LG Display Co., Ltd.
Form 20-F
April 30, 2014
Table of Contents

As filed with the Securities and Exchange Commission on April 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 1-32238

LG Display Co., Ltd.

(Exact name of Registrant as specified in its charter)

LG Display Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Republic of Korea

(Address of principal executive offices)

Table of Contents

Suk Heo

LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Republic of Korea

Telephone No.: +82-2-3777-1010

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

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-half of one share of Common Stock	New York Stock Exchange
Common Stock, par value 5,000 per share	New York Stock Exchange*

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

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

None

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

None

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

357,815,700 shares of common stock, par value 5,000 per share

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

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

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

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

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms we, us, our and LG Display refer to LG Display Co., Ltd. and, unless otherwise indicated or required by context, our consolidated subsidiaries. Notwithstanding the foregoing, in the context of any legal proceedings or governmental investigations, LG Display refers to LG Display Co., Ltd. and does not include any of its subsidiaries, or any other entities or persons.

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2012 and 2013 and for each of the years ended in the three-year period ended December 31, 2013 included in this annual report.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP.

The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2009, 2008, 2007, 2006, 2005 and 2004 were prepared in accordance with U.S. GAAP. For additional information, please refer to our annual reports on Form 20-F previously filed with the SEC.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

All references to Korean Won, Won or in this annual report are to the currency of the Republic of Korea, all references to U.S. dollars or US$ are to the currency of the United States, all references to Japanese Yen, Yen or ¥ to the currency of Japan, all references to RMB or Chinese Renminbi are to the currency of the People s Republic of China, all references to NT$ are to the currency of Taiwan, all references to Euro or are to the official currency of th European Economic and Monetary Union, all references to PLN are to the currency of the Republic of Poland, all references to MXN are to the currency of Mexico, and all references to SG$ are to the currency of Singapore.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in Korean Won as certified by the Federal Reserve Bank of New York for customs purposes in effect on December 31, 2013, which was 1,055.25 = US$1.00.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

- the cyclical nature of our industry;
- our dependence on introducing new products on a timely basis;
- our dependence on growth in the demand for our products;
- our ability to compete effectively;
- our dependence on a select group of key customers;
- our ability to successfully manage our capacity expansion and allocation in response to changing industry and market conditions;
- our dependence on key personnel;
- general economic and political conditions, including those related to the display panel industry;
- possible disruptions in commercial activities caused by events such as natural disasters, terrorist activity and armed conflict;
- fluctuations in foreign currency exchange rates; and
- those other risks identified in the Risk Factors section of this annual report.

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

actual results could differ materially from those anticipated in these forward-looking statements.

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

Table of Contents

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

Item 3.A. *Selected Financial Data*

The selected consolidated financial data set forth below as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 have been derived from our consolidated financial statements and the related notes, which have been prepared under IFRS as issued by the IASB. Our audited consolidated financial statements as of December 31, 2012 and 2013 and for each of the years in the three-year period ended December 31, 2013 and the related notes are included in this annual report.

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

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards, or K-IFRS, as adopted by the Korean Accounting Standards Board, or KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. See Item 10.B. Memorandum and Articles of Association Business Report. English translations of such financial statements are furnished to the SEC on Form 6-K, which are not incorporated by reference to this or any of our previous annual reports on Form 20-F. The operating profit or loss presented in the consolidated statements of comprehensive income or loss prepared in accordance with K-IFRS for the years ended December 31, 2012 and 2013 included in the Form 6-K furnished to the SEC on February 27, 2014 is a profit of 912 billion and 1,163 billion, respectively. For further information, please see the Form 6-K furnished to the SEC on February 27, 2014, which is not incorporated by reference to this annual report.

Pursuant to the IFRS as issued by IASB, we are not required to separately present operating profit or loss in our consolidated statements of comprehensive income or loss prepared in accordance with IFRS. Therefore, the financial statements included in this annual report, which are prepared in accordance with IFRS as issued by IASB, do not present operating profit or loss as a separate line item.

