LG.Philips LCD Co., Ltd.
Form F-1/A
July 13, 2005
Table of Contents

As filed with the Securities and Exchange Commission on July 13, 2005

Registration No. 333-126448

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 to

FORM F-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

LG.Philips LCD Co., Ltd.

(Exact name of Registrant as Specified in Its Charter)

The Republic of Korea	3679	Not Applicable
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

17th Floor, West Tower, LG Twin Towers

20 Yoido-dong, Youngdungpo-gu

Seoul, Republic of Korea, 150-721

82-2-3777-1010

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

LG.Philips LCD America Inc.

150 East Brokaw Road

San Jose, California 95112

(408) 350-7723

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Jinduk Han, Esq.

Sung K. Kang, Esq.

Cleary Gottlieb Steen & Hamilton LLP

39th Floor, Bank of China Tower

1 Garden Road, Central, Hong Kong, SAR

People s Republic of China

Jin Hyuk Park, Esq.

Simpson Thacher & Bartlett LLP

7th Floor, ICBC Tower

3 Garden Road, Central, Hong Kong, SAR

People s Republic of China

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered[1]	Proposed maximum aggregate offering price[2][3]	Amount of registration fee[4]
Common Stock, par value (Won)5,000 per share	US$ 1,825,000,000	US$ 214,802.50

(1) American depositary shares evidenced by American depositary receipts issuable upon deposit of the shares of common stock registered hereby have been registered under a separate registration statement on Form F-6. Each American depositary share will represent one-half of one share of common stock.

(2) Includes (i) shares represented by American depositary shares that may be purchased by the underwriters pursuant to an over-allotment option, (ii) all shares of common stock represented by American depositary shares initially offered or sold outside the United States that are thereafter sold or resold in the United States and (iii) a portion of shares of common stock initially offered or sold outside the United States that are thereafter sold or resold in the United States. Offers or sales of American depositary shares and shares of common stock outside the United States are being made pursuant to Regulation S under the Securities Act of 1933, as amended, and are not covered by this registration statement.

(3) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(4) Of which US$200,090 was previously paid. Pursuant to Rule 457(p) under the Securities Act of 1933, as amended, the registrant offsets the remaining US$14,712.5 against US$70,812.63 of the filing fee associated with the unsold securities under the registration statement of LG.Philips LCD Co., Ltd. initially filed with the Commission on June 24, 2004 (File No. 333-116819).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 13, 2005

LG.Philips LCD Co., Ltd.

American Depositary Shares

Representing

Shares of Common Stock

We are offering approximately US$1.2 billion in aggregate amount of shares of common stock in the form of American depositary shares, or ADSs. Koninklijke Philips Electronics N.V., or Philips Electronics, which currently owns 44.57% of our issued and outstanding common stock, is also offering up to US$300 million in aggregate amount of shares of common stock in the form of ADSs. Each ADS represents one-half of one share of common stock. The ADSs will be evidenced by certificates called American depositary receipts. The shares offered in the form of ADSs in this offering are not eligible for withdrawal from the ADR facility until listed on the Stock Market Division of the Korea Exchange, or Korea Exchange.

Philips Electronics also plans to sell shares of common stock in a transaction in Korea that is expected to take place concurrently with this offering. LG Electronics Inc., or LG Electronics, which currently owns 44.57% of our issued and outstanding common stock, plans to sell, subject to approval by its board of directors, approximately US$400 million in aggregate amount of shares of common stock in the same transaction in Korea. Philips Electronics and LG Electronics intend for the aggregate number of shares of common stock sold by Philips Electronics in the form of ADSs in this offering and in the form of common stock in the transaction in Korea to equal the aggregate number of shares of common stock sold by LG Electronics so that their respective equity interest in us will remain the same after this offering and the transaction in Korea.

The ADSs are listed on the New York Stock Exchange under the symbol LPL. The closing price of our ADSs on the New York Stock Exchange on July 12, 2005 was US$22.66 per ADS. The common shares are listed on the Korea Exchange. The closing price of the common shares on the Korea Exchange on July 12, 2005 was (Won)47,000 per share, which translated to approximately US$45.41 using the noon buying rate announced by the Federal Reserve Bank of New York on that date.

Investing in our common stock and ADSs involves risks. See Risk Factors beginning on page 14.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us	Proceeds to Philips Electronics
Per ADS	US$	US$	US$	US$
Total	US$	US$	US$	US$

We have granted the underwriters the right to purchase up to an additional US$200 million in aggregate amount of shares of common stock in the form of ADSs to cover over-allotments in this offering.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about , 2005.

Joint Global Coordinators and Joint Bookrunners

Morgan Stanley **UBS Investment Bank**

Morgan Stanley	**UBS Investment Bank**	**ABN AMRO Rothschild**	**Citigroup**

The date of this prospectus is , 2005.

Table of Contents

TABLE OF CONTENTS

In this prospectus, the terms we, us and our refer to LG.Philips LCD Co., Ltd. and its subsidiaries unless the context otherwise requires. Unless otherwise indicated, all information in this prospectus assumes the underwriters do not exercise their over-allotment option.

All references to Won or (Won) in this prospectus are to the currency of Korea, all references to U.S. dollars or US$ are to the currency of the United States, all references to Yen or ¥ are to the currency of Japan, all references to RMB or Renminbi are to the currency of the People s Republic of China and all references to Euro or are to the currency of the European Union. Unless otherwise indicated, all references to our common stock have been adjusted to give effect to the 2-for-1 stock split which became effective on May 25, 2004. As a result of the stock split, the par value of our common stock decreased from (Won)10,000 per share to (Won)5,000 per share. Any discrepancies in any table between the totals and the sums of the amounts listed are due to rounding.

For your convenience, this prospectus 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 March 31, 2005, which was (Won)1,015.4 = US$1.00. On July 12, 2005, the noon buying rate was (Won)1,035.0 = US$1.00.

Table of Contents

You should rely only on the information contained in this prospectus. We and Philips Electronics have not authorized anyone to provide you with information that is different. We and Philips Electronics are offering to sell ADSs and seeking offers to buy ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of the ADSs. It is important for you to read and consider all information contained in this prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in the section of this prospectus entitled Where You Can Find Additional Information.

The ADSs may not be offered or sold, directly or indirectly, in Korea or to any resident of Korea, except as permitted by applicable Korean laws and regulations.

Table of Contents

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements appearing elsewhere in this prospectus. You should read this entire prospectus carefully.

Overview

We are the world s largest merchant supplier, meaning supplier to third parties, of large-size thin film transistor liquid crystal display (TFT-LCD) panels. According to DisplaySearch, one of the leading independent industry research firms, we have been the world s leading merchant supplier based on total units sold since 2002. We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in notebook computers, desktop monitors, televisions and industrial and other applications, and we are one of the world s leading suppliers of high-definition television panels. We also manufacture TFT-LCDs for handheld consumer electronics products, such as mobile phones and personal digital assistants, as well as for industrial and other applications, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment.

In 2004, we sold a total of 27.6 million large-size TFT-LCD panels. According to DisplaySearch, we had a global market share for large-size display panels of approximately 21% based on sales revenue in 2004.

We were formed in September 1999 as a 50-50 joint venture between LG Electronics Inc. and Philips Electronics. In July 2004, we completed our initial public offering of shares 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. We currently operate six fabrication facilities, called P1, P2, P3, P4, P5 and P6, located in Gumi,

Korea, and three assembly facilities located in Gumi, Korea and Nanjing, China. In addition, in March 2004, we broke ground on a new TFT-LCD display cluster to be developed in Paju, Korea where we are building our seventh fabrication facility, or P7, which is designed to process 1,950 x 2,250 mm glass substrates and has a design capacity of 90,000 sheets per month.

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 notebook computers, desktop monitors and televisions. In 2004, for example, our display panels were included in products sold by Dell Computer Corporation, Hewlett-Packard Company, Lenovo (following Lenovo s acquisition of International Business Machine s personal computer business), Apple Computer Inc., Toshiba, NEC Mitsubishi Electric Visual Systems Corporation or NMV, LG Electronics and Philips Electronics, among others. LG Electronics and Philips Electronics are our two principal shareholders, and terms of our sales to them are substantially the same as those of our sales to non-affiliated end-brand customers. Our dedication to customers has helped us win the overall DisplaySearch Customer Satisfaction Award in 2002, 2003, 2004 and 2005.

Our sales were (Won)3,566.7 billion in 2002, (Won)6,098.4 billion in 2003 and (Won)8,324.8 billion (US$8,198.5 million) in 2004. For the three-month period ended March 31, 2005, our sales were (Won)2,064.0 billion (US$2,032.7 million)

Table of Contents

compared to (Won)2,188.0 billion in the corresponding period in 2004. We recorded net income of (Won)348.1 billion in 2002, (Won)1,006.5 billion in 2003 and (Won)1,703.7 billion (US$1,677.9 million) in 2004. For the three-month period ended March 31, 2005, we recorded net loss of (Won)94.5 billion (US$93.1 million) compared to net income of (Won)639.7 billion in the corresponding period in 2004.

Recent Developments

Consolidated income statement data

	Three Months Ended June 30,	
	2004	**2005**
	(in billions of Won)	
Sales	(Won) 2,330.5	(Won) 2,308.3
Cost of sales	1,468.8	2,159.1
Gross profit	861.7	149.3
Selling, general and administrative expenses	88.4	113.1
Operating income	773.3	36.1
Net income	710.6	38.4

Consolidated balance sheet data

	As of	
	March 31, 2005	**June 30, 2005**
	(in billions of Won)	
Total current assets	(Won) 3,507.0	(Won) 3,564.6
Property, plant and equipment, net	7,043.2	7,788.4
Total assets	10,933.1	11,750.3
Short-term borrowings	333.2	405.9
Long-term debt, including current portion	2,707.1	3,233.1
Total liabilities	5,364.9	6,185.7

Other financial data

	Three Months Ended June 30,	
	2004	**2005**

	(in billions of Won)	
Net cash provided by operating activities	(Won) 959.2	(Won) 368.3
Net cash used in investing activities	(1,239.1)	(968.7)
Net cash provided by financing activities	297.5	576.7

Our sales decreased by 1.0% to (Won)2,308.3 billion in the three-month period ended June 30, 2005 from (Won)2,330.5 billion in the corresponding period in 2004, primarily due to a decrease in the average selling price of our panels and an appreciation in the value of the Korean Won against the U.S. dollar, which reduces net sales in Korean Won, which was partially offset by an increase in unit sales of large-size and wide-format panels for notebook computers, desktop monitors and, in particular, televisions. Panels for notebook computers, desktop monitors, televisions and other applications accounted for 18.3%, 53.4%, 24.3% and 4.0%, respectively, of our total sales based on revenue in the three-month period ended June 30, 2005, compared to 22.7%, 59.8%, 12.9% and 4.6%, respectively, in the corresponding period in 2004. Our average selling price per panel for panels used in notebook computers, desktop monitors and televisions decreased by 41.1% to (Won)207,644 per panel in the three-month period ended June 30, 2005 from (Won)352,056 per panel in the corresponding period in 2004.

Our cost of sales increased by 47.0% to (Won)2,159.1 billion in the three-month period ended June 30, 2005 from (Won)1,468.8 billion in the corresponding period in 2004, primarily due to increases in:

raw material costs resulting from our overall unit sales as well as an increase in sales of larger panels, especially panels for televisions, as a proportion of our overall sales;

depreciation expenses, resulting from the commencement of depreciation of P6 in August 2004, partially offset by lower depreciation of P3; and

labor costs, resulting from an increase in the number of production employees hired to meet the operating demands of P6 and P7 and an increase in wage rates.

Table of Contents

As a result of the cumulative effect of the reasons explained above, our gross profit decreased by 82.7% to (Won)149.3 billion in the three-month period ended June 30, 2005, from (Won)861.7 billion in the corresponding period in 2004 and our gross margin declined to 6.5% from 37.0% over the same period.

Our selling, general and administrative expenses increased by 28.0% to (Won)113.1 billion in the three-month period ended June 30, 2005 from (Won)88.4 billion in the corresponding period in 2004, primarily due to an increase in shipping and handling cost as a result of increased sales volume.

As a result of the cumulative effect of the reasons explained above, our operating income decreased by 95.3% to (Won)36.1 billion in the three-month period ended June 30, 2005 from (Won)773.3 billion in the corresponding period in 2004.

Primarily as a result of the decrease in operating income, our net income decreased by 94.6% to (Won)38.4 billion in the three-month period ended June 30, 2005 from (Won)710.6 billion in the corresponding period in 2004.

We had cash and cash equivalents of (Won)1,331.0 billion as of June 30, 2005, compared to (Won)1,350.5 billion as of March 31, 2005. Our primary use of cash has been to fund capital expenditures. In the three-month period ended June 30, 2005, our capital expenditures decreased by 21.1% to (Won)965.9 billion from (Won)1,224.4 billion in the corresponding period in 2004 when we purchased a significant amount of our equipment for P6. We plan to begin purchasing the bulk of our equipment for P7 from the third quarter of 2005.

Our net cash and cash equivalents decreased by (Won)19.5 billion in the three-month period ended June 30, 2005, reflecting net cash provided by our operating activities of (Won)368.3 billion, net cash used in our investment activities of (Won)968.7 billion and net cash provided by our financing activities of (Won)576.7 billion. In the three-month period ended June 30, 2004, our net cash and cash equivalents increased by (Won)17.7 billion, reflecting net cash provided by our operating activities of (Won)959.2 billion, net cash used in our investment activities of (Won)1,239.1 billion and net cash provided by our financing activities of (Won)297.5 billion.

In April 2005, we issued US$475 million in zero coupon convertible bonds due 2010. Our total borrowings as of June 30, 2005 were (Won)3,639.0 billion compared to (Won)3,040.3 billion as of March 31, 2005.

Our sales increased by 11.8% and our cost of sales increased by 3.3% in the three-month period ended June 30, 2005 compared to the three-month period ended March 31, 2005 when we reported sales of (Won)2,064.0 billion and cost of sales of (Won)2,090.1 billion. For the three-month period ended March 31, 2005, we recorded an operating loss of (Won)125.5 billion and a net loss of (Won)94.5 billion.

Strategy

We believe that the most attractive market for TFT-LCD products today is desktop monitors and that it is rapidly transitioning to televisions. We believe that the TFT-LCD market will continue to expand as consumers are drawn to replace conventional cathode ray tube (CRT)-based display products with TFT-LCD products due to their superior performance features. We believe that the market for TFT-LCD products will also

expand in scope as new applications for this technology continue to be designed and developed.

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

Table of Contents

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 world s leading manufacturers of computer products, such as Dell, Hewlett-Packard, Lenovo, Apple and NMV, as well as leading consumer electronics producers, such as Toshiba, LG Electronics and Philips Electronics. These customers represent a large portion of the global demand for TFT-LCD products, and 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 in the necessary turnaround time.

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 six 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, have 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, we built P3 and P4, the world s first fourth- and fifth-generation fabrication facilities optimized for desktop monitor panel production, and have since established ourselves as the largest merchant supplier in terms of both units sold and sales revenue in this category in 2002, 2003 and 2004, based on data from DisplaySearch. Our P5, also a fifth-generation fabrication facility, is optimized for production of larger-size panels for desktop monitors and televisions. Our P6, a sixth-generation fabrication facility, is designed to capitalize on opportunities in the large-size desktop monitor category, such as 17-inch and 20-inch wide-format panels, and in the television category, such as 26-inch wide- format, 32-inch wide-format and 37-inch wide- format panels, all of which are high-definition television panels. We are currently building P7, our first seventh-generation fabrication facility, which will, among other things, be optimized for production of even larger-sized high-definition television panels. We expect Phase I construction of P7 to be completed during the first half of 2006. 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 monitors continues to grow, we have shifted part of the production in our P3 facility from 15-inch desktop monitor panels to

Table of Contents

20-inch UXGA high-resolution desktop monitor panels, thereby realizing higher margins.

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 (S-IPS) technology, which increases viewing angles for large-size desktop monitor and television products, in commercial production. We were the first to develop copper bus lines, which achieve faster video frame rates and brighter displays in larger-size panels, and integrated column spacers, which improve panel ruggedness and enhance viewing uniformity.

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 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 five to four. We were also able to improve the input capacity in P1 from its originally designed monthly input capacity of 30,000 substrates to its actual input capacity as of December 2004 of 105,000 substrates per month with only marginal capital investments, which resulted in significant increases in unit output. Our technology capabilities have also enabled us to enhance process efficiencies, thereby increasing our effective capacity. For example, we have been able to increase the number of 15-inch panels we manufacture in P4 from 12 per glass substrate to 15, with no change to substrate size. Our ability to ramp-up P4, P5 and P6 in a short time span with minimal technical difficulties is also an example of our process technology capability.

Focus on large and wide desktop monitor and television products while maintaining a broad product portfolio

Our strategy is to leverage our product technology, timely investments and advanced manufacturing capabilities to lead 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.

Our focus on desktop monitors established us as the largest merchant supplier in this category in 2002, 2003 and 2004 in terms of units sold, based on data from DisplaySearch. The desktop monitor market is currently transitioning from 15-inch to larger panel sizes such as 19-inch and 20-inch, and we believe we are well positioned to capitalize on this opportunity with our full product line-up. In addition, 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, 22-inch WSXGA, 23-inch WUXGA and 30-inch WQXGA+. In 2002, 2003 and 2004, we had the largest market share in this

5

Table of Contents

category in terms of both units sold and sales revenue, according to DisplaySearch.

Currently the 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 with the addition of 20-inch conventional format as well as 17-inch, 23-inch, 26-inch, 30-inch, 32-inch, 37-inch, 42-inch and 55-inch wide-format panels. We were the largest merchant supplier in the television category in terms of both units sold and sales revenues in 2002, 2003 and 2004, based on data from DisplaySearch, and we continue to lead the market in introducing larger and higher-performance panels for televisions. For example, we were the first to develop 42-inch, 52-inch wide-format and 55-inch wide-format high-definition television panels.

We believe that our product range across the notebook computer, desktop monitor and television 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. In addition, our strategy is to facilitate the development of a domestic vendor base, which typically offers lower component prices compared to overseas suppliers. Our strategic decision to fabricate our own color filters, one of the higher-cost components, has been an important driver of our cost competitiveness;

- Larger, more advanced manufacturing base we plan to build successive generations of fabrication facilities that provide us with overhead cost advantages and that produce higher volumes of products, enabling us to benefit from 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. This results in part from our high yield rates and reduced wastage due to superior process control. We are also able to optimize production allocation across our multiple fabs to maximize the glass conversion ratio; 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 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.

Corporate Information

Our principal executive offices are located at 17th Floor, 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.

6

Table of Contents

THE OFFERING

Offering of ADSs and common stock	We are offering approximately US$1.2 billion in aggregate amount of shares of our common stock in the form of ADSs (without exercise of any portion of the underwriters over-allotment option). Philips Electronics, our shareholder which currently holds 44.57% of our outstanding shares of common stock, is offering up to US$300 million in aggregate amount of shares of common stock in the form of ADSs. The ADSs sold in this offering will be sold in the U.S., as well as outside the U.S. in reliance on Regulation S. Philips Electronics also plans to sell shares of our common stock in a transaction in Korea that is expected to take place concurrently with this offering. In doing so, Philips Electronics may decide to sell shares of common stock in that transaction instead of all or a portion of the ADSs it currently intends to sell in this offering. LG Electronics, our shareholder which currently holds 44.57% of our outstanding shares of common stock, plans to sell, subject to approval of its board of directors, approximately US$400 million in aggregate amount of shares of our common stock in the same transaction in Korea. Philips Electronics and LG Electronics intend for the aggregate number of shares of common stock sold by Philips Electronics in the form of ADSs in this offering and in the form of common stock in the transaction in Korea to equal the aggregate number of shares of common stock sold by LG Electronics so that their respective equity interest in us will remain the same after this offering and the transaction in Korea. Although LG Electronics and Philips Electronics plan to sell their shares as described above, the sale of shares of common stock by LG Electronics and/or Philips Electronics may not be consummated. None of the closings of the foregoing transactions is conditioned upon the closing of any of the other transactions.
Offering price	US$ per ADS.

Table of Contents

Selling shareholder	Koninklijke Philips Electronics N.V.
American depositary shares	Each ADS represents one-half of one share of our common stock. The ADSs are evidenced by American depositary receipts, or ADRs. The shares of our common stock to be sold in this offering in the form of ADSs, unless otherwise restricted under Korean law or our articles of incorporation, rank equally with all other outstanding shares of our common stock in all respects, including, without limitation, as to dividend and voting rights, trading on the Korea Exchange upon listing and settlement through the Korea Securities Depository. To understand the terms of the related ADRs, you should carefully read the section in this prospectus entitled Description of American Depositary Shares. That section summarizes the deposit agreement under which the ADRs are issued. You should also read the deposit agreement among Citibank, N.A., as depositary, all holders and beneficial owners of the ADRs and us.
	During the period between the closing of this offering and the listing on the Korea Exchange of the shares of common stock represented by ADSs offered in this offering (and, if applicable, during the period between any closing relating to the exercise of the underwriters over-allotment option and the listing on the Korea Exchange of shares of common stock represented by ADSs issued pursuant to such exercise), you will not be able to withdraw the shares of common stock represented by your ADSs. During such period(s) of time, the cancellation of ADSs for the purpose of withdrawal of shares of common stock from the ADR facility will be conditioned on the prior delivery to the ADR depositary of a certification that the ADSs presented for cancellation were not acquired in this offering. The listing of shares of common stock represented by ADSs offered in this offering (or any shares of common stock issued pursuant to the exercise of the underwriters over-allotment option) is expected to occur within three business days of the relevant closing date.

Table of Contents

Common stock	Our common stock, par value (Won)5,000 per share. See Description of Capital Stock.
Over-allotment option	We have granted the underwriters the right to purchase up to an additional US$200 million in aggregate amount of shares of common stock in the form of ADSs to cover over-allotments.
Use of proceeds	We estimate that the net proceeds received by us from the sale of ADSs in this offering (without exercise of any over-allotment option) will be approximately US$, after payment of all underwriting discounts and commissions and the expenses of the offering payable by us. We intend to use the net proceeds from the offering principally to fund the capital expenditures associated with the construction and equipping of fabrication facilities. We will not receive any of the net proceeds from the sale of ADSs or shares of our common stock by either LG Electronics or Philips Electronics.
Trading market for ADSs	Our outstanding ADSs are listed for trading on the New York Stock Exchange under the symbol LPL. The outstanding ADSs have been listed on the New York Stock Exchange since July 22, 2004. We also expect the ADSs offered pursuant to this offering to be listed on the New York Stock Exchange.
Trading market for common shares	The only trading market for shares of our common stock is the Korea Exchange. The common shares have been listed on the Korea Exchange since July 23, 2004 under the identifying code 034220.
Settlement for ADSs	The ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by The Depository Trust Company and its participants. The ADSs sold in this offering are expected to be delivered against payment therefor on or about , 2005, which is the third business day following the date hereof.

