) 24,704          | 79,474      |

(\*1) Although the Company's share interests in these investees are below 20%, the Company is able to exercise significant influence through its right to assign a director in the board of directors of the investees and, accordingly, the investments in these investees have been accounted for using the equity method. Based on quoted market price at December 31, 2008, the fair value of the investment in TLI Inc. and AVACO Co., Ltd. was (Won)5,720 million and (Won)4,889 million, respectively. Management considers the decline of fair value below the carrying amount as temporary as the decline has resulted primarily from the ongoing disruptions in the capital markets. In addition, based on management's review of the financial position and prospectus of these investees, management believes that these investees are able to sustain an earnings capacity and that the carrying amount of the investments is realizable.

(\*2) Despite its 51% equity interest, management concluded that the Company does not have control of Suzhou Raken Technology Ltd. because the minority shareholder has substantive participating rights. Accordingly, investment in Suzhou Raken Technology Ltd. was excluded from consolidation and was accounted for as equity method investment.



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**8. Derivative Instruments and Hedging Activities****Derivatives for cash flow hedges**

During the years ended December 31, 2006, 2007 and 2008, 475, 279 and 185 foreign currency forward contracts were designated as cash flow hedges, respectively. As of October 1, 2008, the Company discontinued the use of hedge accounting for derivatives related to arrangements entered into after that date, as management stopped designating those derivatives as a hedging instrument. During the year ended December 31, 2008, derivative losses amounting to (Won)1,921 million were recognized in accumulated other comprehensive income, net of tax and since then, derivative losses amounting to (Won)1,517 were charged to statement of operations.

During the years ended December 31, 2006, 2007 and 2008, these cash flow hedges were fully effective and changes in the fair value of the derivatives of (Won)18,911 million, (Won)(1,609) million and (Won)(2,534) million, were recorded in other comprehensive income. The deferred loss of (Won)1,921 million as of December 31, 2008 for derivatives designated as cash flow hedges were reclassified into earnings upon the completion of the related forecasted hedged transactions on January 28, 2009.

**Derivatives for trading**

For the years ended December 31, 2006, 2007 and 2008, the Company recorded exchange gains of (Won)73,854 million, (Won)27,309 million and (Won)104,564 million and exchange losses of (Won)60,466 million, (Won)55,630 million and (Won)323,829 million, respectively, upon settlement on derivative contracts designated for trading upon.

**9. Property, Plant and Equipment**

Property, plant and equipment comprise the following at December 31:

| <i>(in millions of Korean Won)</i> | <b>2007</b>     | <b>2008</b>  |
|------------------------------------|-----------------|--------------|
| Land                               | (Won) 342,253   | 414,609      |
| Buildings                          | 2,615,087       | 2,829,317    |
| Machinery, equipment and vehicles  | 14,857,369      | 15,402,562   |
| Tools, furniture and fixtures      | 693,750         | 730,304      |
| Machinery-in-transit               | 19,422          |              |
| Construction-in-progress           | 753,249         | 4,096,727    |
|                                    | 19,281,130      | 23,473,519   |
| Accumulated depreciation           | (11,689,476)    | (14,177,155) |
|                                    | (Won) 7,591,654 | 9,296,364    |

For the year ended December 31, 2007, the Company recorded an impairment loss of (Won)44,398 million due to the change in the facilities investment plan. The impairment loss was composed of machinery, equipment and vehicles ((Won)16,139 million) and construction-in-progress ((Won)28,259 million). The impairment loss is recognized as selling, general and administrative expenses.

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**10. Intangible Assets**

Intangible assets comprised the following at December 31:

*(in millions of Korean Won)*

|                                       | Intellectual<br>property rights | Purchased<br>Software | 2007<br>Privileges for<br>industrial water<br>facilities | Others     | Total         |
|---------------------------------------|---------------------------------|-----------------------|--|------------|---------------|
| Acquisition cost                      | (Won) 56,579                    | 33,335                | 12,445   | 600        | 102,959       |
| Accumulated amortization              | (22,302)                        | (21,756)              | (6,122)  | (206)      | (50,386)      |
| <b>Intangible assets, net</b>         | <b>(Won) 34,277</b>             | <b>11,579</b>         | <b>6,323</b>   | <b>394</b> | <b>52,573</b> |
| Weighted average amortization periods | 10.00                           | 4.00                  | 10.00  | 10.00      |               |

*(in millions of Korean Won)*

|                                       | Intellectual<br>property<br>rights | Purchased<br>Software | 2008<br>Privileges for<br>industrial<br>water<br>facilities | Construction-in-<br>progress<br>(Software) (*) | Others     | Total          |
|---------------------------------------|------------------------------------|-----------------------|---|--|------------|----------------|
| Acquisition cost                      | (Won) 83,621                       | 32,704                | 12,472  | 107,920  | 602        | 237,319        |
| Accumulated amortization              | (31,310)                           | (27,353)              | (7,371)   |  | (266)      | (66,300)       |
| <b>Intangible assets, net</b>         | <b>(Won) 52,311</b>                | <b>5,351</b>          | <b>5,101</b>  | <b>107,920</b>                                 | <b>336</b> | <b>171,019</b> |
| Weighted average amortization periods | 9.92                               | 4.00                  | 10.00   | N/A  | 10.00      |                |

(\*) As of December 31, 2008, construction-in-progress (software) consists of costs associated with the implementation of the Company's new Enterprise Resource Planning system.

Amortization expense for the years ended December 31, 2006, 2007 and 2008 amounted to (Won)6,766 million, (Won)15,824 million and (Won)13,184 million, respectively.

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

*(in millions of Korean Won)*

|                                  |              |
|----------------------------------|--------------|
| For the years ended December 31, |              |
| 2009                             | (Won) 35,877 |
| 2010                             | 34,836       |
| 2011                             | 34,732       |
| 2012                             | 34,336       |
| 2013                             | 6,878        |



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**11. Accrued Warranty Obligations**

Changes in accrued warranty liability for the years ended December 31, 2006, 2007 and 2008 are as follows:

| <i>(in millions of Korean Won)</i>    | 2006         | 2007     | 2008     |
|---------------------------------------|--------------|----------|----------|
| Accrued warranty at beginning of year | (Won) 24,947 | 31,261   | 49,295   |
| Additions                             | 46,013       | 77,852   | 90,063   |
| Utilization                           | (39,699)     | (59,818) | (81,253) |
| Accrued warranty at end of year       | (Won) 31,261 | 49,295   | 58,105   |

**12. Short-Term Borrowings**

Short-term borrowings comprise the following at December 31:

| <i>(in millions of Korean Won)</i>                                      | 2007        | 2008    |
|---|-------------|---------|
| Loans from discounting of accounts receivable, principally from banks : |             |         |
| with interest rates of LIBOR + 2.0~3.4%                                 | (Won)       | 601,068 |
| Loans, principally from banks:  |             |         |
| with interest rates of TIBOR + 0.39 ~ 0.40%                             | 4,660       |         |
|   | (Won) 4,660 | 601,068 |

(\*) LIBOR and TIBOR represent London Inter-Bank Offered Rates and Tokyo Inter-Bank Offered Rates, respectively.