Consolidated statements of comprehensive income (loss) data

	Year Ended December 31,						
	2009	2010	2011	2012	2013	2013 [1]	
	(in billions of Won, except for per share data)					(in millions of US$, except for per share data)	
Revenue	20,038	25,512	24,291	29,430	27,033	US$	25,618
Cost of sales	(17,477)	(21,781)	(23,081)	(26,425)	(23,525)		(22,293)
Gross profit	2,561	3,731	1,210	3,005	3,508		3,324
Selling expenses	(713)	(846)	(728)	(814)	(732)		(694)
Administrative expenses [2]	(305)	(428)	(430)	(494)	(518)		(491)
Research and development expenses [2]	(428)	(768)	(816)	(785)	(1,096)		(1,039)
Profit (loss) before income tax	1,013	1,266	(1,081)	459	830		787
Income tax expense (benefit)	(105)	106	(293)	222	411		389
Profit (loss) for the period	1,118	1,159	(788)	237	419		397
Total comprehensive income (loss) for the period	1,051	1,178	(757)	97	397		376
Basic earnings (loss) per share	3,124	3,232	(2,155)	652	1,191		1.13
Diluted earnings (loss) per share	3,124	3,152	(2,155)	652	1,191		1.13

Table of Contents

Consolidated statements of financial position data

	As of December 31,					
	2009	2010	2011	2012	2013	2013 [1]
	(in billions of Won)					(in millions of US$)
Cash and cash equivalents	818	1,631	1,518	2,339	1,022	US$ 968
Deposits in banks	2,500	1,503	815	315	1,302	1,234
Trade accounts and notes receivable, net	2,950	3,001	2,740	3,334	3,129	2,965
Inventories	1,668	2,215	2,317	2,390	1,933	1,832
Total current assets	8,226	8,840	7,858	8,915	7,732	7,327
Property, plant and equipment, net	9,596	12,815	14,697	13,108	11,808	11,190
Total assets	19,703	23,858	25,163	24,456	21,715	20,578
Trade accounts and notes payable	2,031	2,962	3,783	4,147	3,000	2,843
Current financial liabilities	2,007	2,101	895	1,015	908	860
Other accounts payable	1,596	2,593	3,993	2,811	1,454	1,378
Total current liabilities	6,495	8,882	9,911	9,206	6,789	6,434
Non-current financial liabilities	2,076	2,543	3,722	3,441	2,995	2,838
Long-term advance received	584	945	669	1,050	427	405
Total liabilities	9,663	12,797	15,032	14,215	10,918	10,346
Share capital and share premium	4,040	4,040	4,040	4,040	4,040	3,828
Retained earnings	6,051	7,031	6,063	6,239	6,663	6,314
Total equity	10,040	11,061	10,131	10,240	10,797	10,232

Other financial data

	Year Ended December 31,					
	2009	2010	2011	2012	2013	2013 [1]
	(in billions of Won, except for percentages)					(in millions of US$, except for per share data)
Gross margin [3]	12.8%	14.6%	5.0%	10.2%	13.0%	13.0%
Net margin [4]	5.6%	4.5%	(3.2)%	0.8%	1.5%	1.5%
EBITDA [5]	3,845	4,200	2,657	5,087	4,784	US$ 4,534
Capital expenditures	3,761	4,942	4,063	3,972	3,473	3,291
Depreciation and amortization [6]	2,842	2,926	3,651	4,469	3,834	3,633
Net cash provided by operating activities	4,153	4,884	3,666	4,570	3,585	3,397
Net cash used in investing activities	(4,564)	(4,515)	(3,494)	(3,688)	(4,504)	(4,268)
Net cash provided by (used in) financing activities	(117)	408	(278)	(48)	(391)	(371)

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

(2) Amortization expenses related to certain research and development activities included in administrative expenses for the years ended December 31, 2009, 2010 and 2011 have been reclassified as research and development expenses to conform to the criteria of classification for the years ended December 31, 2012 and 2013.

(3) Gross margin represents gross profit divided by revenue.

(4) Net margin represents profit (loss) for the period divided by revenue.