Table of Contents

ADR depositary	Citibank, N.A.
Lock-ups	We, LG Electronics and Philips Electronics have each agreed not to (and not to announce an intention to), without the prior written consent of the joint global coordinators on behalf of the underwriters, during the period of 180 days (90 days in the case of LG Electronics and Philips Electronics) after the date of the underwriting agreement, issue, offer, pledge, sell, contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our capital stock or other securities or securities convertible or exchangeable for the foregoing (except, in our case, for any grant, issue or offer of options, rights, warrants or other securities made to any of our directors, officers or employees as part of their compensation), as described in further detail in Underwriting.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The summary consolidated financial and operating data set forth below have been presented on a historical cost basis for all periods presented. The balance sheet data as of March 31, 2005 and the statement of income data for the three months ended March 31, 2004 and 2005 have been derived from our unaudited consolidated financial statements and related notes included in this prospectus. The balance sheet data as of December 31, 2003 and 2004 and the statement of income data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements and related notes included

in this prospectus. These audited and unaudited 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 Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

Consolidated income statement data

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won, except for per share data)					(in millions of US$, except for per share data)	(unaudited) (in billions of Won, except for per share data)		(in millions of US$, except for per share data)
Sales	(Won) 2,362	(Won) 2,338	(Won) 3,567	(Won) 6,098	(Won) 8,325	US$ 8,199	(Won) 2,188	(Won) 2,064	US$ 2,033
Cost of Sales	1,583	2,493	3,139	4,741	6,246	6,152	1,412	2,090	2,058
Gross profit (loss)	779	(155)	428	1,357	2,079	2,047	776	(26)	(26)
Selling, general and administrative expenses	102	111	129	235	319	314	69	99	98
Operating income (loss)	677	(266)	299	1,122	1,760	1,733	708	(126)	(124)
Other income (expense)	(126)	(96)	67	(61)	(18)	(18)	(17)	(22)	(22)
Income (loss) before income taxes	551	(362)	366	1,061	1,742	1,715	691	(148)	(146)
Provision (benefit) for income taxes	8	(67)	18	54	38	37	51	(53)	(53)
Net income (loss)	543	(295)	348	1,007	1,704	1,678	640	(95)	(93)
Net income (loss) per share[1]	1,873	(1,018)	1,200	3,471	5,586	5.50	2,206	(291)	(0.29)
Diluted net income (loss)	1,873	(1,018)	1,200	3,471	5,586	5.50	2,206	(291)	(0.29)

per share									
Dividends declared per share[2]	1,455	617							
Number of shares as adjusted to reflect changes in capital (in millions)[3]	290	290	290	290	325	325	290	325	325

Table of Contents

Consolidated balance sheet data

	As of December 31,						As of March 31,	
	2000	2001	2002	2003	2004	2004[10]	2005	2005[10]
	(in billions of Won)					(in millions of US$)	(unaudited) (in billions of Won)	(unaudited) (in millions of US$)
Accounts receivable, net	(Won) 282	(Won) 384	(Won) 540	(Won) 1,160	(Won) 954	US$ 940	(Won) 1,169	US$ 1,151
Inventories	355	252	398	336	804	792	737	726
Total current assets	728	725	1,079	2,146	3,399	3,347	3,507	3,454
Property, plant and equipment, net	2,560	2,927	3,259	3,974	6,564	6,464	7,043	6,936
Total assets	(Won) 3,412	(Won) 3,889	(Won) 4,573	(Won) 6,343	(Won) 10,262	US$ 10,106	(Won) 10,933	US$ 10,767
Short-term borrowings	(Won) 215	(Won) 313	(Won) 274	(Won) 159	(Won) 483	US$ 476	(Won) 333	US$ 328
Trade accounts and notes payable	116	165	251	404	583	574	612	603
Other accounts payable[4]	235	555	780	1,023	1,016	1,001	1,474	1,451
Long-term debt, including current portion	833	1,354	1,427	1,785	2,206	2,173	2,707	2,666
Long-term obligation under capital lease, including current portion	46	10						
Total liabilities	1,545	2,496	2,833	3,592	4,599	4,529	5,365	5,284
Capital stock	1,450	1,450	1,450	1,450	1,627	1,602	1,627	1,602
Total stockholders equity	(Won) 1,867	(Won) 1,393	(Won) 1,740	(Won) 2,751	(Won) 5,663	US$ 5,577	(Won) 5,568	US$ 5,483

Other financial data

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)	(unaudited) (in billions of Won, except for percentages)		(unaudited) (in millions of US$, except for percentages)
Gross margin[5]	33.0%	(6.6)%	12.0%	22.3%	25.0%	25.0%	35.5%	(1.3)%	(1.3)%
Operating margin[6]	28.7%	(11.4)%	8.4%	18.4%	21.1%	21.1%	32.3%	(6.1)%	(6.1)%
Net margin[7]	23.0%	(12.6)%	9.8%	16.5%	20.5%	20.5%	29.2%	(4.6)%	(4.6)%
EBITDA[8]	(Won) 1,071	(Won) 391	(Won) 1,382	(Won) 2,106	(Won) 3,014	US$ 2,968	(Won)977	(Won)272	US$ 268
Capital expenditures	956	782	1,117	1,438	3,886	3,827	745	450	443

Depreciation and amortization[9]	482	680	958	966	1,235	1,216	273	406	400
Net cash provided by operating activities	835	473	1,053	1,672	2,743	2,701	759	83	82
Net cash used in investing activities	(941)	(804)	(1,126)	(1,453)	(3,893)	(3,834)	(730)	(453)	(446)
Net cash provided by (used in) financing activities	(414)	352	90	215	2,009	1,978	10	359	354

(1) Net income (loss) per share is calculated by dividing net income (loss) by the average number of shares outstanding during the period. Net income (loss) per share is equal to income (loss) from continuing operations.
(2) Dividends declared per share are calculated by dividing total dividends by the average number of shares outstanding during the period.
(3) As of the end of respective periods indicated.
(4) Other accounts payable primarily consist of accounts payable relating to the purchase of fixed assets, principally machinery and equipment.
(5) Gross margin represents gross profit (loss) divided by sales.
(6) Operating margin represents operating income (loss) divided by sales.
(7) Net margin represents net income (loss) divided by sales.
(8) EBITDA is defined as net income (loss) plus: interest income (expense); provision (benefit) for income taxes; depreciation of property, plant and equipment; 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

Table of Contents

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:

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won)					(in millions of US$)	(unaudited) (in billions of Won)		(in millions of US$)
Net income (loss)	(Won) 543	(Won) (295)	(Won) 348	(Won) 1,007	(Won) 1,704	US$ 1,678	(Won) 640	(Won) (95)	US$ (93)
Interest expense	64	78	62	84	58	57	17	23	23
Interest income	(26)	(5)	(4)	(6)	(20)	(20)	(4)	(9)	(9)
Provision (benefit) for income taxes	8	(67)	18	55	38	37	51	(53)	(53)
Depreciation of property, plant and equipment	480	675	949	957	1,224	1,206	270	403	397
Amortization of intangible assets	2	3	5	5	6	6	2	2	2
Amortization of debt issuance cost		2	4	4	4	4	1	1	1
EBITDA	(Won) 1,071	(Won) 391	(Won) 1,382	(Won) 2,106	(Won) 3,014	US$ 2,968	(Won) 977	(Won) 272	US$ 268

(9) Depreciation and amortization includes depreciation of property, plant and equipment, amortization of intangible assets and amortization of debt issuance cost.

(10) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,015.4 to US$1.00, the noon buying rate in effect on March 31, 2005 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.

Operating data

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
	(in thousands)				
Number of panels sold by product category:					
Notebook computers	4,719	7,395	9,125	2,032	2,615
Desktop monitors	5,821	11,930	15,391	3,571	5,702
Televisions	318	1,351	2,401	552	1,043
Other applications[1]	421	6,270	25,330	2,983	9,661
Total	11,280	26,946	52,247	9,138	19,021

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004[2]	2004	2005	2005[2]
					(unaudited)		
	(in billions of Won)			(in millions of US$)	(in billions of Won)		(in millions of US$)
Revenue by category:							
Notebook computers	(Won) 1,287	(Won) 1,739	(Won) 2,119	US$ 2,087	(Won) 567	(Won) 382	US$ 376
Desktop monitors	2,027	3,517	4,662	4,591	1,234	1,144	1,127
Televisions	136	686	1,163	1,145	308	450	443
Other applications[1]	117	156	381	375	79	88	87
Total	(Won) 3,567	(Won) 6,098	(Won) 8,325	US$ 8,199	(Won) 2,188	(Won) 2,064	US$ 2,033

(1) Includes, among others, panels for handheld consumer electronics products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

(2) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,015.4 to US$1.00, the noon buying rate in effect on March 31, 2005 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.

Table of Contents

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The occurrence of any of the following events could have a detrimental effect on us. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical of investments in shares of U.S. companies. If these events occur, the trading price of our common stock and the ADSs could decline, and you may lose all or part of your investment. Additional risks not outlined below or not currently known to us or that we now deem immaterial may also adversely affect us and affect your investment.

Risks Relating to Our Industry

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, BOE-Hydis, AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar, Quanta Display, SVA-NEC, BOE-OT, Sharp and Hitachi. 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 near 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.

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 operating results.

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. For example, the overall average selling price of our display panels, including small panel applications, increased by 4.6% from 2001 to 2002 but decreased by 28.4% from 2002 to 2003 and by 29.6% from 2003 to 2004. The overall average selling price of our display panels, including small panel applications, decreased by 54.7% from the three-month period ended March 31, 2004 to the corresponding period in 2005.

Our gross margins have also fluctuated from period to period, from 12.0% in 2002 to 22.3% in 2003 and 25.0% in 2004. Our gross margin was 35.5% in the three-month period ended March 31,

Table of Contents

2004 and (1.3)% in the corresponding period in 2005. Principal factors affecting our gross margins include 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 may 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 and consumer electronics 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.

We may experience declines in the average selling prices of our display panels irrespective of cyclical fluctuations in the industry.

The average selling prices of our display panels have declined in general and are expected to continually decline with time irrespective of industry-wide fluctuations as a result of, among other factors, technology advances and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies, we cannot provide assurance that we can maintain these prices in the face of market competition. For example, our gross margin declined from 35.5% in the three-month period ended March 31, 2004 to (1.3)% in the corresponding period in 2005. If we are unable to effectively anticipate and counter the price erosion that accompanies our products, or if we are unable to reduce our manufacturing costs, our profit margins will be negatively affected.

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.

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

15

Table of Contents

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, mobile phones and personal digital assistants 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.

We sell our products to a select group of key customers who may no longer rely on us as a strategic supplier of TFT-LCD products, 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 our two principal shareholders, together accounted for 83.2% of our sales in 2002, 78.8% in 2003 and 77.4% in 2004, and 78.4% and 75.4% in the three-month periods ended March 31, 2004 and 2005, respectively. Our top three end-brand customers together accounted for 34.8% of our sales in 2002, 41.1% in 2003 and 42.9% in 2004, and 45.5% and 44.6% in the three-month periods ended March 31, 2004 and 2005, respectively. In 2004, as well as the three-month period ended March 31, 2005, three end-brand customers, Dell, LG Electronics (excluding its purchases made as a system integrator) and Hewlett-Packard, 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.

We cannot provide assurance that these customers 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 83.2% of our sales in 2002, 78.8% in 2003 and 77.4% in 2004, and 78.4% and 75.4% in the three-month periods ended March 31, 2004 and 2005, respectively, on an aggregate basis. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, we typically invoice their 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. 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, we are exposed to credit risks associated with these entities.

Table of Contents

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 notebook computers, desktop monitors, televisions and other consumer electronics 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 notebook computers, desktop monitors, televisions and other consumer electronics products with display devices. In particular, a significant percentage of our sales is derived from end-brand customers, or their designated system integrators, who use our TFT-LCD panels in their desktop monitors, which accounted for 56.8%, 57.7% and 56.0% of our total sales based on revenue in 2002, 2003 and 2004, respectively, and 56.4% and 55.4% of such sales in the first three months of 2004 and 2005, respectively. A substantial portion of our sales is also derived from end-brand customers, or their designated system integrators, who use our panels in their notebook computers, which accounted for 36.1%, 28.5% and 25.5% of our total sales based on revenue in 2002, 2003 and 2004, respectively, and 25.9% and 18.5% of such sales in the first three months of 2004 and 2005, respectively. We will continue to be dependent on the personal computer industry for a significant portion of our sales and any downturn in the personal computer industry may result in reduced demand for our products, lower average selling prices and/or reduced margins.

In addition, we anticipate that there will be increasing migration from conventional cathode ray tube, or CRT, televisions to TFT-LCD televisions. We have installed, and we expect to continue to install, capacity in anticipation of increased television demand generated by this trend. However, we may be unable to successfully execute our strategy or sustain our growth and profitability if this migration to TFT-LCD televisions does not take place at the anticipated time, or at all. Moreover, we can offer no assurance that threats from competing technologies will not significantly affect and alter our strategy for and competitive position in the television market. If our current strategy to address the expected growth in the television market, in part by increasing our production capacity, fails, our business, financial condition and results of operations would be materially adversely affected.

Table of Contents

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 other panel makers, such as active matrix organic light emitting diode, or OLED, which is a technology that we are also developing, or alternative display technologies, such as plasma display panel, or PDP, may gain wider market acceptance than TFT-LCD technology, such as in the television market where larger panel sizes generally command higher prices. 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.

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 expenditures for the expansion of existing production lines, construction of new facilities and strategic investments, such as the development of the Paju industrial complex where we are building our seventh fabrication facility, or P7. In Phase I, which we expect to be operational in the first half of 2006, P7 will have an initial capacity of 45,000 sheets per month. We may further expand P7 s manufacturing capacity by an additional 45,000 sheets per month in Phase II, depending on future market and other conditions. We currently estimate that the construction and build-out of P7, at a capacity of 90,000 sheets per month, will cost approximately (Won)5.3 trillion. We expect our capital expenditure for P7 to be approximately (Won)3.1 trillion and our total capital expenditures to be approximately (Won)4.6 trillion (US$4.4 billion) in 2005. We estimate our capital expenditures will be between (Won)3.5 trillion and (Won)4.5 trillion in 2006. 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, including P7.

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 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.

Table of Contents

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 third fabrication facility, P3, in July 2000, our fourth fabrication facility, P4, in March 2002, our fifth fabrication facility, P5, in May 2003 and at our sixth fabrication facility, P6, in August 2004. We also commenced production at a new module assembly facility in Nanjing, China, in May 2003. In addition, in March 2004, we broke ground on a new TFT-LCD display cluster to be developed in Paju, Korea where we are building our seventh fabrication facility, P7, which is designed to process 1,950 x 2,250 mm glass substrates. We plan to commence mass production at P7 with an initial design capacity of 45,000 sheets per month (Phase I) during the first half of 2006. We may expand P7 s capacity to 90,000 sheets per month (Phase II) depending on future market and other conditions. We are also continually expanding capacities at our existing fabrication facilities by upgrading and modifying our production lines.

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, including P7, which represents a new and relatively less proven glass size and equipment generation for the industry, 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 particular, in the event that we are unable or unwilling to expand the capacity of P7 beyond the initial design capacity of 45,000 sheets per month, our competitiveness and market position would be impaired and our business would be materially adversely affected. In addition, failure to keep up with our competitors in future investments in manufacturing capacity 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, driver integrated circuits and polarizers, from two or three suppliers for each key component. We may experience shortages in the supply of these and other components or raw materials as a result of, among other things, anticipated capacity expansion in the TFT-LCD industry. 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

Table of Contents

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.

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 cyclicality 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.

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.

We have issued floating rate notes and debentures which contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants include debt-to-equity ratios, debt-coverage ratios, interest-coverage ratios and total debt limits. The documentation for such debt also contains negative pledges as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such

20

Table of Contents

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.

Our sales and purchases of raw materials and expenditures on capital equipment are denominated mainly in U.S. dollars, Japanese yen and Korean Won, and, in the case of our sales, also in Euros. In 2004, 89.0% of our sales were denominated in U.S. dollars, 5.6% in Euros, 2.2% in Japanese yen and 2.7% in Korean Won. During the same period, 32.0% of our purchases of raw materials were denominated in U.S. dollars, 43.0% in Japanese yen and 25.0% in Korean Won. In addition, 7.7%, 28.4% and 62.4% of our equipment purchases and construction costs, which represented almost all of our total capital expenditures in 2004, were denominated in U.S. dollars, Japanese yen and Korean Won, respectively.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won, affect our gross profit and pre-tax income. In general, an appreciation in the Korean Won against the U.S. dollar has a net negative impact on such results, although it causes a foreign currency translation gain on our foreign-currency debt and currency forward contracts. Although the impact of exchange rate fluctuations has in the past been partially mitigated by the natural offset of our foreign currency receivables with our payables, our foreign-currency debt and our use of foreign exchange forward contracts, we cannot provide assurance that these offsets and hedges will reduce the overall impact of any exchange rate fluctuations in the future.

We will lose a portion of the income tax exemption currently available to us under the foreign direct investment laws of Korea if Philips Electronics reduces its ownership in 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 are entitled to an exemption from income taxes 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 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 years. In 2004, we received a tax benefit of (Won)239.6 billion (US$236.0 million), or 13.8% of income before income taxes, as a result of Philips Electronics 47.48% weighted average ownership in us before and after our initial public offering. We will lose 0.27% of the tax exemption benefit for each 1% reduction in Philips Electronics ownership in us, assuming that the income tax rate and qualifying business exemption ratio applicable to us are the same as those in 2005. Losses of portions of this tax exemption could negatively affect our results of operations.

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 also 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

Table of Contents

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. We believe that these companies have infringed on six of our United States patents relating to liquid crystal displays and the manufacturing processes for thin-film transistors and liquid crystal displays by selling TFT-LCD products into the United States covered by these patents. We are seeking, among other things, treble damages for past infringement of these patents and for an injunction against future infringement. We also filed a complaint in the United States District Court for the Central District of California against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jean Co., Lite-On Technology Corp., Lite-On Technology International, Inc., TPV Technology and Invision Peripheral Inc. These several claims were subsequently consolidated into one lawsuit. Currently the matter is in the discovery stage. On May 24, 2004, we sought declaratory relief in the United States District Court for the District of Massachusetts to determine the inventorship of four of these patents. On June 21, 2004, Chunghwa Picture Tubes filed a counter-claim against us in the United States District Court for the Central District of California for alleged infringement of Chunghwa Picture Tubes intellectual property and violation of U.S. antitrust laws. On August 3, 2004, we demanded

Table of Contents

arbitration of the counter-claims filed by Chunghwa Picture Tubes. The arbitration proceedings are currently in progress before the American Arbitration Association.

On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Co. and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear mountable liquid crystal display devices. We are seeking damages for past infringement and an injunction against future infringement. We also filed a parallel complaint with the Patents County Court in the United Kingdom claiming infringement on one of our U.K. patents relating to the same technology. Tatung Co. is a major shareholder in Chunghwa Picture Tubes.

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 their U.S. patents relating to flat panel display mounting systems. On April 25, 2005, we filed our answer to Chunghwa Picture Tubes infringement claim, together with a counter-claim in the United States District Court for the Central District of California for the correction of the legal title of the subject patent. We are also seeking compensation for wrongful prosecution.

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 Corporation claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement.

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

Table of Contents

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.

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 continuing technological innovation in our business. 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. 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.

Table of Contents

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.

In addition, as a joint venture between LG Electronics and Philips Electronics, we have in the past relied on our affiliation with LG Electronics and Philips Electronics to recruit and retain important research and development personnel. We can offer no assurance that we will be able to realize these advantages if our affiliation with LG Electronics and Philips Electronics is significantly reduced in the future.

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.

Our two principal shareholders, LG Electronics and Philips Electronics, which together currently own approximately 89.1% of our voting stock, have, and will continue to have, following LG Electronics and Philips Electronics sale of ADSs and/or our common shares in this offering and/or a transaction in Korea consummated concurrently with this offering, significant influence over corporate decisions.

LG Electronics and Philips Electronics together have, and will continue to have, control of all matters submitted to our shareholders for approval, including electing certain of our directors, amending our articles of incorporation and approving changes of control that may impact you as a minority shareholder, following LG Electronics and Philips Electronics sale of ADSs and/or our common shares in this offering and/or a transaction in Korea consummated concurrently with this offering. The directors elected by these shareholders are able to make decisions affecting our capital structure, including decisions to issue additional capital stock, implement stock repurchase programs and incur indebtedness. See Certain Relationships and Related Party Transactions.

In addition, we engage in a variety of related party transactions with our two principal shareholders and their respective affiliates:

Purchases from LG Electronics and its affiliates purchases of materials, components and services from LG Electronics and its affiliates, excluding subsidiaries of LG International, amounted to 16.5%, 28.4% and 21.2% of our total purchases of materials, components and services in 2002, 2003 and 2004, respectively, and 23.8% and 7.9% (excluding services purchased from GS Engineering & Construction which, as of January 2005, is no longer an affiliated company of the LG Group) in the three-month periods ended March 31, 2004 and 2005, respectively.

Table of Contents

Sales to LG Electronics sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, including sales through Serveone (formerly LG MRO Co., Ltd.), amounted to 19.4%, 25.1% and 19.3% of our sales in 2002, 2003 and 2004, respectively, and 21.4% in each of the three-month periods ended March 31, 2004 and 2005.

Sales to Philips Electronics and its affiliates 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 3.9%, 9.9% and 14.5% of our sales in 2002, 2003 and 2004, respectively, and 14.4% and 13.3% in the three-month periods ended March 31, 2004 and 2005, respectively.

Purchases from LG International purchases of equipment and components from subsidiaries of LG International amounted to 22.3%, 17.5% and 22.4% of our total equipment and component purchases in 2002, 2003 and 2004, respectively, and 18.6% and 10.4% in the three-month periods ended March 31, 2004 and 2005, respectively.

Sales to LG International sales to subsidiaries of LG International on an aggregate basis amounted to 27.0%, 10.0% and 5.5% of our sales in 2002, 2003 and 2004, respectively, and 4.0% and 2.9% in the three-month periods ended March 31, 2004 and 2005, respectively.

Purchases from Philips Electronics purchases of driver integrated circuits from Philips Electronics semiconductor division amounted to 0.8%, 0.8% and 0.6% of our total purchases of materials, components and services in 2002, 2003 and 2004, respectively, and 0.5% and 0.7% in the three-month periods ended March 31, 2004 and 2005, respectively.

Pursuant to our articles of incorporation and the terms of a shareholders agreement entered into between LG Electronics and Philips Electronics in July 2004, we have a nine-member board of directors which is composed of two outside directors selected by each of LG Electronics and Philips Electronics, one outside director jointly selected by them and four non-outside directors. In March 2005, we established the Outside Director Nomination and Corporate Governance Committee which will nominate our future outside directors. The right to nominate the four non-outside directors of our board depends on the respective ownership interest in us of each of LG Electronics and Philips Electronics. The two shareholders have also agreed to a co-voting arrangement under which each party is obligated to vote in favor of the non-outside director candidates selected by the other party as well as the non-outside candidate jointly selected by the two shareholders. Subject to minimum shareholding requirements, LG Electronics and Philips Electronics are able to nominate our chief executive officer and chief financial officer, respectively, who as our two joint representative directors, must act in concert in order for their actions to bind us. See Principal Shareholders Shareholders Agreement for a description of the composition of our board and Management for a description of the joint representative director system under Korean law. As a result, persons with ties to LG Electronics and Philips Electronics may account for as many as four directors on our board and, will continue to exert substantial influence over the operation of our business.