**13. Long-Term Debt**

Long-term debt comprises the following at December 31:

| <i>(in millions of Korean Won)</i>  | 2007         | 2008      |
|---|--------------|-----------|
| <b>Won denominated debt :</b>   |              |           |
| Unsecured loans, representing obligations principally to banks:                     |              |           |
| Due 2008 with interest rate of 5.88% per annum                                      | (Won) 19,566 |           |
| Due 2009 with interest rate of 6.08% per annum                                      | 29,550       | 9,850     |
| Due 2009 to 2010 with KDB(*) Reference interest rate + 0.77% per annum              | 60,000       | 37,500    |
| Due 2009 to 2015 with interest rate of 3-year Korean Treasury Bond -1.25% per annum | 18,982       | 18,982    |
| Unsecured bonds with interest rates ranging from 3.50% to 5.89%:                    |              |           |
| Due 2009 to 2011, net of unamortized discount                                       | 1,772,216    | 1,447,026 |

1,900,314 1,513,358

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(\*) **KDB represents Korea Development Bank**

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December 31, 2006, 2007 and 2008

| <i>(in millions of Korean Won)</i>   | <b>2007</b>     | <b>2008</b> |
|--|-----------------|-------------|
| <b>U.S. dollar denominated debt:</b>   |                 |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2009 to 2010 with interest rate of 6M LIBOR+0.50% per annum                                      | (Won) 127,279   | 109,046     |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2010 to 2011 with interest rate of 6M LIBOR+0.68% per annum                                      | 9,383           | 31,461      |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2008 with interest rate of 6M LIBOR+1.20% per annum  | 11,258          |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2008 with interest rates from 3M LIBOR+0.99% to 1.35% per annum                                  | 28,146          |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2011 with interest rate of 3M LIBOR+0.47% per annum  | 187,640         | 251,500     |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2011 with interest rate of 6M LIBOR+0.41% per annum  | 187,640         | 251,500     |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2011 with interest rate of 3M LIBOR+0.35% per annum  | 93,820          | 125,750     |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2010 to 2013 with interest rate of 6M LIBOR+0.69% per annum                                      | 46,910          | 62,875      |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2012 with interest rate of 3M LIBOR+0.66% per annum  | 131,348         | 176,050     |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2012 with interest rate of 3M LIBOR+0.53% per annum  | 93,820          | 125,750     |
| Zero Coupon Convertible Bond due 2012 (put year: 2010)   | 527,361         | 728,559     |
|  | 1,444,605       | 1,862,491   |
| <b>Euro denominated debt:</b>  |                 |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2010 to 2013 with interest rate 3M EURIBOR+0.60% per annum                                       | 95,726          | 124,474     |
| <b>(*) EURIBOR represents Euro Interbank Offered Rate</b>  |                 |             |
| <b>Chinese Renminbi denominated debt:</b>  |                 |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2008 with interest rate of 90% of the Basic Rate published by the People's Bank of China         | 12,843          |             |
| Unsecured loans, representing obligations principally to banks:                                      |                 |             |
| Due 2010 to 2011 with interest rate of 95% of the Basic Rate published by the People's Bank of China |                 | 12,886      |
|  | 12,843          | 12,886      |
| Less: Current installments   | (409,236)       | (553,430)   |
|  | (Won) 3,044,252 | 2,959,779   |

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Unsecured long-term debt is subject to various restrictive covenants. Typically, these covenants include restrictions on the debt to equity ratio, debt coverage ratio, interest coverage ratio, total debt limits, earnings before interest, tax and depreciation requirements and other similar financial ratios. The Company was in compliance with these financial covenants during all periods presented.

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On April 19, 2005, the Company issued U.S. dollar-denominated convertible bonds totaling US\$475 million, with a zero coupon rate. On or after June 27, 2005 through April 4, 2010, the bonds were convertible into common shares at a conversion price of (Won)58,251 per share of common stock, subject to adjustment based on certain events. The bonds will mature in five years from the issue date and will be repaid at 117.49% of the principal amount at maturity. The bondholders have a put option to be repaid at 108.39% of the principal amount on October 19, 2007. On September 19, 2007, put option for US\$459.6 million was exercised and bonds were paid on October 19, 2007. On the same date, the Company exercised its call option to redeem the remaining outstanding convertible bonds amounting to US\$15.4 million. For the year ended December 31, 2007, the Company recorded loss on redemption of debentures of (Won)19,216 million due to the redemption of convertible bonds.

On April 18, 2007, the Company issued US dollar-denominated convertible bonds totaling US\$550 million, with a zero coupon rate. On or after April 19, 2008 through April 3, 2012, the bonds are convertible into common shares at a conversion price, subject to adjustment based on certain events. In 2008, the conversion price was changed from (Won)49,070 to (Won)48,760 per share due to payment of cash dividends of (Won)750 per share for the year ended December 31, 2007. The bonds will mature in five years from the issue date and will be repaid at 116.77% of their principal amount at maturity. The bondholders have a put option to be repaid at 109.75% of their principal amount on April 18, 2010. The number of common shares to be issued if the outstanding convertible bonds are fully converted is 10,530,762 shares as of December 31, 2008. The Company is entitled to exercise a call option after three years from the issue date at the amount of the principal and interests, calculated at 3.125% of the yield to maturity, from the issue date to the repayment date. The call option can be exercised only when the market price of the common shares on each of 20 trading days in 30 consecutive trading days ending on the trading day immediately prior to the date upon which notice of such redemption is published exceeds at least 130% of the conversion price. In addition, in the event that at least 90% of the initial principal amount of the bonds have been redeemed, converted, or purchased and cancelled, the remaining bonds may also be redeemed, at the Company's option, at the amount of the principal and interests from the issue date to the repayment date prior to their maturity.

Principal of the Won denominated unsecured bonds is to be repaid at maturity and interests are paid quarterly. The Company has redeemed Won denominated unsecured bonds with face value amounting to (Won)80,000 million during the year ended December 31, 2008. As a result, the Company recognized a net gain from redemption of debentures amounting to (Won)1,140 million.

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The aggregate annual maturities of long-term debt outstanding as of December 31, 2008 are as follows:

(in millions of Korean Won)

|                                   | Won<br>denominated<br>Loans | US Dollar<br>denominated<br>Loans | Euro<br>denominated<br>Loans | RMB<br>denominated<br>Loans | Zero Coupon<br>Convertible<br>Bonds | Total     |
|-----------------------------------|-----------------------------|-----------------------------------|------------------------------|-----------------------------|-------------------------------------|-----------|
| For the years ending December 31, |                             |                                   |                              |                             |                                     |           |
| 2009                              | 498,913                     | 54,517                            |                              |                             |                                     | 553,430   |
| 2010                              | 598,437                     | 76,545                            | 28,725                       | 6,443                       |                                     | 710,150   |
| 2011                              | 403,796                     | 657,056                           | 38,299                       | 6,443                       |                                     | 1,105,594 |
| 2012                              | 3,796                       | 314,378                           | 38,300                       |                             | 728,559                             | 1,085,033 |
| 2013                              | 3,796                       | 31,436                            | 19,150                       |                             |                                     | 54,382    |
| Thereafter                        | 4,620                       |                                   |                              |                             |                                     | 4,620     |
|                                   | (Won) 1,513,358             | 1,133,932                         | 124,474                      | 12,886                      | 728,559                             | 3,513,209 |

**14. Accrued Severance Benefits**

Accrued severance benefits are as follows as of December 31:

| (in millions of Korean Won)                  | 2007          | 2008      |
|--|---------------|-----------|
| Balance at beginning of year                 | (Won) 136,792 | 153,535   |
| Provisions for severance benefits            | 62,828        | 68,992    |
| Transferred from affiliated companies        | 2,117         | 3,339     |
| Actual severance payments                    | (48,202)      | (23,853)  |
| Balance at end of year                       | 153,535       | 202,013   |
| Cumulative Deposits to National Pension Fund | (530)         | (479)     |
| Balance of the severance insurance deposits  | (99,509)      | (131,302) |
| Net balance                                  | (Won) 53,496  | 70,232    |

The severance benefits are funded approximately 64.8% and 65.0% as of December 31, 2007 and 2008, respectively, through severance insurance deposits for the payment of severance benefits, and the deposits are deducted from accrued severance benefit liabilities. The beneficiaries of the severance insurance deposit are the Company's employees.

Severance insurance deposits comprise cash deposits placed with Kyobo Life Insurance Co., Ltd., WooriAviva Life Insurance Co., Ltd., Korea Life Insurance Co., Ltd., Green Cross Life Insurance Co., Ltd and LIG Insurance Co., Ltd. and these deposits earn interests at average rates ranging from 4.3% to 5.1% for the year ended December 31, 2007 and 4.9% to 5.2% for the year ended December 31, 2008.



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The Company expects to pay the following future benefits to its employees upon their normal retirement age:

(in millions of Korean Won)

| For the years ended December 31, |             |
|----------------------------------|-------------|
| 2009                             | (Won) 1,399 |
| 2010                             | 2,122       |
| 2011                             | 4,135       |
| 2012                             | 2,690       |
| 2013                             | 3,234       |
| 2014                             | 5,001       |
| 2015                             | 6,154       |
| 2016                             | 5,308       |
| 2017                             | 7,344       |
| 2018                             | 6,798       |

The above amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

**15. Income Taxes**

Earnings (loss) before income taxes and income tax expense (benefit) are as follows:

| (in millions of Korean Won)                 | 2006            | 2007      | 2008      |
|---|-----------------|-----------|-----------|
| <b>Earnings (loss) before income taxes:</b> |                 |           |           |
| Domestic                                    | (Won) (950,798) | 1,538,264 | 1,421,976 |
| Foreign subsidiaries                        | 15,916          | 15,005    | (348,564) |
|   | (Won) (934,882) | 1,553,269 | 1,073,412 |
| <b>Current:</b>                             |                 |           |           |
| Domestic                                    | (Won)           | 80,318    | 287,748   |
| Foreign subsidiaries                        | 6,482           | 6,211     | 37,889    |
|   | 6,482           | 86,529    | 325,637   |
| <b>Deferred:</b>                            |                 |           |           |
| Domestic                                    | (Won) (243,890) | 131,175   | (137,874) |
| Foreign subsidiaries                        | (4,695)         | (8,814)   | (19,752)  |



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|                              |                 |         |           |
|------------------------------|-----------------|---------|-----------|
|                              | (248,585)       | 122,361 | (157,626) |
| Income tax expense (benefit) | (Won) (242,103) | 208,890 | 168,011   |

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Income taxes refund receivable and income taxes payable at December 31, 2007 and 2008 are as follows:

| <i>(in millions of Korean Won)</i>     | <b>2007</b>  | <b>2008</b> |
|--|--------------|-------------|
| <b>Income taxes refund receivable:</b> |              |             |
| Domestic                               | (Won)        |             |
| Foreign subsidiaries                   | 2,676        | 1,988       |
|  | (Won) 2,676  | 1,988       |
| <b>Income taxes payable:</b>           |              |             |
| Domestic                               | (Won) 72,342 | 265,550     |
| Foreign subsidiaries                   | 5,791        | 28,944      |
|  | (Won) 78,133 | 294,494     |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2008 are as follows:

| <i>(in millions of Korean Won)</i>                   | <b>2007</b>   | <b>2008</b> |
|--|---------------|-------------|
| <b>Current deferred tax assets (liabilities)</b>     |               |             |
| Inventories  | (Won) 5,978   | 18,239      |
| Accrued warranty obligation                          | 12,348        | 12,444      |
| Loss on foreign currency translation (*)             |               | 71,941      |
| Other current assets                                 | (3,521)       | (21,353)    |
| Net unrealized losses on derivatives                 | 5,462         | 613         |
| Investment tax credit carryforwards                  | 292,134       |             |
| Others   | 22,946        | 3,869       |
| <b>Current deferred tax asset, net</b>               | (Won) 335,347 | 85,753      |
| <b>Non-current deferred tax assets (liabilities)</b> |               |             |
| Intangible assets                                    | (Won) 18,725  |             |
| Property, plant and equipment                        | 63,733        | 69,712      |
| Long-term debt                                       | (12,473)      | 40,808      |
| Investment securities                                |               | (6,645)     |
| Cumulative translation adjustment                    | 841           | (47,607)    |
| Investment tax credit carryforwards                  | 111,536       | 421,758     |
| Others   | (21,898)      | 16,237      |
| <b>Non-current deferred tax asset, net</b>           | (Won) 160,464 | 494,263     |

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|                        |               |         |
|------------------------|---------------|---------|
| Net deferred tax asset | (Won) 495,811 | 580,016 |
|------------------------|---------------|---------|

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- (\*) Beginning in 2008, in accordance with the amended Korean Tax Law, unrealized gains and losses on foreign currency translation are not taxable or deductible for tax purposes until the related assets and liabilities are recovered/settled.

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December 31, 2006, 2007 and 2008

As of December 31, 2008, the Company has available unused investment tax credits of (Won)421,758 million, which will expire at various dates through 2013. The amounts of investment tax credits which will expire if not used during the years ending December 31, 2009, 2010, 2011, 2012 and 2013 are nil, (Won)123,194 million, (Won)105,656 million, (Won)19,421 million, and (Won)173,487 million, respectively.

Realization of deferred tax assets related to tax credit carryforwards is dependent on whether sufficient taxable income will be generated prior to the expiration period. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets as of December 31, 2007 and 2008 will be realized. The amount of such deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The beginning-of-the-year balance of valuation allowance was decreased because of a change in circumstances that caused a change in judgment regarding the realizability of the related deferred tax assets in future years. Such amounts were (Won)159,527 million in 2007 and nil in 2008, and is primarily due to changes in the Company's estimate on future net operating income.