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

When exercising their rights as our shareholders, either alone or in concert, LG Electronics and Philips Electronics may take into account not only our interests but also their interests and the interests of their affiliates or other joint venture companies in competing display businesses. For example, LG

Table of Contents

Electronics and Philips Electronics merged their respective cathode ray tube businesses into a joint venture company named LG.Philips Displays in 2001. The interests of LG.Philips Displays and other display businesses of LG Electronics and Philips Electronics may at times conflict with ours since the growth of our business depends, in part, on successful competition with other display technologies. These conflicts may result in lost corporate opportunities for us, including opportunities to enter into lines of business that may overlap with those pursued by other display businesses of LG Electronics and Philips Electronics.

Various other conflicts of interest between our two shareholders 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 and Philips Electronics of control over our management and affairs. Our board is currently composed of directors and officers who have been appointed by our two shareholders and certain of our directors continue to hold positions at LG Electronics or Philips Electronics. See Our two principal shareholders, LG Electronics and Philips Electronics, which together currently own approximately 89.1% of our voting stock, have, and will continue to have, following LG Electronics and Philips Electronics sale of ADSs and/or our common shares in this offering and/or a transaction in Korea consummated concurrently with this offering, significant influence over corporate decisions above and Principal Shareholders Shareholders Agreement for a description of the composition of our current board of directors.

Labor unrest may disrupt our operations.

As of March 31, 2005, approximately 60% 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, new 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.

Table of Contents

Risks Relating to this Offering

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, LG Electronics and Philips Electronics have each agreed not to (and not to announce an intention to), without the prior written consent of the joint global coordinators on behalf of the underwriters, during the period of 180 days (90 days in the case of LG Electronics and Philips Electronics) after the date of the underwriting agreement, issue, offer, pledge, sell, contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our capital stock or other securities or securities convertible into or exchangeable for the foregoing (except, in our case, for any grant, issue or offer of options, rights, warrants or other securities made to any of our directors, officers or employees as part of their compensation), as described in further detail in Underwriting.

If our current major shareholders, LG Electronics and Philips Electronics, sell substantial amounts of our common stock in the public market following the expiration of the aforementioned lock-up periods, or if there is a perception that these sales may occur, the market price of our common stock could decline.

If there is significant volatility in the prices of our common stock and our ADSs following this offering, you may lose all or part of your investment, and securities class-action litigation may be brought against us.

Following this offering, the price at which our common stock will trade may be volatile. The stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices of securities. These fluctuations often have been unrelated or disproportionate to the operating performance of publicly traded companies. In the past, following periods of volatility in the market price of a particular company s securities, securities class-action litigation has sometimes been brought against that company. If similar litigation were instituted against us, it could result in substantial costs and divert management s attention and resources from our core business.

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.

Table of Contents

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 common shares 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 28,595,700 as of July 6, 2005. The number of shares issued or sold in any subsequent offering by us or our affiliates, 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. In addition, you will not be able to withdraw shares of common stock represented by ADSs offered by us in this offering until these shares are listed on the Korea Exchange.

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

Table of Contents

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

Other than our registration rights agreement with each of LG Electronics and Philips Electronics as described in Principal Shareholders Registration Rights Agreement, 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 dissenter s rights unless they have withdrawn the underlying shares of common stock and become our direct 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 under Korean law. A holder of ADSs will not be able to exercise dissenter s rights unless such holder has withdrawn the underlying common stock and become our direct shareholder.

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 substantially all 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. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a large extent.

Table of Contents

The economic indicators in 2002, 2003 and 2004 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to the terrorist attacks in the United States that took place on September 11, 2001, recent developments in the Middle East, including the war in Iraq, higher oil prices, the general weakness of the global economy and the outbreak of severe acute respiratory syndrome, or SARS, in Asia and other parts of the world have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy for some time. Any future deterioration of the Korean and global economy could adversely affect our financial condition and results of operations.

Developments that could hurt Korea s economy in the future include:

- financial problems relating to *chaebols* (Korean conglomerates), or their suppliers, and their potential adverse impact on the Korean economy, including as a result of recent investigations relating to unlawful political contributions by *chaebols*;
- failure or lack of progress in restructuring of *chaebols*, the financial industry, including credit card companies, and other large troubled companies;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain *chaebols*;
- a slowdown in consumer spending and the overall economy;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including an increase in oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen or revaluation of the Chinese RMB), interest rates and stock markets;
- deterioration of economic or market conditions in other emerging markets;
- adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, 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);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the recurrence of SARS or 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 such deterioration resulting from trade disputes or disagreements in foreign policy;

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

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 resulting from those hostilities; and

Table of Contents

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea and/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 or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea. 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.

In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six-party talks resumed in Beijing, China. A third round of talks were held in June 2004 with an agreement to hold further talks in September, which were postponed and have not resumed yet. In February 2005, North Korea announced that it possesses nuclear weapons and pulled out of six-party disarmament talks. In June 2005, North Korea indicated that it would return to the six-party talks, but it remains uncertain whether the discussion will resume.

In addition, in June 2004, the United States proposed plans to withdraw approximately one-third of the 37,500 troops currently stationed in Korea by the end of 2005. However, details regarding the timing and other aspects of the proposed reduction in U.S. troops are not yet finalized and talks between the governments of the United States and Korea are ongoing.

Any further increase in tensions, which may occur, for example, if high-level contacts break down or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact the Korean economy and our business and cause the price of our securities to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea.

A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on the market value of our common stock.

Table of Contents

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus, as defined in Section 27A of the Securities Act, and Section 21E of the Exchange Act. 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 rela intended to identify a number of these forward-looking statements. In addition, all statements other than statements of historical facts included in this prospectus are 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 prospectus.

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 prospectus 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.

33

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds received by us from the sale of ADSs (without exercise of any over-allotment option) will be approximately US$, after payment of all underwriting discounts and commissions and the expenses of this offering payable by us.

We intend to use the net proceeds from this offering principally to fund the capital expenditures associated with the construction and equipping of fabrication facilities.

We will not receive any of the net proceeds from the sale of ADSs or shares of our common stock by either LG Electronics or Philips Electronics.

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.

On March 8, 2000, we declared a cash dividend of (Won)221.9 billion to our two shareholders. On August 14, 2000, we declared an interim cash dividend of (Won)200.0 billion, and on March 21, 2001, we declared a cash dividend of (Won)179.0 billion to the two shareholders.

We have not declared or paid any dividends since 2001.

Table of Contents

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 March 31, 2005, 325,315,700 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 depositary 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 March 31, 2005, 23,332,566 ADSs were outstanding.

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.

	Korea Exchange			New York Stock Exchange		
	Closing Price Per Common Stock		Average Daily Trading Volume	Closing Price Per ADS		Average Daily Trading Volume
	High	Low	(in thousands of shares)	High	Low	(in thousands of ADSs)
2004						
Third Quarter						
July	(Won) 33,800	(Won) 32,750	902	US$ 14.45	US$ 14.05	2,364
August	37,900	31,800	466	15.85	13.75	796
September	35,500	32,900	345	15.50	14.29	334
Fourth Quarter						
October	38,000	31,200	488	16.26	13.53	587
November	37,400	30,000	451	17.35	13.33	847
December	39,700	34,450	356	18.18	16.40	526
2005						
First Quarter						
January	45,500	36,000	637	21.60	16.85	660
February	45,900	42,200	577	21.90	20.82	402
March	44,200	40,300	683	21.78	19.68	297
Second Quarter						
April	47,850	44,000	826	24.00	21.69	283
May	53,500	46,500	500	26.17	23.49	175
June	53,000	46,100	627	26.39	22.34	365
Third Quarter						
July (through July 12)	49,250	45,500	806	23.35	21.68	406

Source: Korea Exchange; New York Stock Exchange.

35

Table of Contents

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 prospectus were made at the noon buying rate in effect on March 31, 2005, which was (Won)1,015.4 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 July 12, 2005, the noon buying rate was (Won)1,035.0 = 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.

The following table sets out information concerning the noon buying rate for the periods and dates indicated:

Year Ended December 31,	At End of Period	Average Rate[1]	High	Low
		(Korean Won per US$1.00)		
2000	(Won) 1,267.0	(Won) 1,130.9	(Won) 1,267.0	(Won) 1,105.5
2001	1,313.5	1,292.0	1,369.0	1,234.0
2002	1,186.3	1,250.3	1,332.0	1,160.6
2003	1,192.0	1,192.9	1,262.0	1,146.0
2004	1,035.1	1,145.2	1,195.1	1,035.1
2005 (through July 12)	1,035.0	1,016.6	1,058.0	997.0
January	1,026.9	1,038.0	1,058.0	1,024.0
February	1,000.9	1,023.1	1,044.0	1,000.9
March	1,015.4	1,007.8	1,023.9	997.5
April	997.0	1,010.1	1,019.0	997.0
May	1,005.0	1,001.8	1,009.0	997.0
June	1,034.5	1,012.5	1,034.5	1,003.0
July (through July 12)	1,035.0	1,044.5	1,054.0	1,033.0

(1) The average of the daily noon buying rates in effect during the relevant period (or portion thereof).

Table of Contents

CAPITALIZATION

The following table sets forth our short-term borrowings and capitalization as of June 30, 2005 and as adjusted to give effect to this offering of ADSs (assuming no exercise of the over-allotment option) and the application of the proceeds thereof.

You should read the information set forth below in conjunction with Selected Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Prospectus Summary Recent Developments and our financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2005			
	Actual	As adjusted	Actual[1]	As adjusted[1]
	(in billions of Won and millions of US$)			
Short-term borrowings	(Won) 405.9	(Won) 405.9	US$ 399.7	US$ 399.7
Long-term debt, including current portion	3,233.1	3,233.1	3,184.1	3,184.1
Shareholders equity				
Common stock, (Won)5,000 par value				
Authorized 400 million shares				
Issued and outstanding 325,315,700 shares				
(shares as adjusted)	1,626.5		1,601.8	
Additional paid-in capital	1,003.8		988.6	
Retained earnings	2,945.0	2,945.0	2,900.3	2,900.3
Accumulated other comprehensive income	(10.7)	(10.7)	(10.5)	(10.5)
Total shareholders equity	5,564.6		5,480.2	
Total capitalization	(Won) 8,797.7	(Won)	US$ 8,664.3	US$

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,015.4 to US$1.00, the noon buying rate in effect on March 31, 2005 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.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The selected consolidated financial and operating data set forth below have been presented on a historical cost basis for all periods presented. The balance sheet data as of March 31, 2005 and the statement of income data for the three months ended March 31, 2004 and 2005 have been derived from our unaudited consolidated financial statements and related notes included in this prospectus. The balance sheet data as of December 31, 2003 and 2004 and the statement of income data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements and related notes included in this prospectus. These audited and unaudited 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 Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

Consolidated income statement data

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won, except for per share data)					(in millions of US$, except for per share data)	(unaudited) (in billions of Won, except for per share data)		(in millions of US$, except for per share data)
Sales	(Won) 2,362	(Won) 2,338	(Won) 3,567	(Won) 6,098	(Won) 8,325	US$ 8,199	(Won) 2,188	(Won) 2,064	US$ 2,033
Cost of Sales	1,583	2,493	3,139	4,741	6,246	6,152	1,412	2,090	2,058
Gross profit (loss)	779	(155)	428	1,357	2,079	2,047	776	(26)	(26)
Selling, general and administrative expenses	102	111	129	235	319	314	69	99	98
Operating income (loss)	677	(266)	299	1,122	1,760	1,733	708	(126)	(124)
Other income (expense)	(126)	(96)	67	(61)	(18)	(18)	(17)	(22)	(22)
Income (loss) before income taxes	551	(362)	366	1,061	1,742	1,715	691	(148)	(146)
Provision (benefit) for income taxes	8	(67)	18	54	38	37	51	(53)	(53)
Net income (loss)	543	(295)	348	1,007	1,704	1,678	640	(95)	(93)
Net income (loss) per share[1]	1,873	(1,018)	1,200	3,471	5,586	5.50	2,206	(291)	(0.29)
Diluted net income (loss) per share	1,873	(1,018)	1,200	3,471	5,586	5.50	2,206	(291)	(0.29)
	1,455	617							

Dividends declared per share[2]									
Number of shares as adjusted to reflect changes in capital (in millions)[3]	290	290	290	290	325	325	290	325	325

Table of Contents

Consolidated balance sheet data

	As of December 31,						As of March 31,	
	2000	2001	2002	2003	2004	2004[10]	2005	2005[10]
	(in billions of Won)					(in millions of US$)	(unaudited) (in billions of Won)	(unaudited) (in millions of US$)
Accounts receivable, net	(Won) 282	(Won) 384	(Won) 540	(Won) 1,160	(Won) 954	US$ 940	(Won) 1,169	US$ 1,151
Inventories	355	252	398	336	804	792	737	726
Total current assets	728	725	1,079	2,146	3,399	3,347	3,507	3,454
Property, plant and equipment, net	2,560	2,927	3,259	3,974	6,564	6,464	7,043	6,936
Total assets	(Won) 3,412	(Won) 3,889	(Won) 4,573	(Won) 6,343	(Won) 10,262	US$ 10,106	(Won) 10,933	US$ 10,767
Short-term borrowings	(Won) 215	(Won) 313	(Won) 274	(Won) 159	(Won) 483	US$ 476	(Won) 333	US$ 328
Trade accounts and notes payable	116	165	251	404	583	574	612	603
Other accounts payable[4]	235	555	780	1,023	1,016	1,001	1,474	1,451
Long-term debt, including current portion	833	1,354	1,427	1,785	2,206	2,173	2,707	2,666
Long-term obligation under capital lease, including current portion	46	10						
Total liabilities	1,545	2,496	2,833	3,592	4,599	4,529	5,365	5,284
Capital stock	1,450	1,450	1,450	1,450	1,627	1,602	1,627	1,602
Total stockholders equity	(Won) 1,867	(Won) 1,393	(Won) 1,740	(Won) 2,751	(Won) 5,663	US$ 5,577	(Won) 5,568	US$ 5,483

Other financial data

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)	(unaudited) (in billions of Won, except for percentages)		(unaudited) (in millions of US$, except for percentages)
Gross margin[5]	33.0%	(6.6)%	12.0%	22.3%	25.0%	25.0%	35.5%	(1.3)%	(1.3)%
Operating margin[6]	28.7%	(11.4)%	8.4%	18.4%	21.1%	21.1%	32.3%	(6.1)%	(6.1)%
Net margin[7]	23.0%	(12.6)%	9.8%	16.5%	20.5%	20.5%	29.2%	(4.6)%	(4.6)%
EBITDA[8]	(Won) 1,071	(Won) 391	(Won) 1,382	(Won) 2,106	(Won) 3,014	US$ 2,968	(Won) 977	(Won) 272	US$268
	956	782	1,117	1,438	3,886	3,827	745	450	443

Capital expenditures									
Depreciation and amortization[9]	482	680	958	966	1,235	1,216	273	406	400
Net cash provided by operating activities	835	473	1,053	1,672	2,743	2,701	759	83	82
Net cash used in investing activities	(941)	(804)	(1,126)	(1,453)	(3,893)	(3,834)	(730)	(453)	(446)
Net cash provided by (used in) financing activities	(414)	352	90	215	2,009	1,978	10	359	354

(1) Net income (loss) per share is calculated by dividing net income (loss) by the average number of shares outstanding during the period. Net income (loss) per share is equal to income (loss) from continuing operations.
(2) Dividends declared per share are calculated by dividing total dividends by the average number of shares outstanding during the period.
(3) As of the end of respective periods indicated.
(4) Other accounts payable primarily consist of accounts payable relating to the purchase of fixed assets, principally machinery and equipment.
(5) Gross margin represents gross profit (loss) divided by sales.
(6) Operating margin represents operating income (loss) divided by sales.
(7) Net margin represents net income (loss) divided by sales.
(8) EBITDA is defined as net income (loss) plus: interest income (expense); provision (benefit) for income taxes; depreciation of property, plant and equipment; 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

Table of Contents

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:

	Year Ended December 31,						Three Months Ended March 31,		
	2000	2001	2002	2003	2004	2004[10]	2004	2005	2005[10]
	(in billions of Won)					(in millions of US$)	(unaudited) (in billions of Won)		(in millions of US$)
Net income (loss)	(Won) 543	(Won) (295)	(Won) 348	(Won) 1,007	(Won) 1,704	US$ 1,678	(Won) 640	(Won) (95)	US$ (93)
Interest expense	64	78	62	84	58	57	17	23	23
Interest income	(26)	(5)	(4)	(6)	(20)	(20)	(4)	(9)	(9)
Provision (benefit) for income taxes	8	(67)	18	55	38	37	51	(53)	(53)
Depreciation of property, plant and equipment	480	675	949	957	1,224	1,205	270	403	397
Amortization of intangible assets	2	3	5	5	6	6	2	2	2
Amortization of debt issuance cost		2	4	4	4	4	1	1	1
EBITDA	(Won) 1,071	(Won) 391	(Won) 1,382	(Won) 2,106	(Won) 3,014	US$ 2,968	(Won) 977	(Won) 272	US$ 268

(9) Depreciation and amortization includes depreciation of property, plant and equipment, amortization of intangible assets and amortization of debt issuance cost.

(10) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,015.4 to US$1.00, the noon buying rate in effect on March 31, 2005 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.

Operating data

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
			(in thousands)		
Number of panels sold by product category:					
Notebook computers	4,719	7,395	9,125	2,032	2,615
Desktop monitors	5,821	11,930	15,391	3,571	5,702
Televisions	318	1,351	2,401	552	1,043
Other applications[1]	421	6,270	25,330	2,983	9,661
Total	11,280	26,946	52,247	9,138	19,021

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004(2)	2004	2005	2005(2)
		(in billions of Won)		(in millions of US$)	(unaudited) (in billions of Won)		(in millions of US$)
Revenue by category:							
Notebook computers	(Won) 1,287	(Won) 1,739	(Won) 2,119	US$ 2,087	(Won) 567	(Won) 382	US$ 376
Desktop monitors	2,027	3,517	4,662	4,591	1,234	1,144	1,127
Televisions	136	686	1,163	1,145	308	450	443
Other applications(1)	117	156	381	375	79	88	87
Total	(Won) 3,567	(Won) 6,098	(Won) 8,325	US$ 8,199	(Won) 2,188	(Won) 2,064	US$ 2,033

(1) Includes, among others, panels for handheld consumer electronics products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

(2) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)1,015.4 to US$1.00, the noon buying rate in effect on March 31, 2005 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless stated otherwise, the following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements, including notes to these consolidated financial statements, included elsewhere in this prospectus.

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 590 million units in 2004. Market revenues grew from US$14 billion to US$49 billion during the same period, showing a compounded annual growth rate of 28.9%.

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. For example, several Taiwanese companies entered the TFT-LCD industry in 1999 and 2000. The industry s display area capacity (or the total display surface area of all assembled panel products) more than doubled from 1999 to 2001, based on data from DisplaySearch. The above-average rate of supply growth combined with a decline in PC demand reduced average selling prices for large-size TFT-LCD panels, or panels that are ten inches or larger, by approximately 49% from 1999 to 2001, based on data from DisplaySearch. During such surges in the rate of supply growth, resulting primarily from new plant investments by Korean and Taiwanese manufacturers, 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 for our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, cost reductions, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for TFT-LCD displays in some past periods, most recently in 2003. The entire TFT-LCD industry was able to supply approximately one-half of the total display area demand in 2003 as consumers sought to substitute CRT-based personal computer displays with TFT-LCD displays. Thus, despite significant increases in total production capacity as competing fabrication plants commenced mass production on similar schedules, consumer demand for flat-panel displays of larger average size absorbed the increased areal output. According to DisplaySearch, the average selling price for large-size (10-inch or larger)

Table of Contents

TFT-LCD panels increased by approximately 5.9% from US$240 in 2003 to US$254 in 2004 as a result of consumer demand for TFT-LCD during that period, but fell by approximately 34.3% from US$286 in the first quarter of 2004 to US$188 in the corresponding period in 2005.

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 for panels used in notebook computers, desktop monitors and televisions decreased by 9.5% from (Won)317,653 per panel in 2002 to (Won)287,399 in 2003 and increased by 2.7% to (Won)295,120 (US$290.6) in 2004 and decreased by 38.4% from (Won)342,545 per panel in the three-month period ended March 31, 2004 to (Won)211,060 (US$207.9) per panel in the corresponding period in 2005. We anticipate increased relative capacity output in 2005 commensurate with prior years, depending in part on the ability of panel manufacturers to obtain raw materials and components, 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 CRT substitutes will persist in the personal computer market and will continue to increase in 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. Likewise, large-size television panels currently bring above-average prices per square inch of screen area. 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. Since the formation of the joint venture in September 1999, we expanded capacity and applied technology to take advantage of new demand for desktop monitors, which offered premium prices. More recently, we have expanded capacity and design capability toward high-definition television displays, which offer premium prices. In the more developed market for portable computer displays, we shifted our focus to the emerging 15.0-inch category in early 2002 as revenue growth in the 12.1-inch, 13.3-inch and 14.1-inch categories slowed. We designed our P3 and P4 panel factories for efficient fabrication of 15.0-inch notebook displays and 19-inch monitor displays, which have become fast-growing product categories. Our P5 factory is optimal for producing 17-inch monitor panels that are fast becoming the most popular desktop monitor size. Our P6 factory, which began commercial production in August 2004, processes 1,500 x 1,850 mm glass substrates to fabricate large and wide monitor and television displays. Our P7 factory, which is currently under construction, will process 1,950 x 2,250 mm glass substrates and will be optimal for producing even larger-sized monitors and television displays.

Table of Contents

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 since the official launch of the joint venture by investing in fabs that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and actual input capacity as a result of ramp up for each of our fabs as of the dates indicated:

Fabrication Facility	Commercial Production Date	Input Substrates Size (in millimeters)	Initial Design Capacity (in input substrates per month)	Actual Input Capacity as of December 31,		
				2002	2003	2004
				(in input substrates per month)[1]		
P1	September 1995	370x470	30,000	100,000	104,000	105,000
P2	February 1998	590x670	40,000	92,000	97,000	100,000
P3	July 2000	680x880	60,000	86,000	101,000	105,000
P4	March 2002	1,000x1,200	60,000	51,000	69,000	90,000
P5	May 2003	1,100x1,250	60,000		69,000	100,000
P6	August 2004	1,500x1,850	90,000			47,000

(1) 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.

Our capital expenditures, which relate mainly to the construction of new fabs, including the construction and equipping of P6 and P7, and the acquisition of new equipment, amounted to (Won)1,116.9 billion in 2002, (Won)1,438.2 billion in 2003 and (Won)3,885.7 billion (US$3,826.8 million) in 2004. Our capital expenditures for the three-month period ended March 31, 2005 decreased to (Won)449.8 billion (US$443.0 million) from (Won)745.3 billion in the corresponding period in 2004 although property, plant and equipment purchase and delivery amounts remained relatively constant, primarily due to an increase in other accounts payable relating to property, plant and equipment purchases in the first quarter of 2005. Our depreciation expense as a percentage of sales decreased from 26.6% in 2002 to 15.7% in 2003 and to 14.7% in 2004 but increased from 12.3% in the first quarter of 2004 to 19.5% in the first quarter of 2005 due to decreased sales and the commencement of mass production at P6 in August 2004, after which we began to fully recognize depreciation of P6. We expect our capital expenditures to increase significantly as we develop the Paju industrial complex, including the construction and build-out of P7, which we expect will cost approximately (Won)3.1 trillion in 2005. We currently estimate that the construction and build-out of P7, at a capacity of 90,000 sheets per month, will cost approximately (Won)5.3 trillion. In addition, we may undertake to establish an LCD module production plant in Eastern Europe.