Under the Foreign Investment Promotion Act of Korea, from September 1999, the Company was entitled to an exemption from income taxes in proportion to the percentage of foreign equity for seven years following the registration of each foreign equity investment, and at one-half of that percentage for the subsequent three years through 2008. The Company will no longer be eligible for the abovementioned income tax exemption from 2009.

Aggregate tax benefits and tax effect per share from tax exemption for the years ended December 31, 2006, 2007 and 2008 are as follows:

| <i>(in millions, except for per share amount)</i>    | <b>2006</b>  | <b>2007</b> | <b>2008</b> |
|--|--------------|-------------|-------------|
| Benefit from tax exemption                           | (Won) 23,564 | 32,565      |             |
| Weighted-average number of common shares Outstanding | 358          | 358         | 358         |
| Effect per share (in Korean Won)                     | (Won) 66     | 91          |             |

The statutory income tax rate, including tax surcharges, applicable to the Company was 27.5% in 2006, 2007 and 2008. In accordance with the amendment of Corporate Income Tax Law enacted in 2008, the statutory income tax rate was amended to 24.2% effective for fiscal year 2009 and 22.0% for fiscal years 2010 and thereafter. Accordingly, deferred income taxes as of December 31, 2008 were calculated based on the enacted rates of 24.2% and 22.0%.

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Total income tax expense (benefit) for the years ended December 31, 2006, 2007 and 2008 were allocated as follows:

| <i>(in millions of Korean Won)</i>                          | <b>2006</b>      | <b>2007</b>    | <b>2008</b>    |
|---|------------------|----------------|----------------|
| Income tax expense (benefit) from continuing operations     | (242,103)        | 208,890        | 168,011        |
| Stockholders equity, for net unrealized gain on derivatives | 1,757            | (10,242)       | 4,765          |
| Stockholders equity, for cumulative translation adjustment  | 426              | 2,173          | 60,350         |
| Stockholders equity, for available-for-sale securities      |                  |                | 8,306          |
| <b>Total income tax expense (benefit)</b>                   | <b>(239,920)</b> | <b>200,821</b> | <b>241,432</b> |

Taxes are calculated for each individual entity of the Company. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the Controlling Company. Actual income tax expense (benefit) differs from the theoretical amount that would arise at the Korean statutory tax rate for the years ended December 31, 2006, 2007 and 2008 as follows:

| <i>(in millions of Korean Won)</i>   | <b>2006</b>            | <b>2007</b>    | <b>2008</b>    |
|--|------------------------|----------------|----------------|
| Income tax expense (benefit) at Korean statutory tax rate  | (Won) (257,093)        | 427,149        | 295,188        |
| Income tax exemption   |                        | (23,564)       | (32,565)       |
| Tax credits  | (143,511)              | (32,817)       | (245,902)      |
| Change in the beginning-of-year balance of the valuation allowance due to a change in judgement about the realizability of deterred tax assets | 159,527                | (159,527)      |                |
| Adjustment to deferred tax assets and liabilities for changes in enacted tax rates   |                        |                | 11,645         |
| Foreign tax differential   | 3,213                  | (8,795)        | (37,127)       |
| Nondeductible antitrust fine   |                        |                | 181,832        |
| Other nondeductible items  | (1,388)                | 2,790          | 1,919          |
| Others   | (2,851)                | 3,654          | (6,979)        |
| <b>Actual income tax expense (benefit)</b>   | <b>(Won) (242,103)</b> | <b>208,890</b> | <b>168,011</b> |

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As of January 1, 2007 and 2008, and for the years ended December 31, 2007 and 2008, the Company did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were recognized. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

A summary of open tax years by major tax jurisdictions is presented below:

|               |           |
|---------------|-----------|
| Korea         | 2006-2008 |
| China         | 2002-2008 |
| Japan         | 2007-2008 |
| Germany       | 2006-2008 |
| Poland        | 2005-2008 |
| United States | 2005-2008 |

**16. Stockholders Equity****Common Stock**

On May 21, 2004, employees of the Company formed an employee stock ownership association, ( ESOA ), which has the right to purchase on behalf of its membership up to 20% (1,728,000 shares) of shares of the Controlling Company offered publicly in Korea, pursuant to the Korean Securities and Exchange Act. Employees purchased the shares through the ESOA with loans provided by the Company at the initial public offering price ((Won)34,500) and put under each individual employee s account. The purchase of 345,600 shares by employees with loans from the Company is accounted for as a restricted stock award which vests over four years.

**Retained Earnings**

Retained earnings consist of the following as of December 31:

| <i>(in millions of Korean Won)</i> | 2007            | 2008      |
|------------------------------------|-----------------|-----------|
| Appropriated retained earnings:    |                 |           |
| Legal reserve                      | (Won) 60,086    | 86,922    |
| Unappropriated retained earnings   | 4,134,205       | 4,744,406 |
|                                    | (Won) 4,194,291 | 4,831,328 |

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve at an amount equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company s board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company s stockholders.

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**17. Stock Appreciation Plan**

On April 7, 2005, the Company granted 450,000 units of stock appreciation rights ( SARs ) to certain management employees. Under the terms of this plan, upon exercise the grantee will receive cash for each SAR exercised an amount that equals the excess of the market price of the Company's common stock over the strike price ((Won)44,050). The vesting period is two years starting from the grant date, and exercisable period is April 8, 2008 through April 7, 2012.

In accordance with SFAS 123(R), share-based awards that require the Company to settle the award by cash or other assets rather than issuing equity instruments are classified as liabilities, which are initially measured at grant date fair value and remeasured at fair value at the end of each reporting period until the award is settled or expires. The changes in the fair value measurements are recognized as compensation expense during the requisite service period, based on the percentage of the requisite service that the employee has rendered as of the reporting date.

The following table shows total share-based compensation expense included in the consolidated statement of operations:

| <i>(in millions of Korean Won)</i>           | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
| Cost of sales                                | (Won) 158   | 1,038       |             |
| Selling, general and administrative expenses | 435         | 4,670       | (5,594)     |

There were no capitalized share-based compensation costs at December 31, 2007 and 2008.

The following tables summarize the activities under the SARs for the years ended December 31, 2006, 2007 and 2008:

| <i>(in Korean Won)</i>       | <b>Weighted-average<br/>exercise price</b> | <b>Number of SAR</b> | <b>Weighted average<br/>remaining<br/>contractual life<br/>(in years)</b> |
|------------------------------|--|----------------------|---|
| Balance at December 31, 2005 | (Won) 44,050                               | 410,000              |   |
| Granted                      |  |                      |   |
| Exercised                    |  |                      |   |
| Canceled                     |  | (150,000)            |   |
| Balance at December 31, 2006 | (Won) 44,050                               | 260,000              | 5.3   |
| Granted                      |  |                      |   |
| Exercised                    |  |                      |   |
| Canceled                     |  | (40,000)             |   |
| Balance at December 31, 2007 | (Won) 44,050                               | 220,000              | 4.3   |
| Granted                      |  |                      |   |
| Exercised                    |  |                      |   |
| Canceled                     |  | (110,000)            |   |
| Balance at December 31, 2008 | (Won) 44,050                               | 110,000              | 3.3   |

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Exercisable at December 31, 2008

(Won) 44,050

110,000

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If the increase rate of the Company's share price is equal or less than that of the Korea Composite Stock Price Index ( KOSPI ) over the three-year period following the grant date, only 50% of the initially granted SARs are exercisable. The actual increase rate of the Company's share price for the three-year period ended April 7, 2008, was less than that of the KOSPI. As a result, as of December 31, 2008, only 110,000 SARs are exercisable.