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, P4, the world s first fifth-generation fab, began commercial production in March 2002 and reached its initial design capacity of 60,000 sheets per month by June 2003. Similarly, P5, also a fifth-generation fab, began commercial production in May 2003 and reached its initial design capacity of 60,000 sheets per month by December 2003. We anticipate that P6, a sixth-generation fab which began commercial production in August 2004, will reach its initial design capacity of 90,000 sheets per month during the third quarter of 2005. 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

43

Table of Contents

components and equipment. In 2004, we purchased approximately 46% 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.

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 five to four, 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 typically offer lower prices compared to overseas suppliers. In 2004, approximately 70% of our raw materials were sourced from local suppliers. In the three-month period ended March 31, 2005, approximately 73% of our raw materials was 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-size display panels, or panels smaller than 10 inches in size, decreased from (Won)278,289 in 2002 to (Won)175,965 in 2003 and (Won)119,552 (US$117.7) in 2004. Our cost of sales per panel decreased from (Won)154,474 in the three-month period ended March 31, 2004 to (Won)109,886 (US$108.2) in the corresponding period in 2005.

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 2001, there has been a greater demand for notebook computers with bigger screens, which led us to change our product mix to include more 15.0-inch panels and fewer 13.3-inch panels for notebook computers. We increased our sales of 18-inch panels for desktop monitors significantly beginning in 2002 to capture the emerging market for larger-size desktop monitors and now we offer 19-inch, 20-inch, 20-inch wide-format XGA 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 2002, 2003 and 2004 in response to a notable rise in consumer acceptance and demand for televisions using TFT-LCD panels. We have the flexibility to increase the production and sales of 17-inch wide-format, 20-inch, 32-inch wide-format, 37-inch wide-format, 42-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 larger-size panels that command higher prices as well as an increase in overall sales, we were able to alleviate the negative effect of price declines in 2003 and 2004 in most of our product categories. Our average selling price per panel for panels used in notebook computers, desktop monitors and televisions

Table of Contents

decreased by 9.5% from (Won)317,653 per panel in 2002 to (Won)287,399 in 2003 and increased by 2.7% to (Won)295,120 (US$290.6) in 2004. Our average selling price per panel for panels used in notebook computers, desktop monitors and televisions decreased by 38.4% from (Won)342,545 per panel in the three-month period ended March 31, 2004 to (Won)211,060 (US$207.9) per panel in the corresponding period in 2005.

Our product portfolio also includes small-size display panels for handheld consumer electronics products, such as mobile phones and personal digital assistants, and large-size display panels for industrial and other products, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Sales of our small-size display panels, or panels smaller than 10 inches in size, for these applications increased from 0.1 million in 2002 to 6.1 million in 2003 and 25.1 million in 2004, principally as a result of increased demand for handheld consumer electronics products. This substantial increase in unit sales of small-size display panels partially contributed to lower our overall average selling price on a per panel basis in 2003 and 2004 as a result of the significantly lower prices that such panels command. Sales of our small-size display panels increased from 2.9 million in the three-month period ended March 31, 2004 to 9.6 million in the corresponding period in 2005.

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:

	Year Ended December 31,									Three Months Ended March 31,				
	2002		2003		2004					2004		2005		
	Sales	%	Sales	%	Sales		Sales		%	Sales	%	Sales		%
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)				(in billions of Won, except for percentages)			(in millions of US$, except for percentages)	
Panels for														
Notebook Computers	(Won) 1,287	36%	(Won) 1,739	29%	(Won) 2,119	US$	2,087		25%	(Won)567	26%	(Won)382	US$376	19%
Desktop Monitors	2,027	57	3,517	58	4,662		4,591		56	1,234	56	1,144	1,127	55
Televisions	136	4	686	11	1,163		1,145		14	308	14	450	443	22
Other Applications[1]	117	3	156	2	381		375		5	79	4	88	87	4
Total	(Won) 3,567	100%	(Won) 6,098	100%	(Won) 8,325	US$	8,199		100%	(Won)2,188	100%	(Won)2,064	US$2,033	100%

(1) Includes, among others, panels for handheld consumer electronics products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

Table of Contents

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

	Year Ended December 31,						Three Months Ended March 31,			
	2002		2003		2004		2004		2005	
	Number of Panels	%	Number of Panels	%	Number of Panels	%	Number of Panels	%	Number of Panels	%
	(in thousands, except for percentages)									
Panels for										
Notebook Computers	4,720	42%	7,395	28%	9,125	17%	2,032	22%	2,615	14%
Desktop Monitors	5,821	52	11,930	44	15,391	29	3,571	39	5,702	30
Televisions	318	3	1,351	5	2,401	5	552	6	1,043	5
Other Applications[1]	421	3	6,270	23	25,330	49	2,983	33	9,661	51
Total	11,280	100%	26,946	100%	52,247	100%	9,138	100%	19,021	100%

(1) Includes, among others, panels for handheld consumer electronics products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

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

	Average Selling Price[1]											
	Year Ended December 31,							Three Months Ended March 31,				
	2002			2003			2004	2004	2004		2005	
Notebook Computers	(Won)	272,706	(Won)	235,162	(Won)	232,219	US$ 229	(Won)279,244	(Won)146,100		US$144	
Desktop Monitors		348,135		294,841		302,904	298	345,420	200,601		198	
Televisions		426,595		507,535		484,382	477	556,789	431,097		425	
Other Applications[2]		260,921		24,652		15,042	15	26,187	9,158		9	

(1) Average selling price for each market represents sales per market divided by unit sales per market.
(2) Includes, among others, panels for handheld consumer electronics products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment.

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 value our deferred income tax assets on an ongoing basis. We currently have significant deferred income tax assets, including tax credits, that may be used to offset taxable income in future

Table of Contents

periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income sufficient to utilize these tax credits before their expiration. See note 12 to our audited consolidated financial statements included in this prospectus. 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. The change in the valuation allowance in any period is included in the calculation of income tax provision. In determining whether the deferred income tax assets are likely to be realized, management takes many factors into account, including our ability to generate taxable income, the overall industry outlook and the outlook for the Korean economy.

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.

Allowance for Accounts Receivable

We evaluate our outstanding accounts receivable balance on a regular basis to determine whether to record an allowance for doubtful accounts. Our evaluation includes an analysis of the number of days outstanding for each outstanding account receivable and our historical experience. We provide an allowance for doubtful accounts based on the aggregate estimated collectibility of our accounts receivable.

Warranty Reserve

We record warranty liabilities for the estimated costs that we may 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 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.

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 requires judgment based on our historical and anticipated use of the asset. Since the formation of the joint venture, all new machinery, equipment and vehicles are being depreciated on a straight-line basis over four 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. When aggregate undiscounted future cash flows are less than the carrying value of the asset, an impairment loss is recognized based on the fair value of the asset. Fair value is determined using a variety of alternative sources, including sales to third parties, comparison to other assets with a similar use and the preparation of discounted future cash flows. 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.

47

Table of Contents

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 backlight units and other parts and accessories that we sell to third parties. 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 Gumi facilities, 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 pay 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 Anyang, 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 Anyang, Korea.

Results of Operations

TFT-LCD technology is currently the most widely used flat panel display technology and, according to DisplaySearch, TFT-LCD display products accounted for approximately 80% of total flat panel display market revenues in 2004. Since commercial production of TFT-LCD products began in the 1990s, TFT-LCD has emerged as the dominant technology for notebook computers, captured increasing market share in desktop monitors and experienced high growth in penetrating the television market. This trend has primarily been driven by certain attractive physical (slimness, flatness, lighter weight, portability), electrical (lower power consumption, lower radiation) and visual (higher resolution,

more stable picture quality, no flickering) attributes of TFT-LCD products. The increase in our sales from (Won)3,566.7 billion in 2002 to (Won)6,098.4 billion in 2003 and (Won)8,324.8 billion (US$8,198.5 million) in 2004 reflects the rapidly expanding TFT-LCD display market. Our sales, however, decreased from (Won)2,188.0 billion in the three-month period ended March 31, 2004 to (Won)2,064.0 billion (US$2,032.7 million) in the corresponding period in 2005, primarily due to an overall decrease in our unit sales prices, which more than offset increases in our unit sales volumes for most products. Advances in TFT-LCD technology and broader applications for TFT-LCD display products continue to present new and profitable opportunities for TFT-LCD manufacturers. We continually adjust our product mix to include emerging large display area product categories which typically command higher prices. On an annual basis, our gross margin has steadily increased from 12.0% in 2002 to 22.3% in 2003 and 25.0% in 2004, but declined to (1.3)% in the three-month period ended March 31, 2005 from 35.5% in the corresponding period in 2004 due to unfavorable market conditions, principally decreases in our average selling prices.

Table of Contents

Primarily as a result of the general increase in our sales, we have also increased our purchases from related parties, including our affiliates LG Electronics and LG International. All of our related party transactions are conducted on an arm s-length basis. Our total purchases of materials, components and services from LG Electronics and its affiliated companies, excluding subsidiaries of LG International, amounted to 16.5% of our total purchases of materials, components and services in 2002, 28.4% in 2003 and 21.2% in 2004, and 23.8% and 7.9% (excluding services purchased from GS Engineering & Construction which, as of January 2005, is no longer an affiliated company of the LG Group) in the three-month periods ended March 31, 2004 and 2005, respectively. Our purchases of equipment and components from subsidiaries of LG International amounted to 22.3% of our total equipment and component purchases in 2002, 17.5% in 2003 and 22.4% in 2004, and 18.6% and 10.4% in the three-month periods ended March 31, 2004 and 2005, respectively. Our purchases of equipment from LG International and its subsidiaries as well as unaffiliated vendors depend primarily on the level of our capital expenditures.

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

	Year Ended December 31,								Three Months Ended March 31,				
	2002	%	2003	%	2004	2004	%	2004	%	2005	2005	%
	(in billions of Won and millions of US$, except percentages)											
Sales	(Won) 3,567	100%	(Won) 6,098	100%	(Won) 8,325	US$ 8,199	100%	(Won) 2,188	100%	(Won) 2,064	US$ 2,033	100%
Cost of sales	3,139	88	4,741	78	6,246	6,152	75	1,412	65	2,090	2,058	101
Gross profit (loss)	428	12	1,357	22	2,079	2,047	25	776	35	(26)	(26)	(1)
Selling, general and administrative expenses	129	4	235	4	319	314	4	69	3	99	98	5
Operating income (loss)	299	8	1,122	18	1,760	1,733	21	708	32	(126)	(124)	(6)
Other income (expense)	67	2	(61)	(1)	(18)	(18)	0	(17)	(1)	(22)	(22)	(1)
Income (loss) before income taxes	366	10	1,061	17	1,742	1,715	21	691	32	148	146	7
Provision (benefit) for income taxes	18	1	54	1	38	37	1	51	2	53	53	3
Net income (loss)	(Won) 348	10%	(Won) 1,007	17%	(Won) 1,704	US$ 1,678	20%	(Won) 640	29%	(Won) 95	US$ 93	5%

Comparison of the Three Months Ended March 31, 2005 to the Three Months Ended March 31, 2004

Sales

Our sales decreased by 5.7% from (Won)2,188.0 billion in the three-month period ended March 31, 2004 to (Won)2,064.0 billion (US$2,032.7 million) in the corresponding period in 2005, primarily due to a decrease in the average selling price of our panels and an appreciation in the

value of the Korean Won against the U.S. dollar, which reduces net sales in Korean Won. The average selling price of panels for notebook computers decreased by 47.7% from (Won)279,244 in the three-month period ended March 31, 2004 to (Won)146,100 (US$143.9) in the corresponding period in 2005, and the average selling price of panels for desktop monitors decreased by 41.9% from (Won)345,420 to (Won)200,601 (US$197.6) over the same period. The average selling price of panels for televisions decreased by 22.6% from (Won)556,789 in the three-month period ended March 31, 2004 to (Won)431,097 (US$424.6) in the corresponding period in 2005.

Table of Contents

The effect of the decrease in average selling prices was partially offset by an increase in unit sales of large-size and wide-format panels for notebook computers, desktop monitors and, in particular, televisions. Unit sales of panels for notebook computers increased by 28.7% from 2.0 million panels in the three-month period ended March 31, 2004 to 2.6 million panels in the corresponding period in 2005, and unit sales of panels for desktop monitors increased by 59.7% from 3.6 million panels to 5.7 million panels over the same period. Unit sales of panels for televisions increased by 88.8% from 0.6 million panels in the three-month period ended March 31, 2004 to 1.0 million panels in the corresponding period in 2005.

Panels for notebook computers, desktop monitors, televisions and other applications accounted for 18.5%, 55.4%, 21.8% and 4.3%, respectively, of our total sales based on revenue in the three-month period ended March 31, 2005 compared to 25.9%, 56.4%, 14.1% and 3.6%, respectively, in the corresponding period in 2004.

Cost of Sales

Cost of sales increased by 48.1% from (Won)1,411.7 billion in the three-month period ended March 31, 2004 to (Won)2,090.1 billion (US$2,058.4 million) in the corresponding period in 2005. The increase in our cost of sales was attributable primarily to increases in:

- raw material costs, resulting from an overall increase in unit sales as well as an increase in sales of larger panels, especially panels for televisions, as a proportion of our overall sales;
- depreciation expenses, resulting from the commencement of depreciation of P6 in August 2004, partially offset by lower depreciation of P3; and
- labor costs, resulting from an increase in the number of production employees hired to meet the operating demands of P6 and P7 and an increase in wage rates.

As a percentage of our total cost of sales, raw material costs and depreciation expenses increased from the three-month period ended March 31, 2004 to the corresponding period in 2005.

Cost of sales per panel decreased by 28.9% from (Won)154,474 in the three-month period ended March 31, 2004 to (Won)109,886 (US$108.2) in the corresponding period in 2005, primarily reflecting increased sales of small-size panels, for which the per panel cost of sales is lower than that for many large-size panels, as well as our ongoing cost reduction efforts.

Gross Profit (Loss) and Gross Margin

As a result of the cumulative effect of the reasons explained above, we recorded a gross loss of (Won)26.1 billion (US$25.7 million) in the three-month period ended March 31, 2005 compared to a gross profit of (Won)776.4 billion in the corresponding period in 2004 and our gross margin declined from 35.5% to (1.3)% over the same period.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased by 44.5% from (Won)68.8 billion in the three-month period ended March 31, 2004 to (Won)99.4 billion (US$97.9 million) in the corresponding period in 2005. As a percentage of sales, our selling, general and administrative expenses increased from 3.2% to 4.8% over the same period. The increase was attributable primarily to increases in:

- shipping and handling cost, which is based on unit weight, resulting from increased sales volume, especially of larger size panels;

Table of Contents

- research and development expenses, consisting primarily of purchases of research materials and supplies at our research and development center in Anyang; and

- salaries, bonuses and retirement pay, resulting from an increase in the number of selling and administrative staff hired to meet the operating demands of P6 and P7 and an increase in wage rates.

As a percentage of our total selling, general and administrative expenses, shipping and handling costs and salaries, bonuses and retirement pay increased in the three-month period ended March 31, 2005 compared to the corresponding period in 2004, while research and development expenses remained fairly constant.

Operating Income (Loss) and Operating Margin

As a result of the cumulative effect of the reasons explained above, we recorded operating loss of (Won)125.5 billion (US$123.6 million) in the three-month period ended March 31, 2005 compared to operating income of (Won)707.6 billion in the corresponding period in 2004.

Other Income (Expense)

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). Our total other expense increased by 34.5% from (Won)16.6 billion in the three-month period ended March 31, 2004 to (Won)22.3 billion (US$22.0 million) in the corresponding period in 2005, primarily due to an increase in net foreign exchange loss from (Won)3.7 billion to (Won)8.7 billion (US$8.5 million) as a result of the appreciation of the Korean Won against the U.S. dollar, which was partially offset by an increase in interest income from (Won)3.9 billion in the three-month period ended March 31, 2004 to (Won)9.0 billion (US$8.9 million) in the corresponding period in 2005, primarily due to increased cash holdings over the same period.

Provision (Benefit) for Income Taxes

We reported an income tax benefit of (Won)53.3 billion (US$52.5 million) in the three-month period ended March 31, 2005 while we reported a provision for income taxes of (Won)51.3 billion in the corresponding period in 2004. This change was due to the loss before incomes that we recorded in the three-month period ended March 31, 2005, compared to the income before income taxes recorded in the corresponding period in 2004 and the increase in deferred tax assets resulting from our investment in P7.

Net Income (Loss)

As a result of the cumulative effect of the reasons explained above, we generated net loss of (Won)94.5 billion (US$93.1 million) in the three-month period ended March 31, 2005 compared to net income of (Won)639.7 billion in the corresponding period in 2004.

51

Table of Contents

Comparison of 2004 to 2003

Sales

Our sales increased by 36.5% from (Won)6,098.4 billion in 2003 to (Won)8,324.8 billion (US$8,198.5 million) in 2004. Significant increases in unit sales of our large-size panels for notebook computers, desktop monitors and televisions were the primary contributing factors to this increase. In particular:

- unit sales of 17.0-inch panels for desktop monitors increased by 112.8% from 3.4 million panels in 2003 to 7.2 million panels in 2004;
- unit sales of 15.0-inch panels for notebook computers increased by 32.2% from 4.0 million panels in 2003 to 5.3 million panels in 2004;
- unit sales of 19.0-inch panels for desktop monitors increased from fewer than 0.1 million panels in 2003 to 1.9 million panels in 2004;
- unit sales of 20.1-inch panels for desktop monitors increased by 177.1% from 0.4 million panels in 2003 to 1.2 million panels in 2004; and
- combined unit sales of large panels for televisions, primarily in the 15.0-inch, 17.1-inch wide format, 20.1-inch and 30.0-inch wide-format categories, increased by 77.7% from 1.4 million panels in 2003 to 2.4 million panels in 2004.

As a result of a shift in market demand in 2004 toward larger-size panels, primarily 15.0 inches or larger, we experienced a notable decrease in unit sales of our 13.3-inch and 14.1-inch panels for notebook computers from 2003 to 2004. Unit sales of 13.3-inch panels for notebook computers decreased from 0.3 million panels in 2003 to fewer than one thousand panels in 2004. Unit sales of 14.1-inch panels for notebook computers decreased 42.2% from 1.8 million panels to 1.0 million panels over the same period. In addition, unit sales of 18.1-inch panels decreased 73.5% from 2.0 million to 0.5 million from 2003 to 2004 due to a shift in demand toward 17.0-inch and 17.1-inch wide-format panels.

The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for notebook computers and televisions from 2003 to 2004. The average selling price of panels for notebook computers decreased 1.3% from (Won)235,162 in 2003 to (Won)232,219 (US$228.7) in 2004 and the average selling price of panels for televisions decreased 4.6% from (Won)507,535 to (Won)484,382 (US$477.0) over the same period. The average selling price of panels for desktop monitors, however, increased 2.7% from (Won)294,841 in 2003 to (Won)302,904 (US$298.3) in 2004.

Cost of Sales

Cost of sales increased by 31.7% from (Won)4,741.6 billion in 2003 to (Won)6,246.2 billion (US$6,151.5 million) in 2004. As a percentage of sales, however, cost of sales decreased from 77.8% in 2003 to 75.0% in 2004. The increase in our cost of sales in 2004 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;

depreciation expenses, resulting from the commencement of depreciation of P6 in August 2004, partially offset by lower depreciation of P1, P2 and P3; and

labor costs, resulting from an increase in the number of production employees hired to meet the operating demands of P6, an increase in wage rates and special performance bonuses.

Table of Contents

As a percentage of our total cost of sales, raw material costs increased from 2003 to 2004 while depreciation expenses decreased and labor costs remained constant from 2003 to 2004.

Cost of sales per panel decreased by 32.1% from (Won)175,965 in 2003 to (Won)119,552 (US$117.7) in 2004 reflecting our ongoing cost reduction efforts, particularly in managing raw material costs by procuring raw materials on a large scale at favorable prices from strategic suppliers. In 2004, 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, our gross profit increased 53.2% from (Won)1,356.8 billion in 2003 to (Won)2,078.6 billion (US$2,047.1 million) in 2004 and our gross margin improved from 22.3% to 25.0% over the same period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 35.8% from (Won)234.5 billion in 2003 to (Won)318.4 billion (US$313.6 million) in 2004. As a percentage of sales, however, our selling, general and administrative expenses remained the same at 3.8% in both 2003 and 2004. The increase in selling, general and administrative expenses in 2004 was attributable primarily to increases in:

- salaries, bonuses and retirement pay, resulting from an increase in the number of selling and administrative staff hired to meet the operating demands of P6 and P7, an increase in wage rates and higher special performance bonuses;
- research and development expenses, consisting primarily of salaries paid to research and development personnel at our research and development center in Anyang, resulting from an increase in the number of research and development employees in Anyang and an increase in wage rates; and
- shipping and handling cost, which is based on unit weight, resulting from increased sales volume, especially of larger size panels, and, to a lesser extent, increases in shipping rates, fuel surcharges and sales to more geographically distant markets such as Europe.

As a percentage of our total selling, general and administrative expenses, salaries, bonuses and retirement pay decreased from 2003 to 2004 while research and development expenses remained constant and shipping and handling cost increased from 2003 to 2004.

Operating Income (Loss) and Operating Margin

As a result of the cumulative effect of the reasons explained above, our operating income increased by 56.8% from (Won)1,122.2 billion in 2003 to (Won)1,760.1 billion (US$1,733.4 million) in 2004. Our operating margin improved from 18.4% to 21.1% over the same period.

Table of Contents

Other Income (Expense)

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). Our total other expense decreased by 70.1% from (Won)61.2 billion in 2003 to (Won)18.3 billion (US$18.0 million) in 2004, primarily due to:

- a decrease in net interest expense from (Won)77.2 billion in 2003 to (Won)38.1 billion (US$37.5 million) in 2004 primarily due to a significant increase in interest income from (Won)6.4 billion in 2003 to (Won)20.0 billion (US$19.7 million) in 2004 reflecting increased cash holdings over the same period and refinancing of our Won-denominated debentures and the issuance of U.S. dollar-denominated floating rate notes with low interest rates; and

- an increase in net foreign exchange gain from (Won)15.0 billion in 2003 to (Won)19.1 billion (US$18.8 million) in 2004 as a result of a (Won)172.0 billion (US$169.4 million) foreign exchange translation gain in 2004 due to appreciation of the Korean Won against the U.S. dollar and our use of foreign exchange forward contracts to mitigate the impact of foreign currency gains or losses.

Provision (Benefit) for Income Taxes

We reported a provision for income taxes of (Won)38.1 billion (US$37.5 million) in 2004, while in 2003 we reported a provision for income taxes of (Won)54.6 billion. This change was primarily due to the higher income before income taxes we recorded in 2004.

Net Income (Loss)

As a result of the cumulative effect of the reasons explained above, our net income increased by 69.3% from (Won)1,006.5 billion in 2003 to (Won)1,703.7 billion (US$1,677.9 million) in 2004.