In connection with the adoption of SFAS 123(R), the Company assessed its valuation technique and related assumptions. The Company estimates the fair value of SAR awards using the Black-Scholes option-pricing model as well as the likelihood of the occurrence of market condition, consistent with the provisions of SFAS 123(R) and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107. Key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the company's stock, the risk-free rate and the Company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by selected management members who receive SARs, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS 123(R).

The fair value of SARs was estimated using the Black-Scholes option-pricing model with the following assumptions:

|  | 2007    | 2008      |
|--|---------|-----------|
| Volatility                                       | 47.21%  | 53.20%    |
| Risk-free interest rate (Korean government bond) | 5.78%   | 3.26%     |
| Dividend yield                                   | 0%      | 0%        |
| Expected term                                    | 5 years | 1.3 years |

Volatility is measured using historical weekly price changes of the Company's stock over the respective term of the SARs.

The number of years that the Company estimates the SARs will be outstanding prior to settlement as of December 31, 2008, is 1.3 years.

**18. Earnings (Loss) Per Share**

Earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year.

Diluted earnings (loss) per share is computed in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

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Earnings (loss) per share for the years ended December 31, 2006, 2007 and 2008 are calculated as follows:

*(in millions of Korean Won, except for per share data)*

|  | 2006            | 2007      | 2008    |
|--|-----------------|-----------|---------|
| Basic earnings (loss) per share:                     |                 |           |         |
| Net income (loss)                                    | (Won) (692,779) | 1,344,379 | 905,399 |
| Weighted-average number of common shares outstanding | 358             | 358       | 358     |
| Basic earnings (loss) per share                      | (Won) (1,936)   | 3,755     | 2,529   |

*(in millions of Korean Won, except for per share data)*

|  | 2007            | 2008    |
|--|-----------------|---------|
| Diluted earnings per share:  |                 |         |
| Net income <sup>(1)</sup>  | (Won) 1,353,369 | 921,434 |
| Weighted-average number of common shares outstanding and common shares equivalent <sup>(2)</sup> | 365             | 369     |
| Diluted earnings per share (*)   | (Won) 3,708     | 2,497   |

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(\*) In 2006, the diluted loss per share was the same as the basic loss per share.

(1) Adjustments to net income:

*(in millions of Korean Won)*

|   | 2007            | 2008    |
|---|-----------------|---------|
| Net income  | (Won) 1,344,379 | 905,399 |
| Interest expense of convertible bonds, net of tax | 8,990           | 16,035  |
| Adjusted income                                   | (Won) 1,353,369 | 921,434 |

(2) Weighted-average number of common shares outstanding:

*(in shares)*

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|   | 2007      | 2008 |
|---|-----------|------|
| Weighted-average number of common shares                              | (Won) 358 | 358  |
| Effect of conversion of convertible bonds                             | 7         | 11   |
| Weighted average number of common shares and common shares equivalent | (Won) 365 | 369  |

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**19. Commitments and Contingencies**

(a) Commitments

Overdraft agreements and credit facility agreement

As of December 31, 2008, the Controlling Company has bank overdraft agreements with Woori Bank and other various banks amounting to (Won)59,000 million in aggregate and there is no overdraft balance.

Factoring and securitization of accounts receivable

As of December 31, 2008, the Controlling Company has agreements with Korea Exchange Bank and other several banks for U.S. dollar denominated accounts receivable negotiating facilities of up to an aggregate amount of US\$1,616.5 million. As of December 31, 2008, accounts and notes receivable amounting to US\$478 million were sold that are current and outstanding, and was recorded as short-term borrowings.

In October 2006, LG Display America, Inc., LG Display Germany GmbH, LG Display Shanghai Co., Ltd. and others entered into a five-year accounts receivable selling program with Standard Chartered Bank, on a revolving basis, of up to US\$600 million. The Controlling Company joined this program in April 2007. As of December 31, 2007 and 2008, there was no outstanding balance of securitized accounts receivable held by third party conduits. Loss recognized on the sale of accounts receivable was (Won)2,458 million, (Won)6,053 million and nil in the years ended December 31, 2006, 2007 and 2008.

Letters of credit

As of December 31, 2008, the Controlling Company has agreements with Korea Exchange Bank in relation to the opening of letters of credit up to (Won)20,000 million and US\$35.5 million.

Payment guarantees

The Controlling Company receives repayment guarantees from ABN AMRO Bank amounting to US\$8.5 million relating to value added tax payments in Poland. As of December 31, 2008, the Controlling Company entered into a payment guarantee agreement with a syndicate of banks including Kookmin Bank and Societe Generale in connection with a EUR70 million term loan credit facility of LG Display Poland.

LG Display Japan Co., Ltd. and other subsidiaries have entered into short-term credit facility agreements of up to US\$30 million, EUR3.6 million, and JPY5,200 million with Mizuho Bank, Ltd. and other various banks. LG Display Japan Co., Ltd. and LG Display Taiwan Co., Ltd. are provided with repayment guarantees from the Bank of Tokyo-Mitsubishi and ABN AMRO Bank amounting to JPY1,300 million and US\$4 million, respectively, relating to their local tax payments.

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**License agreements**

As of December 31, 2008, in relation to its TFT-LCD business, the Controlling Company has technical license agreements with Hitachi, Ltd., and others and has a trademark license agreement with LG Corporation.

**(b) Contingencies**

The Company is involved in several legal proceedings and claims arising in the ordinary course of business. However, except for the ongoing proceedings described below, the Company is not currently involved in any material litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, have a material adverse effect on its results of operations or financial condition.

**Intellectual Property**

On November 26, 2007, the Controlling Company and Chunghwa Picture Tubes signed a settlement agreement regarding the dismissal of all pending claims and patent agreement, allowing the companies to share patented technology. As part of the settlement, Chunghwa Picture Tubes will pay a settlement payment to the Controlling Company in compensation. The settlement involves multiple elements. Since there was no fair value for all of the elements, the Company did not account for each element separately. The settlement payment is included in legal settlement within other income (expense).

On December 1, 2006, the Controlling Company filed a complaint against Chi Mei Optoelectronics Corp. and AU Optronics Corp. claiming patent infringement related to liquid crystal display and manufacturing process for TFT-LCDs in the United States District Court for the District of Delaware. On March 8, 2007, AU Optronics Corp. and Chi Mei Optoelectronics Corp. countersued the Company in the United States District Court for the Western District of Wisconsin on March 8, 2007, and in the United States District Court for the Eastern District of Texas on May 4, 2007, respectively; however, both cases were successfully transferred to the United States District Court for the District of Delaware according to the Company's motion to transfer. The Company's management believes it has valid claims against each counterpart with respect to the disputes in suit.