Comparison of 2003 to 2002

Sales

Our sales increased by 71.0% from (Won)3,566.7 billion in 2002 to (Won)6,098.4 billion in 2003. Significant increases in unit sales of our large-size panels for notebook computers, desktop monitors and televisions were the primary contributing factors to this increase. In particular:

- unit sales of 15.0-inch panels for desktop monitors increased by 45.9% from 3.9 million panels in 2002 to 5.6 million panels in 2003;

unit sales of 15.0-inch panels for notebook computers increased by 96.7% from 2.0 million panels in 2002 to 4.0 million panels in 2003;

unit sales of 17.0-inch panels for desktop monitors increased from fewer than 10 thousand panels in 2002 to 3.4 million panels in 2003;

unit sales of 18.1-inch panels for desktop monitors increased by 73.5% from 1.2 million panels in 2002 to 2.0 million panels in 2003; and

combined unit sales of large panels for televisions, primarily in the 15.1-inch, 17.1-inch wide format, 20.1-inch and 30.0-inch wide-format categories, increased by more than three-fold from 0.3 million panels in 2002 to 1.4 million panels in 2003.

Table of Contents

As a result of a shift in market demand in 2003 toward panels that are 15.0-inch or larger, we experienced a decrease in sales in 2003 of our 13.3-inch and 14.1-inch panels for notebook computers. Unit sales of 13.3-inch panels for notebook computers decreased by 9.5% from 0.31 million panels in 2002 to 0.28 million panels in 2003. Unit sales of 14.1-inch panels for notebook computers decreased by 7.0% from 1.9 million panels in 2002 to 1.8 million panels in 2003.

The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for computer products compared to 2002. The average selling price of panels for notebook computers decreased by 13.8% from (Won)272,706 in 2002 to (Won)235,162 in 2003 and that of panels for desktop monitors decreased by 15.3% from (Won)348,135 in 2002 to (Won)294,841 in 2003. However, the average selling price of panels for televisions increased by 19.0% from (Won)426,595 in 2002 to (Won)507,535 in 2003.

Cost of Sales

Cost of sales increased by 51.1% from (Won)3,139.0 billion in 2002 to (Won)4,741.6 billion in 2003. As a percentage of sales, however, cost of sales decreased from 88.0% in 2002 to 77.8% in 2003. The increase in our cost of sales in 2004 was attributable primarily to increases in:

- raw material costs, resulting from an overall increase in sales volume;
- depreciation expenses, resulting from the commencement of depreciation of P5, which began commercial production in May 2003, partially offset by lower depreciation of P1 and P2; and
- labor costs, resulting from an increase in the number of production employees hired to meet the operating demands of P5, an increase in wage rates and special performance bonuses.

As a percentage of our total cost of sales, raw material costs and labor costs increased from 2002 to 2003 while depreciation expenses decreased significantly over the same period.

Cost of sales per panel decreased by 36.8% from (Won)278,289 in 2002 to (Won)175,965 in 2003, reflecting our ongoing cost reduction efforts, particularly in managing raw material costs, as well as a change in product mix. We have significantly increased our production output, thereby enabling economies of scale. In 2003, we continued to improve production yields at our fabs, produce color filters in-house and reduce common components and processing steps in the manufacturing process. In addition, our strategic relationships with our raw material suppliers enabled us to procure raw materials on a large scale at favorable prices, which resulted in lower raw material costs per unit compared to 2002.

Gross Profit (Loss) and Gross Margin

As a result of the cumulative effect of the reasons explained above, our gross profit increased 217.2% from (Won)427.7 billion in 2002 to (Won)1,356.8 billion in 2003, and our gross margin improved from 12.0% in 2002 to 22.3% in 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 81.7% from (Won)129.0 billion in 2002 to (Won)234.5 billion in 2003. As a percentage of sales, our selling, general and administrative expenses

Table of Contents

increased from 3.6% in 2002 to 3.8% in 2003. The increase in selling, general and administrative expenses in 2003 was attributable primarily to increases in:

- salaries, bonuses and retirement pay, resulting from an increase in the number of selling and administrative staff hired to meet the operating demands of P5, an increase in wage rates and a special performance bonus;

- research and development expenses, consisting primarily of salaries paid to research and development personnel at our research and development center in Anyang, resulting from an increase in the number of research and development employees in Anyang and an increase in wage rates; and

- shipping and handling cost, which is based on unit weight, resulting from increased sales volume and, to a lesser extent, increases in shipping rates and sales to more geographically distant markets such as Europe.

As a percentage of our total selling, general and administrative expenses, salaries, bonuses and retirement pay and shipping and handling cost increased from 2002 to 2003 while research and development expenses decreased over the same period.

Operating Income (Loss) and Operating Margin

As a result of the cumulative effect of the reasons explained above, our operating income increased by 275.7% from (Won)298.7 billion in 2002 to (Won)1,122.2 billion in 2003, and our operating margin improved from 8.4% in 2002 to 18.4% in 2003.

Other Income (Expense)

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). We recognized total other expense of (Won)61.2 billion in 2003 compared to total other income of (Won)67.4 billion in 2002, primarily due to:

- an increase in net interest expense from (Won)58.7 billion in 2002 to (Won)77.2 billion in 2003 as a result of increased Won-denominated borrowings, which have higher interest rates but which are fixed, as a percentage of total long-term borrowings in 2003, partially offset by an increase in interest income from (Won)3.6 billion in 2002 to (Won)6.4 billion in 2003; and

- a significant decrease in net foreign exchange gain from (Won)119.8 billion in 2002 to (Won)15.0 billion in 2003 as a result of a (Won)32.1 billion foreign exchange translation loss in 2003 due to a slight depreciation of the Korean Won against the U.S. dollar, in which a significant portion of our debt is denominated, from year-end 2003 compared to year-end 2002. In 2002, we had a (Won)89.1 billion foreign exchange translation gain as a result of appreciation of the Korean Won against the U.S. dollar.

Provision (Benefit) for Income Taxes

We reported a provision for income taxes of (Won)54.6 billion in 2003, while in 2002 we reported a provision for income taxes of (Won)18.0 billion. This change was primarily due to the higher income before income taxes we recorded in 2003, partially offset by a (Won)63 billion tax benefit from additional loss carry forward from 2001. We exhausted our net operating loss carry forward from 2001 in 2003.

Table of Contents

Net Income (Loss)

As a result of the cumulative effect of the reasons explained above, our net income increased by 189.1% from (Won)348.1 billion in 2002 to (Won)1,006.5 billion in 2003.

Liquidity and Capital Resources

Since 2002, our principal sources of cash have been cash flow from our operating activities and debt and equity financing. We had cash and cash equivalents of (Won)70.3 billion, (Won)504.0 billion and (Won)1,361.2 billion (US$1,340.6 million) as of December 31, 2002, 2003 and 2004, respectively, and (Won)1,350.5 billion (US$1,330.0 million) as of March 31, 2005. 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 fabs 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 the remainder of 2005 and 2006 to be primarily for capital expenditures.

Although we have historically been able to satisfy our cash requirements from cash flow from operations and debt 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 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 securities offerings, including the issuance of equity, equity-linked and other debt securities. Since the second quarter of 2003, we began to gradually increase our cash holdings to better reflect the extent of our operating and investing activities.

Our net cash provided by operating activities amounted to (Won)1,053.4 billion in 2002, (Won)1,671.8 billion in 2003 and (Won)2,742.9 billion (US$2,701.3 million) in 2004. Our net cash provided by operating activities amounted to (Won)758.7 billion in the three-month period ended March 31, 2004 and (Won)83.2 billion (US$81.9 million) in the corresponding period in 2005. The increase in net cash provided by operating activities in 2002, 2003 and 2004 was due primarily to the increase in cash receipts from our sales which outpaced the increase in our cash expenditures and which was reflected in our net income of (Won)348.1 billion, (Won)1,006.5 billion and (Won)1,703.7 billion (US$1,677.9 million) in 2002, 2003 and 2004, respectively. Net cash provided by operating activities decreased in the three-month period ended March 31, 2005 from the corresponding period in 2004 primarily due to a decrease in cash receipts resulting from reduced sales, as reflected in our net loss of (Won)94.5 billion (US$93.1 million) in the three-month period ended March 31, 2005 compared to net income of (Won)639.7 billion in the corresponding period in 2004. The positive effect of increases in our depreciation and amortization expense on net cash provided by operating activities was offset by an increase in accounts receivable, in line with increased sales, in the amount of (Won)156.2 billion in 2002 and (Won)607.5 billion in 2003 compared to a decrease of (Won)205.0 billion (US$201.9 million) in 2004. Accounts receivable in 2004 decreased primarily due to our accounts receivable securitization program, which, in 2004, totaled approximately (Won)245.9 billion. Accounts receivable increased in the three-month periods ended March 31, 2004 and 2005 in the amount of (Won)112.2 billion and (Won)276.5 billion (US$272.3 million), respectively, despite decreased sales, primarily as a result of an increase in accounts receivable turnover days, particularly with respect to sales in China. The increase in net cash provided by operating activities in 2002 and again in 2004 was also partially reduced by an increase in inventories

Table of Contents

in the amount of (Won)146.5 billion in 2002 and (Won)468.2 billion (US$461.1 million) in 2004 which reflected a higher level of finished products, work-in-process and raw materials as a result of increased sales activities and projected demand growth for the following years. Inventories decreased by (Won)62.3 billion in 2003 as a result of tight inventory management facilitated by increased customer demand. Inventories decreased by (Won)67.2 billion (US$66.2 million) in the three-month period ended March 31, 2005 compared with the year ended December 31, 2004 primarily as a result of continued improvements in inventory management coupled with increased customer demand.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabs, contribute to the fluctuations in our inventory levels from period to period. We began commercial production at P4 in March 2002 and at P6 in August 2004. The increase in our production output resulted in a 58.2% and 139.4% increase in our inventories from year-end 2001 and year-end 2003, respectively. In 2003, strong demand and an expanding TFT-LCD market caused a 15.6% decrease in our inventory levels from year-end 2002. Inventories comprised the following for the periods indicated:

	As of December 31,			
	2002	2003	2004	2004
	(in billions of Korean Won and millions of US$)			
Finished Goods	(Won) 211.4	(Won) 122.3	(Won) 511.0	US$ 503.2
Work in process	59.8	88.7	124.4	122.5
Raw Materials	127.0	124.9	168.7	166.1
	(Won) 398.2	(Won) 335.9	(Won) 804.1	US$ 791.9

Our net cash used in investing activities amounted to (Won)1,126.1 billion in 2002, (Won)1,452.7 billion in 2003 and (Won)3,892.8 billion (US$3,833.8 million) in 2004. Our net cash used in investing activities amounted to (Won)730.4 billion in the three-month period ended March 31, 2004 and (Won)452.7 billion (US$445.8 million) in the corresponding period in 2005. 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 capital expenditures amounted to (Won)1,116.9 billion, (Won)1,438.2 billion and (Won)3,885.7 billion (US$3,826.8 million) in 2002, 2003 and 2004, respectively, and (Won)745.3 billion and (Won)449.8 billion (US$443.0 million) in the three-month periods ended March 31, 2004 and 2005, respectively. Our capital expenditures decreased in the three-month period ended March 31, 2005 compared to the corresponding period in 2004 primarily due to an increase in other accounts payable relating to property, plant and equipment purchases in the first quarter of 2005, despite no significant change in actual property, plant and equipment purchase amounts. We intend to fund our capital requirements associated with future capacity expansion projects, including the development of the Paju industrial complex and our seventh fabrication facility, or P7, with cash flow from operations and other financing activities, such as external long-term borrowings and securities offerings. Through the first quarter of 2005, we had used (Won)568.5 billion from gross proceeds of (Won)1,229.1 billion (US$1,210.5 million) from our initial public offering of shares of common stock and ADSs to fund construction of P7 and to pay our initial public offering expenses.

We currently expect our capital expenditures to be approximately (Won)4.6 trillion (US$4.4 billion) in 2005, primarily to fund capacity expansion, the construction of P7 and improvements to our pre-existing facilities. We estimate our capital expenditures in 2006 will be between (Won)3.5 trillion and (Won)4.5 trillion. However, our overall expenditure levels and our allocation among projects are subject to

Table of Contents

many uncertainties, some of which are beyond our control. We review the amount of our capital expenditures quarterly 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)90.4 billion in 2002, (Won)214.8 billion in 2003 and (Won)2,008.8 billion (US$1,978.3 million) in 2004. Our net cash provided by financing activities amounted to (Won)10.0 billion in the three-month period ended March 31, 2004 and (Won)359.1 billion (US$353.7 million) in the corresponding period in 2005. The significant amount of net cash provided by financing activities in 2004 reflects primarily proceeds from our (Won)1,229.1 billion (US$1,210.5 million) initial public offering of shares of common stock and ADSs and the issuance of long-term debt, including US$200 million aggregate principal amount of U.S. dollar-denominated floating rate notes and an issuance of (Won)600 billion in domestic debentures, partially offset by a repayment of US$140 million of U.S. dollar-denominated senior floating rate notes and (Won)300 billion of Korean Won-denominated debentures. The significant increase in net cash provided by financing activities in the three-month period ended March 31, 2005 was due primarily to proceeds from the issuance of (Won)400 billion in aggregate principal amount of Korean Won-denominated fixed rate bonds and a drawdown of US$100 million under a US$150 million loan agreement with the Korea Development Bank which matures over a five-year period beginning in 2007. Our total borrowings as of March 31, 2005 was (Won)3,040.3 billion (US$2,994.2 million). In April 2005, we issued US$475 million in aggregate principal amount of zero coupon convertible bonds due 2010. We have not declared any dividends since 2001.

As of December 31, 2004, we had a total of (Won)483.2 billion (US$475.9 million) outstanding under short-term borrowings. As of March 31, 2005, we had a total of (Won)333.2 billion (US$328.2 million) outstanding under short-term borrowings. The weighted average interest rate under the terms of these short-term borrowings was 3.4% as of December 31, 2004. All of our short-term borrowings are loans from local and foreign banks extended to us or our subsidiaries.

We have in place overdraft agreements with various banks in the amount of (Won)59 billion that are renewable on a yearly basis. There were no drawdowns under these agreements as of March 31, 2005. In addition, we also maintain a revolving credit facility with certain banks in the aggregate amount of (Won)300 billion. To date, we have had no amounts outstanding under the revolving credit facility.

As of March 31, 2005, we had outstanding long-term debt including current portion and discounts on debentures in the amount of (Won)2,707.1 billion (US$2,666.0 million), including US$565 million aggregate principal amount of U.S. dollar-denominated senior floating rate notes, US$273 million in term loans and RMB 205 million in long-term loans, (Won)1,750 billion of Korean Won-denominated debentures and (Won)117.8 billion in Korean Won-denominated loans. US$365 million of senior floating rate notes, half of which matures in 2005 and the other half in 2006, bear interest at three-month LIBOR plus a spread ranging from 1.0% to 1.3% depending on our ability to meet certain financial ratios. The remaining US$200 million of senior floating rate notes bear interest at three-month LIBOR plus a spread of 0.6% and will mature in October 2007.

Currently, US$500 million of our US$838 million aggregate principal amount of U.S. dollar-denominated long-term borrowings are hedged against foreign exchange rate and interest rate fluctuations.

We issued (Won)200 billion principal amount of five-year debentures in July 2001, (Won)300 billion principal amount of five-year debentures in November 2002, (Won)250 billion principal amount of

Table of Contents

five-year debentures in October 2003, (Won)300 billion principal amount of five-year debentures in May 2004, (Won)300 billion principal amount of five-year debentures in November 2004 and (Won)400 billion principal amount of five-year debentures in March 2005.

Terms of our U.S. dollar-denominated senior floating rate notes and Korean Won-denominated debentures 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, 2004 are set forth below:

Short-Term Debt Obligations as of December 31, 2004

Borrower	Date of Issuance	Securities	Amount as of December 31, 2004 (in billions of Won)	Original Principal Amount (in millions of US$, millions of RMB and millions of Japanese yen)	Principal Underwriters, Purchasers	Maturity
LG.Philips LCD America	10/27/04	Short Term Loan	(Won) 5	US$5	Comerica Bank	1/27/05
LG.Philips LCD Japan	12/1/04	Short Term Loan	4	JPY393	Mizuho Bank	5/31/05
LG.Philips LCD Nanjing	8/26/04-10/25/04	Short Term Loan	63	US$56 RMB43	ICBC, Bank of China, China Merchants Bank, Guangdong Development Bank	8/25/05-10/24/05
LG.Philips LCD	11/15/04-12/30/04	Export Bill Discount	411	US$369 JPY2,808	Korea Exchange Bank and other financial institutions	1/10/05-3/10/05
	Sub-total		(Won) 483			

Table of Contents

Long-Term Debt Obligations as of December 31, 2004

Borrower	Date of Issuance	Securities	Amount as of December 31, 2004 (in billions of Won)	Original Principal Amount (in billions of Won, millions of US$ and Chinese RMB)	Principal Underwriters or Purchasers or Borrower	Maturity
LG.Philips LCD	8/28/03	Long Term Loan	(Won)59	(Won)59	KEXIM	2/28/06-8/28/08 *2 year grace and 3 year installment payment
LG.Philips LCD	2/10/04	Long Term Loan	59	(Won)59	KEXIM	8/10/06-2/10/09 *2 year grace and 3 year installment payment
LG.Philips LCD	12/14/04	Long Term Loan	50	US$48	KEXIM	6/14/07-12/14/10 *2 year grace and 4 year installment payment
LG.Philips LCD Nanjing	3/14/03-12/28/04	Long Term Loan	91	RMB145 US$70	ICBC, Bank of China, China Merchants Bank, Guangdong Development Bank, China Construction Bank	9/17/05-11/22/09
LG.Philips LCD Nanjing	3/17/03	Long Term Loan	6 *Current portion of long-term debt	US$6	ICBC, Bank of China, China Merchants Bank, Guangdong Development Bank	9/17/05
LG.Philips LCD	7/30/01	Debentures	196	(Won)200	Meritz Securities Co., Ltd., Korea Development Bank	7/30/06
LG.Philips LCD	11/6/02	Debentures	290	(Won)300	SK Securities Co., Ltd., Korea Development Bank	11/6/07
LG.Philips LCD	10/2/03	Debentures	247	(Won)250	SK Securities Co., Ltd., LG Investment & Securities	10/2/08
LG.Philips LCD	5/13/04	Debentures	295	(Won)300	SK Securities Co., Ltd., LG Investment & Securities, Korea Investment & Securities Co., Ltd.	5/13/09
LG.Philips LCD	11/23/04	Debentures	292	(Won)300	Woori Investment & Securities, SK Securities Co., Ltd., Daewoo Securities Co., Ltd.	11/23/09
LG.Philips LCD	11/4/03	Floating Rate Notes	209	US$202	Korea Development Bank, ABN AMRO, Woori Bank, China Construction Bank, DBS Bank, Mizuho Corporate Asia (H.K.) Limited	Half on 11/4/05, half on 11/4/06
LG.Philips LCD	11/4/03	Term Notes	65	US$63		Half on 11/4/05, half on 11/4/06
LG.Philips	12/11/03		104	US$100		

LCD		Term Notes				Half on 12/11/05, half on 12/11/06
LG.Philips LCD	11/4/03	Long Term Loan	36	US$35		Half on 11/4/05, half on 11/4/06
LG.Philips LCD	10/8/04	Floating Rate Notes	207	US$200	ABN AMRO, The Bank of Nova Scotia Asia Limited, Bayerische Landesbank, Commerz(East Asia) Limited, ICBC, Mizuho Corporate Asia (H.K.) Limited, Sumitomo Mitsui Banking Corporation, Woori Bank	10/8/07
	Sub-total		2,206			
Current portion of long-term debt obligation			213			
Long-term debt, excluding current portion of long-term debt			1,993			
Debt obligation			(Won)2,689			

Table of Contents

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of our subsidiaries or other third parties.

Set forth below are the aggregate amounts, as of December 31, 2004, of our future contractual financing and licensing obligations under our existing debt and other contractual arrangements.

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in millions of Won)		
Long-Term Debt, including current portion	(Won) 2,235,826	(Won) 212,992	(Won) 1,018,838	(Won) 991,569	(Won) 12,427
Operating Leases	2,553	1,406	1,122	25	
Fixed License Payment	91,607	34,676	54,343	2,588	
Total Obligations	(Won) 2,329,986	(Won) 249,074	(Won) 1,074,303	(Won) 994,182	(Won) 12,427

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)23.5 billion in 2002, (Won)39.5 billion in 2003 and (Won)43.7 billion (US$43.0 million) in 2004, representing 20.0% of our research and development expenses in 2002, 23.1% in 2003 and 17.1% in 2004. Expenses relating to our license fees and royalty payments under existing license agreements were (Won)7.9 billion, or 15.6% of our research and development expenses, and (Won)9.4 billion (US$9.3 million), or 11.8%, in the three-month period ended March 31, 2004 and 2005, respectively. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

In connection with the settlement of a pending lawsuit relating to patent infringement, we recognized a gain of (Won)4.6 billion in 2002. No gain or loss has been recognized in connection with any lawsuits since 2003.

Material Related Party Transactions

We engage from time to time in a variety of transactions with related parties. See Certain Relationships and Related Party Transactions.

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

in 2003 and (Won)1,607.1 billion (US$1,582.7 million), or 19.3% of our sales, in 2004. For the three-month periods ended March 31, 2004 and 2005, such sales amounted to (Won)469.3 billion, or 21.4% of our sales, and (Won)442.3 billion (US$435.6 million), or 21.4% of our sales, respectively.

Table of Contents

We also sell large-size TFT-LCD panels for desktop monitors and televisions to Philips Electronics and its affiliates on a regular basis. Pricing and other principal terms of the sales are negotiated on an arm s-length basis and are substantially the same as those for our non-affiliated end-brand customers. Sales to Philips Electronics and its affiliates on an invoiced basis, which include sales to Philips Electronics as an end-brand customer and system integrator, amounted to (Won)140.5 billion, or 3.9% of our sales, in 2002, (Won)603.6 billion, or 9.9% of our sales, in 2003 and (Won)1,210.9 billion (US$1,192.5 million), or 14.5% of our sales, in 2004. For the three-month periods ended March 31, 2004 and 2005, such sales amounted to (Won)315.0 billion, or 14.4% of our sales, and (Won)275.5 billion (US$271.3 million), or 13.3% of our sales, respectively.

We also purchase driver integrated circuits from Philips Electronics semiconductor division under a volume and price agreement. These purchases amounted to (Won)25.4 billion, (Won)37.1 billion and (Won)52.3 billion (US$51.5 million) in 2002, 2003 and 2004, respectively, and (Won)9.4 billion and (Won)15.7 billion (US$15.5 million) in the three-month periods ended March 31, 2004 and 2005, respectively.

We sell our products to certain subsidiaries of LG International in regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to subsidiaries of LG International on an aggregate basis amounted to 27.0%, 10.0% and 5.5% in 2002, 2003 and 2004, respectively, and 4.0% and 2.9% in the three-month periods ended March 31, 2004 and 2005, respectively. We sell our products to these subsidiaries of LG International at a market price determined on an arm s-length basis.