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of the Controlling Company's customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. and Toshiba America, Inc. for alleged infringement of two of its patents relating to LCD displays. In March 2007, the Controlling Company was granted the intervention in the patent infringement case brought by Positive Technologies, Inc. On November 7, 2008, the Controlling Company settled with Positive Technologies, Inc., and the case was dismissed on December 12, 2008 and settlement amount was included in other expense.

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On February 2, 2007, Anvik Corporation filed a patent infringement case against the Controlling Company, along with other LCD manufacturing companies in the United States District Court for the Southern District of New York, in connection with the usage of photo-masking equipment manufactured by Nikon Corporation. The Company believes its products do not infringe any patents in suit, and intends to defend vigorously in this matter.

On December 15, 2008, O2Micro International Ltd. and O2Micro, Inc. have requested the United States International Trade Commission ( ITC ) to commence a Trade Remedy Investigation alleging that the Company, LG Display America, Inc. and others have infringed their patents relating to inverter circuits.

Although there can be no assurance as to the outcome, the Company's management does not expect that the outcome in the above legal proceedings and claims, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**Antitrust**

In December 2006, the Company received notice that it was under investigation by the Korea Fair Trade Commission, the Japan Fair Trade Commission, the Antitrust Division of the U.S. Department of Justice, and the European Commission with respect to possible anti-competitive activities concerning allegations of price fixing by manufacturers in the TFT-LCD industry. The Company later received notice that it was under similar investigations by the Canadian Competition Bureau and the Taiwan Fair Trade Commission. In November 2008, the Controlling Company executed an agreement with the U.S. Department of Justice under which the Controlling Company and its subsidiary, LG Display America, Inc., would plead guilty to a criminal Sherman Act violation and pay a single total fine of US\$400 million. In December 2008, the United States District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment that sentenced the Controlling Company and LG Display America, Inc. to pay the US\$400 million according to the following schedule: US\$20 million, and interest thereon, by June 15, 2009, and US\$76 million, and interest thereon, by each of June 15, 2010, June 15, 2011, June 15, 2012, June 15, 2013 and December 15, 2013, respectively. The agreement resolves all federal criminal charges against the Company in the United States in connection with this matter, provided the Company continues to cooperate with the ongoing investigation. The Company is cooperating with the ongoing investigations by the U.S. Department of Justice and other regulatory bodies.

Subsequent to the commencement of the U.S. Department of Justice investigation, a number of purported class action lawsuits were filed against the Company and other TFT-LCD panel manufacturers in various U.S. federal district courts, alleging violation of U.S. antitrust laws and other related laws. In a series of decisions in 2007 and 2008, all of such cases were transferred to the Northern District of California for pretrial proceedings. An additional claim by a customer's assignee has also been filed in the Northern District of California. Purported class action complaints have also been filed against the Company in various Canadian courts, alleging violation of Canadian antitrust laws. The Company intends to defend these suits vigorously.

In addition, purported class action lawsuits have been brought against the Company, and certain of its officers and directors, in the United States District Court for the Southern District of New York in 2007, alleging, among other things, that the Company

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and certain of its officers and directors violated the U.S. Securities Exchange Act of 1934, or the Exchange Act, in connection with possible anti-competitive activities in the TFT-LCD industry. The Company intends to defend these suits vigorously.

Management believes the amount of the possible loss or range of loss associated with each of the above proceedings (with the exception of the U.S. federal criminal proceeding in which a fine has already been imposed), including private claims for damages, is currently not estimable, due to the considerable uncertainty associated with these proceedings, so no provisions have been taken in this regard. Given the uncertain nature of these regulatory proceedings and civil damages suits, the ultimate resolutions of these matters may have a material adverse effect on the Company's results of operations, financial position and cash flows.

**20. Fair Value Measurements**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments in debt and equity securities that are classified as available-for-sale, and derivatives financial instruments on a recurring basis.

Effective January 1, 2008, SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of *FASB Statement No. 115*, permits the Company to elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. As of December 31, 2008, management did not elect to adopt the fair value option.

SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. Additionally, SFAS No. 157 amended SFAS No. 107, *Disclosure about Fair Value of Financial Instruments* (SFAS No. 107). The disclosures required under SFAS No. 157 and SFAS No. 107 have been included in this note. The Company has deferred the application of SFAS No. 157 for its nonfinancial assets and liabilities which are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

**Fair Value Hierarchy**

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

**Determination of Fair Value**

Under SFAS No. 157, the Company bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in SFAS No. 157.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (SFAS No. 107 disclosures).

**Cash and cash equivalents, short-term financial instruments, accounts receivable, accounts payable and short-term borrowings**

The carrying amounts approximate fair value because of the short maturity of these instruments.

**Investments in debt and equity securities**

Investments in debt and equity securities that are classified as available-for-sale are recorded at fair value on a recurring basis. When quoted market prices are unobservable, management uses quotes from independent pricing vendors based on independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating and other factors such as credit loss assumptions. The pricing vendors may provide the Company with valuations that are based on significant unobservable inputs, and in those circumstances the Company classifies the fair value measurements of the investment securities as Level 3. Management conducted a review of its pricing vendor to validate that the inputs used in that vendor's pricing process are deemed to be market observable or unobservable as defined in the standard. Based on the review performed, management believes that the valuations used in its financial statements are reasonable and are appropriately classified in the fair value hierarchy.



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**Derivative financial instruments**

Management determines the fair value of the Company's derivative financial instruments using internally developed models, most of which are primarily based on market observable inputs including interest rate curves and both forward and spot rate for currencies, and, accordingly, classifies the fair value measurement of derivatives as Level 2. Examples of such Level 2 fair value measurements include the valuation of interest rate swaps, cross-currency swaps and foreign currency forward contracts.

**Long-term debt and payables**

Long-term debt is carried at amortized cost. However, the Company is required to disclose the fair value of long-term debt and payables under SFAS No. 107. Generally, the discounted cash flow method is used to estimate the fair value of the Company's long-term debt and payables. Contractual cash flows are discounted using rates currently traded for the bonds with similar remaining maturities or adjusted discount rates using interest rates of the Company for respective currency with different maturities.

**Assets and Liabilities Measured and Recognized at Fair Value on a Recurring Basis**

The table below presents the amounts of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008.

| <i>(in millions of Korean Won)</i>   | <b>Total</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|---------------|----------------|----------------|----------------|
| Investments in debt and equity securities classified as available for sale | (Won) 126,529 |                | 74             | 126,455        |
| Derivative assets  | 64,223        |                | 64,223         |                |
| Derivative liabilities   | 18,644        |                | 18,644         |                |

**Changes in Level 3 instruments for the year ended December 31, 2008**

The table below summarizes the activity for assets and liabilities measured at fair value on a recurring basis using significant Level 3 inputs as defined by SFAS 157 for the year ended December 31, 2008.