In addition, we procure a portion of our production equipment and components from LG International s overseas subsidiaries in Japan, Europe and the United States. Purchase prices we pay to these subsidiaries and other terms of our transactions with them are determined on an arm s-length basis. Our purchases of equipment and components from subsidiaries of LG International amounted to (Won)740.4 billion, or 22.3% of our total equipment and component purchases, in 2002, (Won)768.2 billion, or 17.5%, in 2003 and (Won)1,652.4 billion (US$1,627.3 million), or 22.4%, in 2004. For the three-month periods ended March 31, 2004 and 2005, such purchases amounted to (Won)332.1 billion, or 18.6% of our total equipment and component purchases, and (Won)234.8 billion (US$231.2 million), or 10.4%, respectively. We also purchase raw materials, components and other materials or services necessary for our production process, construction materials as well as construction and engineering services from LG Electronics and its affiliated companies, including LG Chem Ltd., Serveone (formerly LG MRO) and GS Engineering & Construction Co., Ltd. As of January 2005, GS Engineering & Construction is no longer an affiliated company of the LG Group. Our total purchases of materials, components and services from LG Electronics and its affiliated companies, excluding subsidiaries of LG International, amounted to (Won)548.9 billion, or 16.5% of our total purchases of materials, components and services, in 2002, (Won)1,333.0 billion, or 28.4%, in 2003 and (Won)1,747.2 billion (US$1,720.7 million), or 21.2%, in 2004. For the three-month periods ended March 31, 2004 and 2005, such purchases amounted to (Won)450.8 billion, or 23.8% of our total purchases of materials, components and services, and (Won)179.0 billion (US176.3 million), or 7.9%, respectively.

Off-Balance Sheet Arrangements

Historically, we had not engaged in any material off-balance sheet financing activities to finance our operations or expansion. In September 2004, we entered into a revolving US$300 million

Table of Contents

asset-backed commercial paper program using the 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.

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

Taxation

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

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

Tax Exemptions

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

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

In 2004, we received a tax benefit of (Won)239.6 billion (US$236.0 million), or 13.8% of income before income taxes, as a result of Philips Electronics 47.48% weighted average ownership in us before and after our initial public offering. We will lose 0.27% of the tax exemption benefit for each 1% reduction in Philips Electronics ownership in us, assuming that the income tax rate and qualifying

Table of Contents

business exemption ratio applicable to us are the same as those in 2005. Losses of portions of this tax exemption could negatively affect our results of operations.

Tax Credits

We are entitled to tax credits relating to certain investment and technology and human resources development under the Special Tax Treatment Control Law. Specifically, we are entitled to a tax credit of 10% for our capital investments made on or before June 30, 2003, 15% for our capital investments made on or before December 31, 2004 and 10% for our capital investments made on or before December 31, 2005, each in proportion to the percentage of equity investment in us other than foreign direct equity investment. In addition, we are entitled to a tax credit of up to 40% of the increase in certain expenses incurred in connection with technology and human resources development over the average of such expenses during the previous four years.

Tax credits not utilized in the fiscal year during which the relevant investment was made may be carried forward over the next five years in the case of capital investments and five years in the case of investments relating to technology and human resources development. As of December 31, 2004, we had available deferred tax assets related to these credits in the amount of (Won)137.8 billion (US$135.7 million), which may be utilized against future income tax liabilities through 2009.

Recognition of Deferred Income Tax Assets

We recognize deferred income tax assets (net of valuation allowance) to the extent that, in the judgment of management, utilization of the related tax benefits before their expiration is more likely than not. Our ability to utilize the future tax benefits related to our deferred tax assets depends on many factors, including an assessment of our ability to generate taxable income, the overall industry outlook and the outlook for the Korean economy. We value our deferred income tax assets on an ongoing basis, and make valuation allowances if, in our assessment, current results suggest that it is more likely than not that a portion or all of our deferred income tax assets will not be realized before their expiration. We have determined that no valuation allowance was required as of December 31, 2002, 2003 and 2004.

As of December 31, 2004, we had (Won)186.2 billion (US$183.4 million) in net deferred income tax assets, including unused investment tax credits of (Won)137.8 billion (US$135.7 million) that may be used to offset taxable income through 2009.

Market Risks

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, mostly

Table of Contents

denominated in U.S. dollars and Japanese yen, and foreign currency-denominated accounts payable for purchases of raw materials and equipment, primarily denominated in Japanese yen. The fair value of our financial instruments has been determined as the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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, as well as for working capital and other general corporate purposes. As of March 31, 2005, we had outstanding long-term debt, including current portion, in the amount of (Won)2,707.1 billion (US$2,666.0 million). We have entered into derivative transactions with regard to interest rates for our existing U.S. dollar-denominated floating rate notes. We may enter into similar arrangements in the future to manage our exposure to changes in interest rates.

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 March 31, 2005, we had (Won)574.9 billion (US$565.0 million) aggregate principal amount of U.S. dollar-denominated senior floating rate notes and (Won)277.8 billion (US$273.0 million) aggregate principal amount of U.S. dollar-denominated long-term loans outstanding. The interest rate on these notes and loans is set based on three-month LIBOR plus 0.6 to 1.4% and six-month LIBOR plus 1.2%, respectively. Interest rate adjustments are also made based on our debt-to-equity ratio. 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 senior floating rate notes and U.S. dollar-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					
	2005	2006	2007	2008 and thereafter	Total	Fair Value at December 31, 2004
	(in billions of Won, except interest rate)					
Long-term debt obligations						
Fixed rate ((Won))		(Won) 225.7	(Won) 329.4	(Won) 883.0	(Won) 1,438.1	(Won) 1,458.5
Average interest rate		6.0%	5.1%	4.6%		
Fixed rate (RMB)				(Won) 18.2	(Won) 18.2	(Won) 18.5
Average interest rate				5.2%		
Variable rate (US$)	(Won) 213.0	(Won) 218.9	(Won) 231.3	(Won) 86.6	(Won) 749.8	(Won) 714.8
Average interest rate	3.2%	3.2%	2.9%	3.4%		

Foreign Currency Risk

The primary foreign currencies to which we are exposed are the U.S. dollar and the Japanese yen. As of December 31, 2004, we had U.S. dollar-denominated accounts receivable of US$494 million,

Table of Contents

which represented 53.4% of our total accounts receivable balance. We also had Japanese yen-denominated accounts receivable of ¥3,396 million as of December 31, 2004, which represented 3.6% of our total accounts receivable balance. In addition, as of December 31, 2004 we had Japanese yen-denominated accounts payable of ¥10,440 million, arising primarily from our purchases of raw materials and equipment from Japanese suppliers.

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, 2004. Based on our overall foreign currency exposure as of December 31, 2004, including derivative financial instruments, foreign currency-denominated receivables and payables and U.S.-dollar denominated senior floating rate notes, we do not believe that a short-term 10% appreciation or depreciation of the U.S. dollar against the Korean Won or the Japanese yen would have a significant effect on our short-term financial condition, results of operations or cash flows.

Beginning on May 6, 2003, we began to 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 on our long-term sales exposure using forward contracts. Currently, US$500 million of our US$838 million aggregate principal amount of U.S. dollar-denominated long-term borrowings are hedged against foreign exchange rate and interest rate fluctuations.

Foreign Currency Forward Contracts:		
Contracts to sell US$/buy Korean (Won):		
Aggregate contract amount	US$	1,408 million
Average contractual exchange rate	(Won)	1,120.35/US$
Fair value	(Won)	115.5 billion
Contracts to sell US$/buy Japanese ¥:		
Aggregate contract amount	¥	22,6550 million
Average contractual exchange rate	¥	105.89/US$
Fair value	(Won)	8.1 billion
Foreign Currency Cross Currency Swap:		
Contracts to sell Korea (Won)/buy US$:		
Aggregate contract amount	US$	600 million
Average contractual exchange rate	(Won)	1,122.47/US$
Fair value	(Won)	(54.1) 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.

67

Table of Contents

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 two principal shareholders as end-brand customers, together accounted for 83.2% of our sales in 2002, 78.8% in 2003 and 77.4% in 2004, and 78.4% and 75.4% in the three-month periods ended March 31, 2004 and 2005, respectively. While we negotiate directly with our end-brand customers concerning the price and quantity of the sales, we typically invoice and ship our products to their designated system integrators based on specifications provided by the 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 this affiliated trading company accounted for 27.0%, 10.0% and 5.5% in 2002, 2003 and 2004, respectively, and 4.0% and 2.9% in the three-month periods ended March 31, 2004 and 2005, 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, we are exposed to credit risks associated with these entities. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements, to protect us from excessive exposure to 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 60 days. We manage our accounts receivable and credit exposure to customers by establishing credit limits for each customer in accordance with our internal credit guidelines. Our sales performance and review committee, which includes the chief financial officer, executive vice-president of worldwide sales and the vice-president of finance and risk management, conducts a comprehensive review of all customer credit limits at least once a year. The committee also meets periodically to review the overdue status of accounts receivable and other credit-related matters, including approval of new credit lines and adjustments to current limits. In addition, we review and monitor credit limits for certain customers on a demand basis. When the requested increase in credit line exceeds the limit set for that customer by our internal guidelines, we require credit enhancement in the form of accounts receivable insurance, factoring and letters of credit. In the absence of such arrangements, we may provide a special credit limit in accordance with our internal guidelines for additional sales in excess of the customer s credit limit. To date we have not experienced any material problems relating to customer payments.

Inflation in Korea, which was 2.7% in 2002, 3.6% in 2003 and 3.6% in 2004, has not had a material impact on our results of operations in recent years.

Recent U.S. GAAP Accounting Pronouncements

In November 2004, the FASB issued FASB Statement No. 151, Inventory Costs an amendment of ARB No. 43 (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. FAS No. 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are evaluating the impact of this standard on our consolidated financial statements.

In December 2004, the FASB issued Statement No. 123 (Revised), Share Based Payment, that requires companies to expense the value of employee stock options and similar awards for interim and

Table of Contents

annual periods beginning after June 15, 2005 and applies to all outstanding and unvested stock-based awards at a company s adoption date. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

On December 16, 2004, the FASB issued Statement No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. Statement 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. Statement 153 is effective for nonmonetary asset exchanges beginning in the second quarter of fiscal 2006. We do not believe adoption of Statement 153 will have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2005, FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections a replacement of APB NO. 20 and FAS No. 3* (FAS 154). FAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. FAS 154 is not expected to have any impact on our financial position or results of operation.

Table of Contents

INDUSTRY OVERVIEW

Introduction

TFT-LCD technology is currently the most widely used flat panel display technology. In 2004, DisplaySearch, one of the leading independent industry research firms, reported that flat panel display industry sales were in excess of US$62 billion, with TFT-LCD capturing US$49 billion, or approximately 64% of the total display market. The following table shows the revenues for the display market, which includes flat panel displays and conventional displays using CRTs:

Display Market Revenues: 1998 to 2004 (in billions of U.S. dollars)

Source: DisplaySearch Quarterly Worldwide Flat Panel Forecast Report (Q1 05).

Commercial production of TFT-LCD products began in the 1990s, and since then TFT-LCD has emerged as the dominant technology for notebook computers, captured approximately 53.7% of all desktop monitor unit sales in 2004 and experienced high growth rates in penetration into the television market. This trend has primarily been driven by certain attractive physical (slimness, flatness, lighter weight, portability), electrical (lower power consumption, lower radiation) and visual (higher resolution, more stable picture quality, no flickering) attributes of TFT-LCD products.

In addition to TFT-LCD, other flat panel display technologies currently being developed or improved include, among others, PDP and TFT-LED, otherwise known as active matrix OLED, technologies. TFT-LCD offers lighter weight, lower power consumption, longer product lifetime and higher resolution than PDP technology. We believe that current material and process capabilities do not yet support the emergence of a commercial market for large-size panels, or panels 10.0 inches and larger in size, using TFT-LED technology.

Table of Contents

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.

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.

TFT-LCD Markets and Market Growth

Based on data from DisplaySearch, approximately 139 million large-size TFT-LCD panels were sold worldwide in 2004, compared to approximately 31 million in 2000, and the TFT-LCD industry generated revenues from these sales of approximately US$35 billion in 2004, compared to revenues of approximately US$14 billion in 2000. Based on the difference in end applications and technical

Table of Contents

requirements, the TFT-LCD industry may be divided into the following four main markets: notebook computers, desktop monitors, televisions, and other applications.

The following tables set forth, for the periods indicated, the number of TFT-LCD panels sold worldwide and the revenues for each principal TFT-LCD market, based on data from DisplaySearch.

	2000	2001	2002	2003	2004
			(in millions of units)		
TFT-LCD panels sold for:					
Notebook computers (≥10)	21.7	24.8	29.7	38.6	47.1
Desktop monitors (≥10)	7.3	18.4	35.5	53.7	74.6
Televisions (≥10)	0.2	0.6	1.6	5.0	12.2
Other applications[(1)]	59.5	86.4	141.5	77.0	451.9
Total	88.7	130.3	208.3	174.4	585.8
Total (≥10 only)	30.6	45.4	68.6	99.8	138.5

	2000	2001	2002	2003	2004
			(in billions of US$)		
TFT-LCD panels revenues for:					
Notebook computers (≥10)	US$ 9.2	US$ 5.5	US$ 6.8	US$ 7.8	US$ 9.7
Desktop monitors (≥10)	4.3	5.6	9.8	13.3	18.7
Televisions (≥10)	0.1	0.3	0.5	2.3	5.8
Other applications[(1)]	3.2	3.6	5.3	3.0	14.7
Total	16.9	14.9	22.4	26.4	48.8
Total (≥10 only)	14.1	11.8	17.6	24.0	35.2

Source: DisplaySearch Quarterly Worldwide Flat Panel Forecast Report (Q4 03 and Q1 05).

(1) Other applications include small- and medium-size TFT-LCD panels and industrial applications.

Notebook Computers

Notebook computers accounted for the largest portion of the TFT-LCD market prior to 2002 on a unit basis. Based on data from DisplaySearch, unit sales of large-size TFT-LCD panels for notebook computers grew from 21.7 million in 2000 to 47.1 million in 2004, and revenues grew from US$9.2 billion in 2000 to US$9.7 billion in 2004. The average notebook computer panel size has increased from less than 10.0 inches in the early 1990s to more than 16.2 inches in 2004, with 15.0-inch panels becoming increasingly popular as notebook computers with 15.0-inch screens became a mainstream alternative to desktop computers.

Production, sales and marketing of TFT-LCD panels for notebook computers depend on the coordination between the panel supplier, the end-brand customer and, in some cases, the system integrator, who use display panels in products they assemble on a contract basis for global brand customers. TFT-LCD panels for notebook computers often involve custom designs, as computer manufacturers seek to differentiate themselves from their competitors through unique design features. Historically, corporate purchases of notebook computers have comprised a substantial portion of notebook computer sales primarily from leading brand computer manufacturers.

Table of Contents

Desktop Monitors

From 2000 to 2004, sales of TFT-LCD panels for desktop monitors grew at a compounded annual growth rate of 79% in units and 45% in revenues, as businesses and retail consumers substituted their existing CRT monitors with TFT-LCD monitors or purchased new desktop computers bundled with TFT-LCD monitors. Based on data from DisplaySearch, unit sales of large-size TFT-LCD panels for desktop monitors grew from 7.3 million in 2000 to 74.6 million in 2004, and revenues grew from US$4.3 billion in 2000 to US$18.7 billion in 2004. The mainstream desktop monitor panel size has steadily increased from 15 inches in 2000 to 17 inches in 2004.

Desktop monitors have become the largest TFT-LCD market, surpassing the notebook computer market in terms of revenues in 2001 and in terms of unit volume in 2002. Based on data from DisplaySearch, the demand for TFT-LCD monitors is expected to grow at a higher rate than the demand for desktop computers as substitution of existing CRT monitors is expected to continue for the next few years. Based on data from DisplaySearch s Worldwide FPD Forecast (Q1 05), approximately 139 million total desktop monitors (CRT and TFT-LCD) were sold worldwide in 2004, of which 75 million were large-size TFT-LCD desktop monitors, representing a penetration of 54%. DisplaySearch estimates that total worldwide desktop monitor unit sales will reach approximately 147 million in 2005, of which approximately 99 million will consist of TFT-LCD desktop monitors, representing a penetration rate of 68%.

The production, sales and marketing of TFT-LCD desktop monitors, as is the case for the notebook computer market, depends on coordination among the panel supplier, the end-brand customer and, sometimes, the system integrator. While a substantial portion of desktop monitor sales also consists of purchases by corporations, unlike notebook computers, retail customers also comprise a large proportion of monitor purchases. Product requirements for desktop monitor panels tend to be less specific than for notebook computer panels, but product qualification and quality coordination remain important. TFT-LCD desktop monitors have improved on notebook computer display panel technology to integrate more enhanced designs and product features, which have further applicability to the consumer television market.

Televisions

Industry-wide commercial production of TFT-LCD panels for televisions began in 2000. Based on data from DisplaySearch, unit sales of television panels grew from 191 thousand in 2000 to 12.2 million in 2004, and market revenues grew from US$118 million in 2000 to US$5.8 billion in 2004. Currently the principal panel sizes for televisions are between 15.0 inches and 42.0 inches, and larger-size panels, up to 60.0 inches, could be ready for commercial production in the future as consumer demand increases.

Sales and marketing of display panels for TFT-LCD televisions depend on the sales channels of end-brand consumer electronics and computer manufacturers as they add TFT-LCD products to their portfolio in the 13.0-inch to 42.0-inch categories. TFT-LCD makers with established relationships with global brand television and computer manufacturers therefore would have an opportunity to shift their production capacity from the desktop monitor to the television market as the desktop monitor market reaches maturity in the future. In addition, because televisions are consumer products sold through multiple distribution channels, the product life cycle for televisions tends to be longer than computer products, resulting in closer, more stable, longer-term relationships between television and computer manufacturers and TFT-LCD panel suppliers.

Table of Contents

Other Applications

The market for TFT-LCD panels used in handheld consumer electronics products, such as mobile phones and personal digital assistants, has remained relatively small in terms of revenues but is gradually expanding. Product life cycles for handheld consumer electronics products tend to be short as fashion shifts drive product demand in this market. Production, sales and marketing of TFT-LCD panels for handheld consumer electronics products depend on close collaboration between the end product designer and the display manufacturer. Handheld consumer electronics products using small-size TFT-LCD panels often involve significant engineering expense relative to their average selling prices, and TFT-LCD panels used in these applications typically require high levels of design and assembly expertise but relatively low levels of glass substrate processing capacity.

TFT-LCD panels are also used in a variety of niche markets such as specialty industrial, military and other consumer applications utilizing a wide range of technical and commercial specifications and form factors. Some applications in this category, such as medical imaging and diagnostic equipment, require large, high-resolution displays, while other applications, such as automobile navigation systems, might use smaller, lower resolution display panels. TFT-LCD panels for these applications offer incremental revenue opportunities for TFT-LCD manufacturers.

Customers and Customer Relationships

The bulk of finished TFT-LCD product sales currently flows through leading end-brand computer and consumer electronics manufacturers. These end-brand companies typically emphasize design and technological innovation as differentiating characteristics in their products. These TFT-LCD customers require a wide ranging, stable supply of high quality display panels in high volumes to meet their product needs. Because of product co-development requirements and diverse product needs, these end-brand customers usually prefer to enter into collaborative relationships with a small number of key suppliers. While these end-brand customers interact directly with their primary TFT-LCD panel suppliers on product design and development as well as price and volume negotiations, actual assembly of final products are typically completed using a number of system integrators. While non-brand or white box computer companies can take up mainstream product capacity, they typically do not sell premium product categories or foster display innovations.

Market share and TFT-LCD suppliers

The TFT-LCD industry is currently dominated by Korean, Taiwanese and Japanese manufacturers. The principal manufacturers of TFT-LCDs are:

- Samsung Electronics (including the joint venture formed by Samsung Electronics and Sony Corporation in April 2004) and BOE-Hydis in Korea;
- AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar and Quanta Display in Taiwan;
- Sharp and Hitachi in Japan; and

SVA-NEC and BOE-OT in China.

Table of Contents

Market Share of Large-Size Panels for Top Five Manufacturers Based on Revenue in 2004

Source: DisplaySearch Quarterly Large Area TFT-LCD Shipment Report (Q2 05).

(1) Market share of Chi Mei Optoelectronics includes IDTech s unit sales.

Market Share of Large-Size Panels for Top Five Manufacturers Based on Revenue in the First Three Months of 2005

Source: DisplaySearch Quarterly Large Area TFT-LCD Shipment Report (Q2 05).

Certain industry players dedicate a large portion of their production capacity for use in their own end-brand products. Other players, called merchant suppliers, use all of their production capacity to provide TFT-LCD panels to third parties, including global brand personal computer and consumer electronics manufacturers.

While the TFT-LCD industry is not yet mature, a multi-tier industrial structure is emerging. A few top-tier makers have sufficient capacity, technology and quality to be primary suppliers to the end-brand customers. Several TFT-LCD makers have average industrial positions, relegating them to secondary supplier positions with global brand owners and a primary position with a few regional brands. Third-tier makers serve a variety of other computer and consumer electronics manufacturers.

Table of Contents

Industry Supply-Demand Dynamics and Pricing Environment

Currently, the potential market for TFT-LCD products stems from existing product applications, such as notebook computers, substitution of existing display technologies, such as CRT technology, as well as new product applications. As a result, we estimate that the potential market demand is greater than the current total TFT-LCD industrial capacity.

Up to 2001, the TFT-LCD market depended primarily on end-product demand in the notebook computer market. Cycles for information technology spending and new-generation TFT-LCD capacity drove price fluctuations. However, today, the mainstream market for large-size TFT-LCD panels has expanded from a notebook computer market to include desktop monitors and televisions. With improvements in product technology and display performance, TFT-LCD products have become a popular replacement to CRT desktop monitors. According to the DisplaySearch Quarterly Large Area TFT-LCD Shipment Report (Q2 05), desktop monitors have displaced notebook computers as the mainstream product category for large-size panels. As a direct result of development efforts in the desktop monitor market, TFT-LCD panels have improved in video display performance to meet the requirements of the consumer television market. This product category is expected to be the fastest growing TFT-LCD product category over the next five years, according to the DisplaySearch Quarterly Worldwide FPD and Forecast Report (Q1 05).

Commercial TFT-LCD production is a nascent industry characterized by high growth in production capacity and revenues. In the past, prices tended to decline quickly when new capacity relative to the existing installed base was brought on line by multiple TFT-LCD makers in a short span of time. However, as the installed TFT-LCD production base continues to grow, incremental fab investments as a percentage of the installed production base will decline, resulting in declining growth rates in production capacity. Based on data from DisplaySearch, with nominal yield and utilization assumptions, large-display area capacity for the industry increased by 589% over the period from 1998 to 2001. However, over the period of 2001 to 2004, large-display area capacity increased 238%. Despite short-term supply and demand fluctuations, large increases in display area production capacity have been absorbed to date, according to data from the DisplaySearch Quarterly TFT-LCD Supply/Demand and Capital Spending Report (Q1 05).

TFT-LCD product prices tend, on average, to decline over time for a given product category and size, primarily because of reductions in cost per panel due to capacity growth, increases in economies of scale, and manufacturing technology innovations and improvements. Short-term supply-demand pressures can lead to more rapid price declines or increases. Improvements in display and product technologies and design innovations can also lead to higher average prices from time to time.