*(in millions of Korean Won)*

|  | <b>January 1,<br/>2008</b> | <b>Net realized/unrealized gains<br/>included in<br/>Other<br/>comprehensive<br/>income</b> | <b>Purchases,<br/>Sales, Issuances<br/>and<br/>Settlements</b> | <b>Transfers<br/>in and/or<br/>out of<br/>Level 3</b> | <b>December 31,<br/>2008</b> |
|--|----------------------------|---|--|---|------------------------------|
| <b>Assets</b>  |                            |   |  |   |                              |
| Investments in debt and equity securities classified as available-for-sale | (Won)                      | 30,206  | 96,249   |   | 126,455                      |

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**Fair Value of Financial Instruments**

The table below is a summary of fair value estimates as of December 31, 2007 and 2008, for financial instruments, as defined by SFAS No. 107, excluding short-term financial assets and liabilities and financial instruments recorded at fair value on a recurring basis, for which carrying amounts approximate fair value. The carrying amounts in the following table are recorded in the consolidated balance sheet under the indicated captions.

*(in millions of Korean Won)*

|  | 2007            |                      | 2008            |                      |
|--|-----------------|----------------------|-----------------|----------------------|
|  | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Long-term debt including the current portion | (Won) 3,453,488 | 3,234,667            | 3,513,209       | 3,382,295            |
| Long-term other payables                     | (Won) 31,046    | 31,046               | 531,757         | 536,435              |

**21. Related Party Transactions**

In the normal course of business, the Company purchases raw materials from, and sells its products to, stockholder companies and other companies within LG Group and Philips Group. LG Corp., the major stockholder of LG Electronics, is the holding company of LG Group. Other related parties of the Company within LG Group include LG International Corp., LG Chem, Ltd., LG Micron Ltd. and LG CNS Co., Ltd.

***Sales to LG Electronics***

The Company sells TFT-LCD panels, primarily large-size panels for televisions, notebook computers and desktop monitors and other applications, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis, as both an end-brand customer and as a systems integrator for use in products they assemble on a contract basis for other end-brand customers.

Sales to LG Electronics including its subsidiaries on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to (Won)1,729,344 million, (Won)2,516,874 million and (Won)3,448,166 million in 2006, 2007 and 2008, respectively. The balance of receivables from LG Electronics and its subsidiaries amounted to (Won)400,348 million and (Won)442,943 million as of December 31, 2007 and 2008, respectively.

***Sales to LG International***

The Company sells its products to certain subsidiaries of LG International, the Controlling Company's affiliated trading company, in regions where the Company does 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 (Won)960,426 million, (Won)1,189,842 million and (Won)1,009,615 million in 2006, 2007 and 2008, respectively. The balance of receivables from LG International and its subsidiaries amounted to (Won)63,567 million and (Won)147,467 million as of December 31, 2007 and 2008, respectively.

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***Sales to Other Related Parties***

The Company's total sales to its related parties excluding LG Electronics, LG International and their subsidiaries amounted to (Won)1,371,716 million, (Won)1,769,253 million and (Won)1,943,392 million for the years ended 2006, 2007 and 2008. These amounts include sales to Philips Electronics and its affiliates on an invoiced basis which amounted to (Won)1,331,407 million, (Won)1,704,297 million and (Won)1,636,796 million for the years ended 2006, 2007 and 2008. The balance of receivables from related parties excluding LG Electronics, LG International and their subsidiaries amounted to (Won)310,552 million and (Won)214,400 million as of December 31, 2007 and 2008, respectively. These amounts include receivables from Philips Electronics and its affiliates which amounted to (Won)257,136 million and (Won)139,268 million as of December 31, 2007 and 2008, respectively.

***Purchases from LG International***

The Company procures a portion of its production materials, supplies and services, from LG International and its subsidiaries in Japan, Europe and the United States. The Company uses these subsidiaries in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts.

The Company's purchases, including purchases of materials, supplies and services, from LG International and its subsidiaries, amounted to (Won)1,006,078 million, (Won)429,394 million and (Won)1,643,446 million for the years ended 2006, 2007 and 2008, respectively. The balance of payables to LG International and its subsidiaries amounted to (Won)58,752 million and (Won)559,802 million as of December 31, 2007 and 2008, respectively.

***Other Purchases***

Under a master purchase agreement, the Company procures, on an as-needed basis, raw materials, components and other materials necessary for the Company's production process from LG Electronics and its affiliated companies, including LG Chem and LG Micron Ltd. The Company's purchases of raw materials, such as polarizers, from LG Chem amounted to (Won)708,770 million, (Won)862,868 million and (Won)1,146,514 million for the years ended 2006, 2007 and 2008, respectively. The Company's purchases of photo masks from LG Micron Ltd. amounted to (Won)113,268 million, (Won)105,553 million and (Won)138,350 million for the years ended 2006, 2007 and 2008, respectively.

The Company's total purchases, including purchases of materials, supplies and services, from its related parties including LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to (Won)1,625,608 million, (Won)1,972,244 million and (Won)3,561,122 million for the years ended 2006, 2007 and 2008. These amounts include purchase from Philips Electronics which amounted to (Won)74,550 million, (Won)13,784 million and (Won)9,212 million for the years ended 2006, 2007 and 2008. The balance of payables to related parties excluding LG International and its subsidiaries amounted to (Won)377,275 million and (Won)672,406 million as of December 31, 2007 and 2008, respectively. These amounts include the balance of payables to Philips Electronics which amounted to (Won)4,927 million and nil as of December 31, 2007 and 2008, respectively.

In addition, the Company benefits from certain licenses extended to the Company from license or cross-license agreements between LG Electronics and third parties.

Under the terms of the joint venture agreement, LG Electronics had assigned most of its patents relating to the development, manufacture and sale of TFT-LCD products to the Company and the Company had agreed to maintain joint ownership of those patents that were not assigned to the Company. Pursuant to a grantback agreement entered into with LG Electronics in July 2004, in the event of any intellectual property dispute between LG Electronics and a third party relating to those patents jointly owned by LG Electronics and the Company, the Company intends to allow LG Electronics to assert ownership in those patents for all non TFT-LCD applications and to license or grant other rights in such patents for use by the licensee in non-TFT-LCD applications in order to settle such disputes.



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**Trademark Agreement with LG Corp.**

The Controlling Company entered into a trademark license agreement with LG Corp., the holding company of the LG Group, in July 2004 for use of the LG name. Under the agreement, the Controlling Company began making monthly payments to LG Corp. in the aggregate amount per year of 0.1% of sales, net of advertising expenses, in 2005. This trademark license agreement expired on December 31, 2007, and although the agreement allowed for an automatic renewal, the Controlling Company signed a new trademark license agreement with LG Corp. in February 2008. Under the new agreement, from January 1, 2008 to June 30, 2008 and from July 1, 2008 to December 31, 2010, the Company is required to make monthly payments to LG Corp. in the aggregate amount per year of 0.1% and 0.2% of sales, respectively, net of advertising expenses.