Manufacturing Productivity and Costs

Over the past decade, TFT-LCD manufacturers have continued to improve manufacturing scale and processes, as well as assembly technologies in order to improve capacity and decrease costs of manufacturing.

Successive generations of TFT-LCD fabs have been constructed to process increasingly larger sheets of glass substrates and therefore are able to cut larger numbers of panels from each piece of glass substrate in faster unit times. Advancements in larger substrate processing capacity have enabled TFT-LCD manufacturers to lower their fixed costs per panel and produce panels more efficiently. However, fab generation labels have largely been based on glass substrate sizes, which vary widely

76

Table of Contents

depending on the quoted source, and some observers have mistakenly associated industrial position with, and misplaced importance on, these generation labels.

An equally, if not more, important metric of manufacturing capability is a manufacturers ability to efficiently process total glass area, which is a function of manufacturing productivity. Improvements in manufacturing productivity include reducing the number of steps in the manufacturing process, using automation and robotics to improve efficiency and quality by reducing human contamination in clean-room manufacturing environments, reducing the number of components in the manufacturing process and simplifying assembly steps. Therefore, TFT-LCD makers also compete based on facility design and process innovation, and rapid increases in efficient throughput are as important as substrate size increases.

There are several definitions of generations in the TFT-LCD industry. References to fab generations made in this prospectus are based on our current definition of generations as indicated in the table below.

	Generation 2	Generation 3	Generation 4	Generation 5	Generation 6	Generation 7
Substrate Sizes (in millimeters)	360 x 465 370 x 470 400 x 500	550 x 650 590 x 670 600 x 720 620 x 750 650 x 830	680 x 880 730 x 920	1,000 x 1,200 1,100 x 1,250 1,100 x 1,300 1,200 x 1,300	1,500 x 1,800 1,500 x 1,850	1,870 x 2,200 1,950 x 2,250
LG.Philips LCD						
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

Given the importance of manufacturing process technology in achieving improvements in manufacturing productivity, manufacturing equipment suppliers also play a vital role in the industry. Fabs tend to be large and complex, and given the nascent nature of the industry, key production equipment usually needs to be custom built and designed to specifications. There are also a limited number of suppliers to the industry for vital pieces of equipment, and these suppliers tend to be highly specialized. Equipment design for new generation fabs, especially ones that include process innovations, tends to be a collaborative process between the TFT-LCD manufacturer and equipment maker.

Improving manufacturing productivity also depends heavily on highly skilled human capital. Improvements in fab design and manufacturing processes rely on the skill of fab and manufacturing process design teams and engineers. Efficient operations producing high volumes of product also depend on skilled technicians operating the fab equipment. Therefore, learning from past experiences, accumulating the institutional knowledge, innovating and consistently applying those innovations to improve manufacturing productivity are important factors.

High-quality, high-volume TFT-LCD panel production also requires a stable supply of raw materials and components to meet the exact quality requirements of customers. Materials suppliers must also keep pace with the high volume growth of the industry. Rapid capacity increases can lead to

77

Table of Contents

material and component shortages and disrupt production. Therefore, TFT-LCD manufacturers must also maintain close relationships with these materials and components suppliers and manage their supply chains efficiently.

Constant improvements in manufacturing productivity and cost reduction are vital to success in the TFT-LCD industry. Achieving such productivity gains depends on a complex set of factors including scale, efficiency, process technology innovations and improvements in throughput.

Table of Contents

BUSINESS

Overview

We are the world s largest merchant supplier, or supplier to third parties, of large-size TFT-LCD panels. According to DisplaySearch, one of the leading independent industry research firms, we have been the world s leading merchant supplier based on total units sold since 2002. We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in notebook computers, desktop monitors, televisions and industrial and other applications, and we are one of the world s leading suppliers of high-definition television panels. We also manufacture TFT-LCDs for handheld consumer electronics products, such as mobile phones and personal digital assistants, as well as for industrial and other applications, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment.

In 2004, we sold a total of 27.6 million large-size TFT-LCD panels. According to DisplaySearch, we had a global market share for large-size display panels of approximately 21% based on sales revenue in 2004.

We were formed in September 1999 as a 50-50 joint venture between LG Electronics and Philips Electronics. In July 2004, we completed our initial public offering of shares 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. We currently operate six fabrication facilities, called P1, P2, P3, P4, P5 and P6, located in Gumi, Korea, and three assembly facilities located in Gumi, Korea and Nanjing, China. In addition, in March 2004, we broke ground on a new TFT-LCD display cluster to be developed in Paju, Korea where we are building our seventh fabrication facility, or P7, which is designed to process 1,950 x 2,250 mm glass substrates and has a design capacity of 90,000 sheets per month. We plan to commence mass production at P7 with an initial design capacity of 45,000 sheets per month during the first half of 2006. We may expand P7 s capacity to 90,000 sheets per month depending on future market and other conditions.

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 notebook computers, desktop monitors and televisions. In 2004, for example, our display panels were included in products sold by Dell, Hewlett-Packard, Lenovo, Apple, Toshiba, NMV, LG Electronics and Philips Electronics, among others. LG Electronics and Philips Electronics are our two principal shareholders, and terms of our sales to them 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 in 2002, 2003, 2004 and 2005.

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.

Our sales were (Won)3,566.7 billion in 2002, (Won)6,098.4 billion in 2003 and (Won)8,324.8 billion (US$8,198.5 million) in 2004. For the three-month period ended March 31, 2005, our sales were (Won)2,064.0 billion (US$2,032.7 million) compared to (Won)2,188.0 billion in the corresponding period in

79

Table of Contents

2004. We recorded net income of (Won)348.1 billion in 2002, (Won)1,006.5 billion in 2003 and (Won)1,703.7 billion (US$1,677.9 million) in 2004. For the three-month period ended March 31, 2005, we recorded net loss of (Won)94.5 billion (US$93.1 million) compared to net income of (Won)639.7 billion in the corresponding period in 2004.

Our principal executive offices are located at 17th Floor, 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.

History

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 a new research and development center established by LG Electronics in 1990 in Anyang, Korea, which today continues to lead our technology innovation efforts. In 1993, the LCD business division was launched within LG Electronics, and in September 1995 commercial production of TFT-LCD panels began at P1, its first fabrication facility, producing mainly 10.4-inch, 12.1-inch and 14.1-inch TFT-LCD panels for notebook computers and other applications. In February 1998, LG Semicon Inc., a subsidiary of LG Electronics, began commercial production at P2, producing mainly 13.3-inch panels for notebook computers.

At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, Ltd., a subsidiary of LG Electronics, 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. In addition to the contribution of TFT-LCD-related businesses from LG Electronics and LG Semicon, the joint venture also benefited from Philips Electronics management skills, brand recognition and experience in research and development relating to TFT-LCD products. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in September 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange and our ADSs on the New York Stock Exchange. 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. See Principal Shareholders for a more detailed discussion of the shareholding structure and arrangements between our two shareholders.

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. In July 2000, we began commercial production at P3, which was the first of a new glass-size and equipment generation for the industry. We designed P3 to process 680 x 880 mm glass substrates to focus on 15-inch displays, which at the time was our mainstream product, while enabling us to transition into larger, higher-margin premium products such as 20-inch displays. We further improved our

Table of Contents

manufacturing productivity in March 2002 with commercial production at P4, the world s first fabrication facility to process glass substrate sizes greater than one square meter and to use one-drop-fill technology, which significantly reduces manufacturing time. The large size of the glass substrate that P4 uses enabled us to efficiently manufacture 15-inch, 18-inch and 19-inch display panels, as well as wide-format panels such as 17-inch wide-format, for both desktop monitors and televisions. We followed P4 with P5, which began commercial production in May 2003, in response to business and consumer demands for 17-inch and larger desktop monitors and televisions. In August 2004, we commenced commercial production at P6, which is designed to process 1,500 x 1,850 mm glass substrates and to optimize the production of 17-inch wide-format display panels for large desktop monitors and 32-inch wide format display panels for high-definition televisions. In March 2004, we broke ground on a new TFT-LCD display cluster to be developed in Paju, Korea where we are building our seventh fabrication facility, or P7, which is designed to process 1,950 x 2,250 mm glass substrates and has a design capacity of 90,000 sheets per month. We plan to commence mass production at P7 with an initial design capacity of 45,000 sheets per month during the first half of 2006. We may expand P7 s capacity to 90,000 sheets per month depending on future market and other conditions. We currently estimate that the construction and build-out of P7, at a capacity of 90,000 sheets per month, will cost approximately (Won)5.3 trillion. We expect our capital expenditure for P7 to be approximately (Won)3.1 trillion in 2005.

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 expanded in 2004, in order to manage our expanding display capacity and better serve the growing needs of our global customers with manufacturing facilities in China.

Strategy

We believe that the most attractive market for TFT-LCD products today is desktop monitors and that it is rapidly transitioning to televisions. We believe that the TFT-LCD market will continue to expand as consumers are drawn to replace conventional CRT-based display products with TFT-LCD products due to their superior performance features. We believe that the market for TFT-LCD products will also expand in scope as new applications for this technology continue to be designed and developed.

We aim to maintain and build upon our current position as the world s largest merchant supplier of large-size TFT-LCD products by strengthening our collaborative relationships with our end-brand customers, focusing on high-end display 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 world s leading manufacturers of computer products, such as Dell, Hewlett-Packard, Lenovo, Apple and NMV, as well as leading consumer electronics producers, such as Toshiba, LG Electronics and Philips Electronics. These customers represent a large portion of the global demand for TFT-LCD products,

Table of Contents

and 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 six 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, have 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, we built P3 and P4, the world s first fourth- and fifth-generation fabrication facilities optimized for desktop monitor panel production, and have since established ourselves as the largest merchant supplier in terms of both units sold and sales revenue in this category in 2002, 2003 and 2004, based on data from DisplaySearch. Our P5, also a fifth-generation fabrication facility, is optimized for production of larger-size panels for desktop monitors and televisions. Our P6, a sixth-generation fabrication facility, is designed to capitalize on opportunities in the large-size desktop monitor category, such as 17-inch and 20-inch wide-format panels, and in the television category, such as 26-inch wide-format, 32-inch wide-format and 37-inch wide-format panels, all of which are high-definition television panels. We are currently building P7, our first seventh-generation fabrication facility, which will, among other things, be optimized for production of even larger-sized high-definition 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 monitors continues to grow, we have shifted part of the production in our P3 facility from 15-inch desktop monitor panels to 20-inch UXGA high-resolution desktop monitor panels, thereby realizing higher margins.

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

82

Table of Contents

first TFT-LCD manufacturers to apply Super In Plane Switching (S-IPS) technology, which increases viewing angles for large-size desktop monitor and television products, in commercial production. We were the first to develop copper bus lines, which achieve faster video frame rates and brighter displays in larger-size panels, and integrated column spacers, which improve panel ruggedness and enhance viewing uniformity.

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 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 five to four. We were also able to improve the input capacity in P1 from its originally designed monthly input capacity of 30,000 substrates to its actual input capacity as of December 2004 of 105,000 substrates per month with only marginal capital investments, which resulted in significant increases in unit output. Our technology capabilities have also enabled us to enhance process efficiencies, thereby increasing our effective capacity. For example, we have been able to increase the number of 15-inch panels we manufacture in P4 from 12 per glass substrate to 15, with no change to substrate size. Our ability to ramp-up P4, P5 and P6 in a short time span with minimal technical difficulties is also an example of our process technology capability.

Focus on large and wide desktop monitor and television products while maintaining a broad product portfolio

Our strategy is to leverage our product technology, timely investments and advanced manufacturing capabilities to lead 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.

Our focus on desktop monitors established us as the largest merchant supplier in this category in 2002, 2003 and 2004 in terms of units sold, based on data from DisplaySearch. The desktop monitor market is currently transitioning from 15-inch to larger panel sizes such as 19-inch and 20-inch, and we believe we are well positioned to capitalize on this opportunity with our full product line-up. In addition, 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, 22-inch WSXGA, 23-inch WUXGA and 30-inch WQXGA+. In 2002, 2003 and 2004, we had the largest market share in this category in terms of both units sold and sales revenue, according to DisplaySearch.

Currently the 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 with the addition of 20-inch conventional format as well as 17-inch, 23-inch, 26-inch, 30-inch, 32-inch, 37-inch, 42-inch and 55-inch wide-format panels. We were the largest merchant supplier in the television category in terms of both units sold and sales revenues in 2002, 2003 and 2004, based on data from DisplaySearch, and we continue to lead the market in introducing larger and higher-performance panels for televisions. For example, we were the first to develop 42-inch, 52-inch wide-format and 55-inch wide-format high-definition television panels.

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

Table of Contents

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. In addition, our strategy is to facilitate the development of a domestic vendor base, which typically offers lower component prices compared to overseas suppliers. Our strategic decision to fabricate our own color filters, one of the higher-cost components, has been an important driver of our cost competitiveness;

- Larger, more advanced manufacturing base we plan to build successive generations of fabrication facilities that provide us with overhead cost advantages and that produce higher volumes of products, enabling us to benefit from 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. This results in part from our high yield rates and reduced wastage due to superior process control. We are also able to optimize production allocation across our multiple fabs to maximize the glass conversion ratio; 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 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.

Products

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

- Notebook computers, which typically utilize large-size display panels ranging from 12.1 inches to 17.1-inch wide-formats;

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

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

- Other applications, which utilize a wide array of display panel sizes, ranging from small-size display panels to large-size display panels, primarily including handheld consumer electronics products such as mobile phones and personal digital assistants, and industrial applications.

Our product portfolio also includes small-size TFT-LCD panels for use in handheld consumer electronics products, including mobile phones and personal digital assistants, and large-size panels used in industrial and other products, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Unless otherwise specified, when we refer to panels in this prospectus 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 thinness, weight, resolution, color quality, power

Table of Contents

consumption, response times and viewing angles. The specifications vary from product to product. Notebook computers require an emphasis on thinness, light weight and power efficiency. Desktop monitors demand a greater focus on brightness, color brilliance and wide viewing angles, while for televisions a premium is placed on faster response times, wider viewing angles and greater color fidelity.

Notebook Computers

Our display panels for notebook computers range from 12.1 inches to 20.1-inch wide-format in size in a variety of display formats. In 2004, our principal products in the notebook computer category were 14.1-inch, 15.0-inch and 15.4-inch panels. Our sales of display panels for notebook computers were (Won)1,286.9 billion, or 36.1% of sales, in 2002, (Won)1,739.0 billion, or 28.5% of sales, in 2003 and (Won)2,119.1 billion (US$2,087.0 million), or 25.5% of sales, in 2004. Sales of display panels for notebook computers amounted to (Won)567.4 billion, or 25.9% of our sales, and (Won)382.1 billion (US$376.3 million), or 18.5% of our sales, in the three-month periods ended March 31, 2004 and 2005, respectively.

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. 13.3-inch and 14.1-inch panels accounted for a majority of our notebook computer panel sales in 2000 and 2001. Sales volume for 14.1-inch panels, a product which we first introduced to the market in 1997, continued to increase through 2002, while 15.0-inch panels grew at a faster rate and became the largest component in terms of both sales volume and revenues in the category of notebook computer display panels for 2002, 2003 and 2004.

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 commercial production of desktop monitor display panels in 1999. In 2004, our principal products in the desktop monitor category were 15-inch, 17-inch, 19-inch panels and 20.1-inch panels. Our sales of display panels for desktop monitors were (Won)2,026.6 billion, or 56.8% of sales, in 2002, (Won)3,517.5 billion, or 57.7% of our sales, in 2003 and (Won)4,662.1 billion (US$4,591.4 million), or 56.0% of sales, in 2004. Sales of display panels for desktop monitors amounted to (Won)1,233.6 billion, or 56.4% of our sales, and (Won)1,143.8 billion (US$1,126.5 million), or 55.4% of our sales, in the three-month periods ended March 31, 2004 and 2005, respectively.

We have experienced significant growth during the past three years for our desktop monitor display panels. Desktop monitor display panels have grown to become our 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 over the last three years, with a significant increase in the production and sale of 17-inch and 17-inch wide-format and larger panels since 2002. In recent years, we have also significantly increased production and sale of 19-inch and 20.1-inch panels.

Table of Contents

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

Televisions

Our television panels range from 15 inches to 55-inch wide-format in size. We began commercial production of television display panels in 2001. In 2004, our principal products in the television category were 15-inch, 17-inch wide-format and 20-inch panels. Our sales of display panels for televisions were (Won)135.7 billion, or 3.8% of sales, in 2002, (Won)685.9 billion, or 11.2% of sales, in 2003 and (Won)1,162.8 billion (US$1,145.2 million), or 14.0% of sales, in 2004. Sales of display panels for televisions amounted to (Won)307.6 billion, or 14.1% of our sales, and (Won)449.7 billion (US$442.9 million), or 21.8% of our sales, in the three-month periods ended March 31, 2004 and 2005, respectively.

The market for large-size televisions developed later than that for notebook computers and desktop monitors, but we believe it will become our primary market as consumer demand grows for larger-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 commercial production with 15-inch panels and added 17-inch wide-format, 20-inch and 30-inch wide-format panels to our product portfolio in 2002. In 2003, we added 23-inch wide format, 26-inch wide-format and 42-inch wide-format as well as high-definition television panels to meet growing market demand and, in 2004, we added 32-inch wide-format, 37-inch wide-format and 55-inch wide-format to our television panel product portfolio. Currently, 26-inch and 32-inch wide-format panels comprise our principal products in this category in terms of both sales revenue and volume.

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 on certain television panels to significantly increase the viewing angle. We also apply our Over Driving Circuit (ODC) technology to certain categories of larger-size panels to increase response time and decrease motion blurring. We are also further developing our copper bus technology to achieve faster video frame rates and brighter displays in larger-size panels.

Other Applications

Our product portfolio also includes small- and medium-size TFT-LCD panels for use in handheld consumer electronics products, including mobile phones and personal digital assistants, and large-size panels for industrial and other products, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. In 2004, our principal product in the other applications category was the 1.8-inch panel, which we currently ship as unassembled cells.

Some of the panels we produce for industrial products, such as aircraft instrumentation and 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

86

Table of Contents

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)117.5 billion, or 3.3% of sales, in 2002, (Won)155.9 billion, or 2.6% of sales, in 2003 and (Won)380.8 billion (US$375.0 million), or 4.6% of sales, in 2004. Sales of display panels for other applications amounted to (Won)79.3 billion, or 3.6% of our sales, and (Won)88.5 billion (US$87.2 million), or 4.3% of our sales, in the three-month periods ended March 31, 2004 and 2005, respectively.

Sales and Marketing

Customer Profile

Our display panels are included primarily in notebook computers, desktop monitors, televisions and industrial and other applications sold by our global end-brand customers. In 2004, our top ten end- brand customers included Dell, LG Electronics, Hewlett-Packard, Philips Electronics, Apple, Toshiba, Lenovo, NMV, Gateway and Acer. LG Electronics and Philips Electronics are our two principal shareholders, and the terms of our sales to them 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, 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 two shareholders, together accounted for 83.2% of our sales in 2002, 78.8% in 2003 and 77.4% in 2004, and 78.4% and 75.4% in the three-month periods ended March 31, 2004 and 2005, respectively. Our top five end-brand customers together accounted for 52.2% of our sales in 2002, 56.4% in 2003 and 58.0% in 2004, and 62.1% and 60.4% in the three-month periods ended March 31, 2004 and 2005, respectively. In 2004, as well as the three-month period ended March 31, 2005, three end-brand customers, Dell, LG Electronics (excluding its purchases made as a system integrator) and Hewlett-Packard, 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 2004:

Computer Products		Televisions	Other Applications
Notebook Computers	**Desktop Monitors**		
Hewlett-Packard	Dell	Philips Electronics	Shinco
Toshiba	LG Electronics	LG Electronics	LG Innotech

Lenovo	Hewlett-Packard	Dell	Seiko Instrument Inc.
Dell	Philips Electronics	Hisense	Alco Holdings Limited
Apple	NMV	Tatung	Direct Radiography Corp.

Table of Contents

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 manufacturers constituted 16.8% of our sales in 2002, 21.2% in 2003 and 22.6% in 2004.

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.

	Year Ended December 31,						
	2002		2003		2004		
	Sales	%	Sales	%	Sales	Sales	%
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)	
Korea	(Won) 657	18%	(Won) 978	16%	(Won) 890	US$ 877	11%
Asia	2,248	63	3,770	62	5,673	5,587	68
America	425	12	577	9	753	742	9
Others	237	7	773	13	1,009	994	12
Total	(Won) 3,567	100%	(Won) 6,098	100%	(Won) 8,325	US$ 8,199	100%

In the past three years, a large percentage of our sales was attributable to system integrators in Taiwan and to end-brand customers in Japan. Beginning in 2002, our sales to system integrators located in China increased significantly as they received increasing amounts of contract assembly work from end-brand customers. Of our total sales, 12.8% in 2002, 29.4% in 2003 and 32.8% in 2004, was attributable to system integrators located in China. Sales to system integrators located in China are made in U.S. dollars and we are not exposed to currency risks from the Chinese RMB.

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, Hong Kong and China, and, as of December 31, 2004, our sales and marketing force employed a total of 436 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 in 2002, 2003, 2004 and 2005.

88

Table of Contents

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, which are generally non-binding arrangements with three-year terms, 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. For instance, in June 2005, we entered into a non-binding supply contract with a renewable three-year term with Hewlett-Packard for the supply of TFT-LCD displays.

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. 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 certain subsidiaries of LG International Corp., our affiliated trading company. 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. and, until 2003, when we began to use our Taiwan subsidiary for sales to Singapore, LG International Singapore, Ltd. Sales to subsidiaries of LG International on an aggregate basis amounted to 27.0 %, 10.0% and 5.5% in 2002, 2003 and 2004, respectively, and 4.0% and 2.9% in the three-month periods ended March 31, 2004 and 2005, respectively. See Certain Relationships and 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 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 the past, sales to LG International (HK) accounted for 12.8% of our sales in 2002, 3.1% in 2003 and 3.4% in 2004. 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 or subsidiaries of our affiliated trading company 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 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

Table of Contents

processes. Purchase prices and payment terms for our sales to our two shareholders are 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 60 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements, 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 BOE-Hydis in Korea;

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

Sharp and Hitachi in Japan; and

SVA-NEC and BOE-OT in China.

According to DisplaySearch, in 2004, Korean TFT-LCD manufacturers had a market share of 45.5% of the 10.0-inch or larger panel market based on revenue, Taiwanese manufacturers had 40.2% and Japanese manufacturers had 14.3%.

Table of Contents

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)226.3 billion in 2002, (Won)279.2 billion in 2003 and (Won)416.7 billion (US$410.4 million) in 2004, representing 6.3% of our sales in 2002, 4.6% in 2003 and 5.0% in 2004. Included in these figures are product development costs directly associated with production at our Gumi facilities, excluding depreciation expense, as well as research and development expenses, excluding depreciation expense, in the aggregate amount of (Won)106.1 billion in 2002, (Won)162.3 billion in 2003 and (Won)244.2 billion (US$240.5 million) in 2004, and capital expenditures related to research and development and manufacturing for research and development test runs in the amount of (Won)120.2 billion in 2002, (Won)117.0 billion in 2003 and (Won)172.5 billion (US$169.9 million) in 2004.