**22. Segment Information**

The Company's Chief Operating Decision Maker is the Board of Directors, which comprises key personnel in top management (including Chief Executive Officer and Chief Financial Officer). The Board of Directors reviews consolidated results of revenue by product when making decisions about allocating resources and assessing performance of the Company. The Company has determined that it has one reportable operating segment, the manufacture and sale of TFT-LCDs and other flat panel displays. The following is a summary of operations by region based on the location of the customer, where the Company's products are shipped to, for the years ended December 31, 2006, 2007 and 2008.

**By Geography***(in millions of Korean Won)*

|   | 2006             | 2007       | 2008       |
|---|------------------|------------|------------|
| <b>Revenue from external customers:</b> |                  |            |            |
| Republic of Korea                       | (Won) 805,164    | 985,287    | 1,065,794  |
| China                                   | 5,173,241        | 7,612,580  | 8,618,184  |
| Asia (excluding China)                  | 1,361,235        | 1,357,528  | 1,536,143  |
| America                                 | 1,033,726        | 1,489,685  | 2,087,789  |
| Europe                                  | 1,753,717        | 2,604,256  | 2,655,329  |
| Others                                  | 497,117          | 302,630    | 310,879    |
| <b>Total</b>                            | (Won) 10,624,200 | 14,351,966 | 16,274,118 |
| <b>Property, plant, and equipment:</b>  |                  |            |            |
| Republic of Korea                       | (Won) 8,898,774  | 6,871,847  | 8,460,732  |
| Asia                                    | 363,106          | 397,704    | 531,291    |
| Europe                                  | 219,205          | 318,952    | 301,392    |
| Others                                  | 4,063            | 3,151      | 2,949      |
| <b>Total</b>                            | (Won) 9,485,148  | 7,591,654  | 9,296,364  |

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During the years ended December 31, 2006, 2007 and 2008, the Company's revenue on an end-brand customer basis, from its three largest customers, LG Electronics, Philips Electronics and Dell in 2006 and 2007, LG Electronics, Philips Electronics and Hewlett-Packard in 2008, accounted for 42.0%, 41.8% and 43.2% of total revenue, respectively. Sales to LG Electronics constituted 15.9%, 19.2% and 21.4% of total revenue, for the years ended December 31, 2006, 2007 and 2008, respectively. Sales to Philips Electronics constituted 13.8%, 13.3% and 12.0% of total revenue, for the years ended December 31, 2006, 2007 and 2008, respectively.

The following is a summary of revenue by product for the years ended December 31, 2006, 2007 and 2008.

| <b>By Product</b><br><i>(in millions of Korean Won)</i> | <b>2006</b>      | <b>2007</b> | <b>2008</b> |
|---|------------------|-------------|-------------|
| <b>Panels for:</b>                                      |                  |             |             |
| Notebook computers                                      | (Won) 2,166,932  | 3,084,705   | 3,700,753   |
| Desktop monitors  | 2,906,940        | 3,708,891   | 3,934,583   |
| TFT-LCD televisions                                     | 4,938,896        | 6,841,453   | 8,019,901   |
| Others  | 611,432          | 716,917     | 618,881     |
| <b>Total</b>  | (Won) 10,624,200 | 14,351,966  | 16,274,118  |

**23. Significant Concentrations and Risks**

The Company purchases a number of components from various sources. In some cases, alternative sources of supply are not available. In other cases, the Company may establish a working relationship with a single source, even when multiple suppliers are available, if the Company believes it is advantageous to do so due to performance, quality, support, delivery, capacity or price considerations. If the supply of a critical material or component were delayed or curtailed, the Company's ability to ship the related product in desired quantities and in a timely manner could be adversely affected. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could adversely affect operating results.

As of December 31, 2008, approximately 68% of the Company's total employees, including those of the subsidiaries, were union members, and production employees accounted for substantially all of these members. The Company has a collective bargaining arrangement with its labor union, which is negotiated once a year. If the Company's relationship with its employees deteriorates and there is labor unrest resulting in a work stoppage or strike, the Company's production facilities will not be able to continue operations and this will have a material adverse effect on the Company's financial condition and results of operations.

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## Notes to Consolidated Financial Statements

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**24. Accumulated Other Comprehensive Income**

Accumulated balances for each classification of other comprehensive income as of December 31, 2007 and 2008 are as follows:

| <i>(in millions of Korean Won)</i>                             | <b>Cumulative<br/>translation<br/>adjustment</b> | <b>Unrealized<br/>gains on<br/>investment<br/>securities</b> | <b>Unrealized<br/>gains (losses) on<br/>cash flow hedge<br/>derivatives</b> | <b>Total</b> |
|--|--|--|---|--------------|
| Balance at January 1, 2007                                     | (Won) (26,498)                                   |  | 14,131  | (12,367)     |
| Foreign currency translation adjustment                        | 46,693   |  |   | 46,693       |
| Unrealized losses during period                                |  |  | (4,509)   | (4,509)      |
| Reclassification adjustments for gains included in net income  |  |  | (14,131)  | (14,131)     |
| Balance at December 31, 2007                                   | 20,195   |  | (4,509)   | 15,686       |
| Foreign currency translation adjustment                        | 136,692  |  |   | 136,692      |
| Unrealized holding gains during period                         |  | 21,899   |   | 21,899       |
| Unrealized losses during period                                |  |  | (1,837)   | (1,837)      |
| Reclassification adjustments for losses included in net income |  |  | 4,509   | 4,509        |
| Balance at December 31, 2008                                   | (Won) 156,887                                    | 21,899   | (1,837)   | 176,949      |

**25. Supplemental Cash Flows Information**

Supplemental cash flows information for the years ended December 31, 2006, 2007 and 2008 is as follows:

| <i>(in millions of Korean Won)</i>   | <b>2006</b>   | <b>2007</b> | <b>2008</b> |
|--|---------------|-------------|-------------|
| Cash paid during the year for:   |               |             |             |
| Interest   | (Won) 203,782 | 231,017     | 163,700     |
| Income taxes   | 22,473        | 20,915      | 49,738      |
| Non-cash investing and financing activities:   |               |             |             |
| Changes in other accounts payable arising from the purchase of property, plant and equipment | 223,913       | (616,371)   | 1,251,752   |

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**26. Subsequent Events**

LG Display Singapore Pte. Ltd. was incorporated in Singapore on January 12, 2009, to sell TFT-LCD products. Its capital stock amounted to SGD1.4 million ((Won)1,250 million) and is wholly owned by the Controlling Company.

On March 16, 2009, Philips sold its remaining stake in the Controlling Company to investors in a capital market transaction. This transaction represents 13.2% of the Controlling Company's issued share capital, or 47.2 million of common stock, and reduces Philips's stake to zero.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**LG DISPLAY CO., LTD.**

(Registrant)

/s/ YOUNG SOO KWON  
**(Signature)**

**Young Soo Kwon**

**Representative Director/**

**President and Chief Executive Officer**

**Name/Title**

/s/ JAMES JEONG  
**(Signature)**

**James (Hoyoung) Jeong**

**Director/ Executive Vice**

**President and Chief Financial Officer**

**Name/Title**

Date: June 23, 2009