Our research and development center in Anyang experiments with promising ideas and develops them to the proof-of-concept stage, while the Gumi lab brings new process technologies to production readiness. Our research and development activities primarily focus on the development of new and improved manufacturing processes and product features. For example, in 1999 we successfully reduced the masking process for our TFT-LCD products from six to five separate stages and further reduced this process to four stages in 2002, while many of our competitors currently are still employing a five-step masking process. Our patented side mounting technology allows TFT-LCD panels to be mounted on displays with screws from the side instead of the front, allowing product designers to utilize larger screens without increasing a product s overall size.

We believe that the trend for display products in the future is the widespread use of affordable flat panel products of increasing size with superior performance qualities. To meet the demands of this future trend, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the TFT-LCD industry. For example, we are developing long-term alternative technologies, such as TFT-LED, which might provide improved black contrast and video response at lower cost. We have also developed ODC technology, for which patents are pending, which decreases motion blurring by applying extra voltage to the liquid crystal materials. We are also further developing our copper bus line, which takes advantage of copper s low resistance to achieve higher video frame rates and brighter displays in larger-size panels.

In order to maintain our position as one of the industry s leading technology innovators, 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 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. We enter into joint research and development agreements from time to time with third parties for the development of specific technologies in specific fields. We also 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 or Philips 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 technology base. For example, we are pursuing joint development projects with LG Chem to further strengthen our competitiveness in display panel materials.

Table of Contents

We have developed a research and development management system whereby we encourage open project proposals from our engineers and implement rigorous evaluation criteria for each stage of a project development. We select our projects primarily based on their feasibility and alignment with our overall research and development strategy, and we review the progress of all ongoing projects on a quarterly basis. As of December 31, 2004, we employed 1,020 personnel in our research and development department, 44% of whom have master s degrees and 4% of whom have Ph.D. degrees.

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 3,526 patents, including 1,840 in Korea, 1,126 in the United States and 93 in Japan. 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 2005 to 2022.

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)23.5 billion in 2002, (Won)39.5 billion in 2003 and (Won)43.7 billion (US$43.0 million) in 2004, representing 20.0% of our research and development expenses in 2002, 23.1% in 2003 and 17.1% in 2004. Expenses relating to our license fees and royalty payments under existing license agreements were (Won)7.9 billion, or 15.6% of our research and development expenses, and (Won)9.4 billion, or 11.8%, in the three-month period ended March 31, 2004 and 2005, respectively. We expect that expenses relating to our license fees and royalty payments relating to intellectual property licenses will increase

until 2005 due to ongoing royalty payments to Semiconductor Energy Laboratory Co., Ltd., or SEL, in

Table of Contents

connection with a license under certain patents relating to amorphous silicon thin film transistor technology. We did not receive any license fees from third parties in 2002 and 2003. In 2004, we received US$2.8 million in license fees from third parties, which amount is recognized as an offset account against license-related prepaid expenses.

LG LCD, our predecessor, entered into a license agreement with the Lemelson Foundation in July 1999 for a non-exclusive, non-transferable license under certain patents owned by the Lemelson Foundation relating to the magnification process we utilize in our TFT-LCD manufacturing process. LG LCD paid a lump sum license fee, and its rights under the license agreement were assigned to us following the formation of the joint venture. Our license agreement with Lemelson Foundation will expire upon the last to expire of the patents filed by Lemelson Foundation on or before July 30, 1999 and is subject to early termination in the event of a material breach of the terms and covenants of the agreement.

LG LCD entered into a license agreement with Commissariat à l Energie Atomique, or CEA, in July 1999 for a non-exclusive, non-transferable license under certain CEA patents to manufacture and sell vertically aligned active LCD products in certain territories. The agreement provided for an upfront license fee and additional fixed payments contingent upon the achievement of certain levels of sales within specified periods. In June 2000 we succeeded to LG LCD s rights and obligations under this agreement, including the contingent payment obligations, and entered into a sub-license agreement with CEA for the non-exclusive right, subject to certain exceptions, to sub-license our rights under the original license agreement to third parties. Our rights were expanded in scope in September 2002, in consideration for which we paid an upfront license fee and were obligated to pay a fixed annual minimum payment beginning in July 2003. We may also be required to pay additional annual license fees to CEA, depending on the amount of license fees generated from our sub-licensing to third parties. We agreed under the sub-license agreement to share a portion of all license and sub-license fees, including upfront payments and ongoing royalties, generated from the licensed technology with CEA, subject to certain exceptions. CEA has the right to participate in our negotiations with third party sub-licensees, and the upfront license fees and ongoing royalties for such sub-licensing will be determined through the mutual consent of us and CEA. Our license agreement with CEA expires in February 2007 and is subject to termination in the event of failure to cure a material breach of the terms of the agreement and upon the occurrence of certain insolvency events.

We entered into a license agreement with Columbia University in July 2000 for a non-exclusive, non-transferable license under certain patents relating to low temperature polysilicon technology to develop, manufacture and sell certain TFT-LCD products. The license agreement provides for an upfront license fee and ongoing royalty payments at a percentage of our net sales of the licensed products. The agreement, which expires in October 2019, is subject to early termination upon the occurrence of certain events relating to the patents licensed under the agreement, whereby our royalty payments obligations will be reduced by 50%.

We entered into a license agreement with SEL in October 2001 for a non-exclusive, non-transferable license under certain patents relating to amorphous silicon thin film transistor technology to use the technology in the development, manufacture and sale of certain TFT-LCD products until September 30, 2005. The agreement provides for an upfront license fee and ongoing royalty payments at a percentage of the sales of the LCD panels and modules we produce using the licensed technology. Under the agreement, we also grant to SEL a royalty-free, non-exclusive and non-transferable license under patents that we own solely or jointly with other parties. The agreement is subject to termination

Table of Contents

in the event of failure to cure a material breach of certain provisions and covenants, including unauthorized sub-licensing and the filing of inaccurate royalty reports, and upon the occurrence of certain insolvency events.

We entered into a license agreement with Seiko Precision Inc. in October 2001 for an exclusive, non-transferable license, with sub-licensing rights, under certain patents relating to amorphous silicon thin film transistor array substrates to use the technology in the manufacture and sale of certain TFT-LCD products. We paid a lump sum license fee for our rights under the agreement, and are obligated to share with Seiko any sub-licensing fees and royalties we receive from third parties exceeding a certain amount. Our license with Seiko Precision expires in February 2009 and is subject to termination in the event of a material breach of the terms of the agreement.

We entered into a license agreement with the Penn State Research Foundation in January 2003 for a non-transferable license under its patents relating to low temperature polysilicon technology and certain other technologies to use the technologies in the manufacture and sale of certain TFT-LCD products. The license agreement, which expires in October 2015, provides for an upfront license fee, a portion of which is payable upon us producing a certain volume of products using the licensed technologies. In addition, we are obligated to pay ongoing royalties equal to a percentage of our sales up to a maximum amount, subject to reduction upon the occurrence of certain events. We have not made any royalty payments under this agreement because we have not yet begun commercial production of any licensed products. Under the license agreement, the foundation agreed to share with us a portion of the proceeds, including upfront payments and ongoing royalties, from any future license agreements it enters into with third parties. We agreed to use reasonable efforts to commercialize the licensed technologies, including reaching a certain level of sales of products using the licensed technologies within a certain number of years after the effective date. The agreement is subject to termination in the event of failure to cure a material breach of certain provisions and covenants of the agreement, including failure to pay royalties and the filing of inaccurate royalty reports, and upon the occurrence of certain insolvency events.

In connection with the settlement of a lawsuit with NEC, we entered into a cross-license agreement with NEC in April 2001, under which each party granted to the other a non-exclusive, fully paid-up and royalty-free license under all of its patents filed prior to the fifth anniversary of the effective date relating to LCD modules, panels, materials and driver chips. In particular, each party granted to the other a non-exclusive license under its side mounting patents. In addition, NEC authorized us to grant to LG Electronics a license under NEC s monitor patents for the production and sale of monitors. The licenses granted under the agreement are generally non-transferable, subject to certain exceptions and will expire upon the expiration of the last patent to be filed by either NEC or us prior to April 2006. The agreement is subject to termination in the event of failure to cure a material breach of the terms of the agreement and upon the occurrence of certain insolvency events. Upon termination, the rights and licenses granted to the breaching party by the non-breaching party shall terminate but the non-breaching party may continue to use the rights and licenses granted to it by the breaching party.

We entered into a license agreement with Honeywell International Inc. and Honeywell Intellectual Properties Inc. in March and October 2003 for a non-exclusive, non-transferable license under a patent relating to certain diffuser and flicker-free technology used for liquid crystal displays to use the technology in the manufacture and sale of certain TFT-LCD products. The agreement provides for an upfront license fee and a fixed annual payment for each of the five years after the effective date. We

Table of Contents

have no sub-licensing or enforcement rights under the agreement. Our license agreement with Honeywell International expires in July 2012 and our license agreement with Honeywell Intellectual Properties expires in December 2008.

We entered into a non-exclusive, fully paid-up license agreement with Plasma Physics Corporation in September 2003 under certain patents relating to plasma chemical vapor coating or etching to use the technology in the development, manufacture and sale of certain TFT-LCD products until the licensed patents expire. Our license agreement with Plasma Physics Corporation expires in February 2010. The agreement is subject to termination in the event of a material breach of certain provisions, including unauthorized sub-licensing, and upon the occurrence of certain insolvency events.

We entered into a license agreement with Fergason Patent Properties, LLC in October 2003 for a non-exclusive, non-transferable license under a patent relating to technology for controlling light intensity to use the technology in the manufacture and sale of certain TFT-LCD products. The agreement, which expires in February 2015, provides for an initial payment and a fixed running royalty for each product we produce using the licensed technology. The agreement is subject to termination in the event of a material breach of the terms of the agreement.

We entered into a cross-license agreement with Hitachi in June 2004 for a non-exclusive, non-transferable, non-assignable and indivisible license to use each other s patents for the manufacture and sale of liquid crystal and electroluminescent display devices. Under the cross-license agreement, we are obligated to make six semi-annual payments to Hitachi starting in the second half of 2004. The agreement will expire upon the expiration of the last patent to be filed by either Hitachi or us on or before June 2024. The agreement is subject to early termination in the event of failure to cure a material breach of certain provisions, including failure to make payments, and upon the occurrence of certain insolvency events. Pursuant to this cross-license agreement, we will be able to use a patent owned by Hitachi for In Plane Switching, or IPS, a key technology that allows for increased viewing angles for large-size display panels.

We are currently discussing with Merck & Co., our key supplier of liquid crystal materials, for a license under a Merck patent for a panel design technology that is a basic technology used in IPS for the manufacture and sale of certain large-size display panels. Currently, we are consulting with Merck about the terms of a possible licensing arrangement, including the payment of any license fees. As one of Merck s largest customers, we anticipate that we would be able to reach a mutually acceptable arrangement. Our negotiations with Merck, however, may take some time before we are able to reach an agreement. Unsuccessful negotiations with Merck could have a material adverse effect on our business, results of operations and financial condition.

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 relating to display cells and circuitry components for the manufacture and sale of certain 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

Table of Contents

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 high aperture LCD patents primarily for use in military applications. This agreement expires in December 2021. We are entitled to receive ongoing royalty payments equal to a percentage of Rockwell s sales of licensed products. We have not received any royalty payments under this agreement because Rockwell has not yet begun commercial production of the licensed products. The agreement is subject to early termination in the event of a material breach of the terms and conditions of the agreement.

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. We received US$2.8 million in license fees under such sub-licensing rights after deducting amounts due to third parties under the patent purchase and license agreements.

Production Facilities

Current Facilities

We currently operate six fabrication facilities, P1, P2, P3, P4, P5 and P6, located in Gumi, Korea, and three assembly facilities located in Gumi, Korea and Nanjing, China. We are currently constructing P7 in Paju, Korea. In addition, we are installing equipment that enables the manufacture of display panels using low temperature polysilicon technology in a new facility, AP1, located in previously unused space in our P6 facility.

Table of Contents

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

Fabrication Facility	Generation[1]	Gross Floor Area (in square meters)	Input Substrates Size (in mm)/ Commercial Production Date	Nominal TFT Capacity as of December 31, 2004 (in input substrates per month)[2]	Primary Size of Panels Produced or Other Activity
P1	2	38,838	370x470 September 1995	105,000	14.1 ,10.4 , small-size panels
P2	3	70,872	590x670 February 1998	100,000	12.1 , 15.0 , 23.0
P3	4	70,872	680x880 July 2000	105,000	15.0 , 20.1 , 30.0
P4	5	83,114	1,000x1,200 March 2002	90,000	15.0 ,17.1 , 19.0 , 42.0
P5	5	83,114	1,100x1,250 May 2003	100,000	17.0 , 23.0 , 26.0
P6	6	301,307	1,500x1,850 August 2004	47,000	17.0 , 32.0 , 37.0
P7[3]	7		1,950x2,250		42.0 , 47.0
AP1[4]	4		730x920	5,000	LTPS[5] panels
Anyang R&D		8,646	300x350 100x100	500	
Gumi assembly facility		54,095			
Nanjing assembly facility		49,761			

(1) Based on internal reference to evolutions in facility design, material flows and input substrate sizes. There has been no consensus in the TFT-LCD industry on a uniform definition.
(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) Currently under construction.
(4) Equipment currently under installation.
(5) Low temperature polysilicon technology.

Expansion Projects

We are building additional production and research and development facilities to meet forecasted increases in demand for our products. In March 2004, we broke ground on a new TFT-LCD display cluster to be developed in Paju, Korea where we are building our seventh fabrication facility, or P7, which is designed to process 1,950 x 2,250 mm glass substrates and has a design capacity of 90,000 sheets per month. We plan to commence mass production at P7 with an initial design capacity of 45,000 sheets per month during the first half of 2006. We may expand P7 s capacity to 90,000 sheets per month depending on future market and other conditions. We currently estimate that the construction and build-out of P7, at a capacity of 90,000 sheets per month, will cost approximately (Won)5.3 trillion. We expect our capital expenditure for P7 to be

approximately (Won)3.1 trillion in 2005. In addition, we are currently installing equipment in AP1, for the manufacture of display panels using low

Table of Contents

temperature polysilicon technology. We currently estimate that the equipping of AP1 will cost approximately (Won)202.6 billion. We plan to commence mass production at AP1 in the third quarter of 2005. We may undertake further expansion projects in the future with respect to our existing facilities as our overall business strategy may require. In addition, we may undertake to establish an LCD module production plant in Eastern Europe.

Components, Raw Materials and Suppliers

Components and raw materials accounted for 57.1% of our cost of sales in 2002, 60.8% in 2003 and 64.1% in 2004. The key components and raw materials of our TFT-LCD products include glass substrates, liquid crystal materials, color filters, polarizers, backlight units and driver integrated circuits. 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.

We generally negotiate non-binding master supply agreements with our suppliers once a year, but pricing terms are negotiated on a quarterly basis, or if necessary, on a monthly basis. Firm purchase orders are not issued until usually two 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 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 reduce logistics and transportation costs, we continually review opportunities to source our components and raw materials from suppliers based in Korea. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and cost of the materials, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

In addition, in February 2005, we entered into a strategic joint venture agreement with Nippon Electric Glass Co., Ltd., or NEG, to form a new company that will build a glass polishing and processing facility in the Paju industrial complex where we are building P7. The new joint venture company, named Paju Electric Glass Co., Ltd., will provide us with a dedicated supply of glass substrates critical to the production of our display panels. We and NEG intend to make a total capital investment of (Won)36 billion in 2006 in Paju Electric Glass. We and NEG own 40% and 60%, respectively, of Paju Electric Glass and will each contribute a corresponding pro rata portion of the total capital investment amount. Paju Electric Glass will begin construction of the glass polishing and processing facility in the third quarter of 2005.

We maintain a strategic relationship with many of our key material suppliers, and 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.

98

Table of Contents

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 purchase a large majority of our equipment from overseas vendors, mostly Japanese. We maintain strategic relationships with many equipment manufacturers as part of our efforts to reduce costs and we aggressively negotiate prices and other terms with our vendors. In the procurement of equipment from Japan, we also use our affiliated trading company 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 Certain Relationships and Related Party Transactions. In addition, in recent years we have substituted a portion of our equipment purchased from foreign vendors with purchases from local suppliers. In 2004, we purchased approximately 46% 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.

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.

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.

Table of Contents

Our quality control 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 control 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 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, Korea, and our research and development center in Anyang, Korea, for up to (Won)2.5 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. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment, cargo insurance and life and disability insurance for their employees. Our subsidiary in Nanjing, China, also carries property insurance for up to RMB 3,879 million, business interruption insurance for up to RMB 628 million and commercial general liability insurance for up to RMB 5 million.

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 Gumi, Korea. We have also voluntarily agreed to reduce gases responsible for global warming, including perfluorinated carbons, or PFCs, by installing PFC abatement systems to meet voluntary international emissions standards by 2010.

Operations at our manufacturing plants are subject to regulation and periodic monitoring by the Korean Ministry of Environment and local environmental protection authorities. We consult on an annual basis with the LG Environment Strategy Institute with respect to our environmental compliance measures. 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. 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, P2 and P3 and the Gumi assembly facilities, and we intend to apply for ISO 14001 certifications for our other production and assembly facilities.

We have been certified by the Korean Ministry of Environment as an Environmentally Friendly Company since 1997 with respect to our environmental record for P1 and our assembly facilities in Gumi. In October 2004, we received an award from the Korean government in recognition of our ongoing environmental compliance efforts and we also became the first TFT-LCD company in Korea to receive an Environmental Declaration of Product, or EDP, label from the government for our panels.

Table of Contents

Legal Proceedings

On August 29, 2002, we filed a complaint in the Unites States District Court for the Central District of California against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America. We believe that these companies have infringed on six of our United States patents relating to liquid crystal displays and the manufacturing processes for thin-film transistors and liquid crystal displays by selling TFT-LCD products into the United States covered by these patents. We are seeking, among other things, treble damages for past infringement of these patents and for an injunction against future infringement. We also filed a complaint in the United States District Court for the Central District of California against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jeans Co., Lite-On Technology Corp., Lite-On Technology International, Inc., TPV Technology and Invision Peripheral Inc. These several claims were subsequently consolidated into one lawsuit. Currently the matter is in the discovery stage. On May 24, 2004, we sought declaratory relief in the United States District Court for the District of Massachusetts to determine the inventorship of four of these patents. On June 21, 2004, Chunghwa Picture Tubes filed a counter-claim against us in the United States District Court for the Central District of California for alleged infringement of Chunghwa Picture Tubes intellectual property and violation of U.S. antitrust laws. On August 3, 2004, we demanded arbitration of the counter-claims filed by Chunghwa Picture Tubes. The arbitration proceedings are currently in progress before the American Arbitration Association.

On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Co. and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear mountable liquid crystal display devices. We are seeking damages for past infringement and an injunction against future infringement. We also filed a parallel complaint with the Patents County Court in the United Kingdom claiming infringement on one of our U.K. patents relating to the same technology. Tatung Co. is a major shareholder in Chunghwa Picture Tubes.

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 their U.S. patents relating to flat panel display mounting systems. On April 25, 2005, we filed our answer to Chunghwa Picture Tubes infringement claim, together with a counter-claim in the United States District Court for the Central District of California for the correction of the legal title of the subject patent. We are also seeking compensation for wrongful prosecution.

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 Corporation claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement.

We are involved from time to time in certain routine legal actions incidental to our business. However, except for the ongoing legal proceedings described above relating to our intellectual property rights, 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, adversely affect our results of operations or financial condition. In addition, except as described above, we are not aware of any other material pending or threatened litigation against us.

Table of Contents

Employees

As of March 31, 2005, we had 14,460 employees, including 2,773 employees in our overseas subsidiaries. The following table provides a breakdown of our employees by function as of December 31, 2002, 2003 and 2004 and March 31, 2005.

	As of December 31,			As of March 31,
Employees[1]	**2002**	**2003**	**2004**	**2005**
Production	3,628	5,372	8,270	8,924
Technical[2]	1,886	2,485	3,759	4,303
Sales & Marketing	274	342	436	464
Management & Administration	307	365	708	769
Total	6,095	8,564	13,173	14,460

(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 currently plan to hire a significant number of college graduates in 2005 and 2006 to work as engineers in our development and production departments. 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, 2004, approximately 60% 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.

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, 2004, our accrued severance liabilities amounted to (Won)82.0 billion, of which 60.1% was funded through severance insurance plans, while 0.9% was funded through deposits with the National Pension Corporation.

At December 31, 2004, our employees owned approximately 0.5% of our common stock through an employee stock ownership association.

Table of Contents

Subsidiaries

The following table sets forth summary information for our subsidiaries as of March 31, 2005:

Subsidiary	Main Activities	Jurisdiction of Incorporation	Date of Incorporation	Total Paid-in Capital	Percentage of Our Ownership Interest	Percentage of Our Voting Power
LG.Philips LCD Taiwan Co., Ltd.	Sales	Taiwan	April 1999	NT$ 115,500,000	100%	100%
LG.Philips LCD America, Inc.	Sales	U.S.A.	September 1999	US$ 5,000,000	100%	100%
LG.Philips LCD Japan Co., Ltd.	Sales	Japan	October 1999	¥ 95,000,000	100%	100%
LG.Philips LCD Germany GmbH	Sales	Germany	November 1999	EUR 960,000	100%	100%
LG.Philips LCD Nanjing Co., Ltd.	Manufacturing and Sales	China	July 2002	RMB 753,179,600	100%	100%
LG.Philips LCD Hong Kong Co., Ltd.	Sales	Hong Kong	January 2003	HK$ 11,500,000	100%	100%
LG.Philips LCD Shanghai Co., Ltd.	Sales	China	January 2003	RMB 4,138,650	100%	100%

Table of Contents

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 nine directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Our articles of incorporation also 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. Under the Korean Commercial Code and our articles of incorporation, the joint representative directors are authorized to jointly represent us in activities relating to our business. 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.

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.

Table of Contents

The tables below set forth our directors and executive officers, dates of birth and positions as of March 31, 2005. The business address of all of the directors and executive officers is the address of our registered office at 17th Floor, 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 Securities Exchange Act of 1934, or the Exchange Act.

Name	Date of Birth	Position	First Elected/ Appointed	Term Expires	Principal Occupation
Bongsung Oum	March 2, 1952	Director	March 2005	March 2008	Chairman, KIBNET Co., Ltd.
Bart van Halder	August 17, 1947	Director	July 2004	July 2007	Professor, University of Amsterdam, and Trainer in Accounting
Ingoo Han	October 15, 1956	Director	July 2004	July 2007	Professor, Graduate School of Management, Korea Advanced Institute of Science and Technology
Doug J. Dunn	May 5, 1944	Director	March 2005	March 2008	Member of Boards of Directors of ARM Holdings plc, STMicroelectronics N.V., Soitec Group and Sendo Ltd.
Dongwoo Chun	January 15, 1945	Director	March 2005	March 2008	Standing Auditor, DongbuAnam Semiconductor Inc.

Table of Contents

Our Non-Outside Directors

Our non-outside directors are:

Name	Date of Birth	Position	First Elected/ Appointed	Term Expires	Principal Occupation
Ad Huijser	July 19, 1946	Chairman of the Board of Directors	March 2004		