(5) EBITDA is defined as profit (loss) for the period excluding interest expense, income tax expense (benefit), depreciation and amortization of intangible assets and interest income. EBITDA is a key financial measure used by our senior management to internally evaluate the performance of our business and for other required or discretionary purposes. Specifically, our significant capital assets are in different stages of depreciation, and because we do not have separate operating divisions, our senior management uses EBITDA internally to measure the performance of these assets on a comparable basis. We also believe that the presentation of EBITDA will enhance an investor s understanding of our operating performance as we believe it is commonly reported and widely used by analysts and investors in our industry. It also provides useful information for comparison on a more comparable basis of our operating performance and those of our competitors, who follow different accounting policies. For example, depreciation on most of our equipment is made based on a four-year useful life while most of our competitors use different depreciation schedules from our own. EBITDA is not a measure determined in accordance with IFRS. EBITDA should not be considered as an alternative to gross profit, cash flows from operating activities or profit (loss) for the period, as determined in accordance with IFRS. Our calculation of EBITDA may not be comparable to similarly titled measures reported by other companies. A reconciliation of profit (loss) for the period to EBITDA is as follows:

Table of Contents

	Year Ended December 31,						
	2009	2010	2011	2012	2013	2013 (1)	
	(in billions of Won)					(in millions of US$)	
Profit (loss) for the period	1,118	1,159	(788)	237	419	US$	397
Interest income	(123)	(91)	(58)	(29)	(39)		(37)
Interest expense	113	100	145	188	159		151
Income tax expense (benefit)	(105)	106	(293)	222	411		389
Depreciation	2,779	2,757	3,413	4,196	3,598		3,410
Amortization of intangible assets	63	169	238	273	236		224
EBITDA	3,845	4,200	2,657	5,087	4,784	US$	4,534

(6) Includes amortization of intangible assets.

Operating data

	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(in thousands)				
Number of panels sold by product category:					
Televisions (1)	35,316	51,184	53,084	56,490	53,797
Notebook computers (2)	50,577	58,854	62,923	69,559	55,559
Desktop monitors (3)	43,384	49,336	50,247	51,819	49,986
Tablet computers (4)	9	11,875	35,640	56,526	63,840
Mobile and other applications (5)	161,850	188,193	164,702	164,409	162,011
Total	291,136	359,442	366,596	398,803	385,193

(1) For the years ended December 31, 2010, 2011 and 2012, includes television sets manufactured and sold by our joint venture company L&T Display Technology (Xiamen) Limited.

(2) For the years ended December 31, 2011, 2012 and 2013, includes semi-finished products manufactured by our joint venture company LUCOM Display Technology (Kunshan) Ltd.

(3) For the years ended December 31, 2010, 2011, 2012 and 2013, includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.

(4) We established tablet computers as a new product category in our audited consolidated financial statements for the three-year period ended December 31, 2013 included in this annual report. Previously, tablet computer panels were reported in the notebook computer and mobile and other application product categories. For comparison purposes, we have restated the number of notebook computer, tablet computer and mobile and other application panels sold for the years ended December 31, 2009 and 2010.

(5) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

	Year Ended December 31,						
	2009	2010	2011	2012	2013	2013 [6]	
	(in billions of Won)					(in millions of US$)	
Revenue by product category:							
Televisions [1]	10,965	14,079	11,579	13,512	11,795	US$	11,177
Notebook computers [2]	3,565	3,621	3,246	3,667	2,819		2,671
Desktop monitors [3]	4,640	5,390	4,975	5,039	5,256		4,981
Tablet computers [4]	1	824	2,224	3,714	3,575		3,388
Mobile and other applications [5]	818	1,554	2,190	3,371	3,537		3,352
Total sales of goods	19,989	25,468	24,214	29,303	26,982	US$	25,569
Royalties	22	23	61	38	19		18
Others	27	21	16	89	32		31
Revenue	20,038	25,512	24,291	29,430	27,033	US$	25,618

(1) For the years ended December 31, 2010, 2011 and 2012, includes television sets manufactured and sold by our joint venture company L&T Display Technology (Xiamen) Limited.
(2) For the years ended December 31, 2011, 2012 and 2013, includes semi-finished products manufactured by our joint venture company LUCOM Display Technology (Kunshan) Ltd.
(3) For the years ended December 31, 2010, 2011, 2012 and 2013, includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
(4) We established tablet computers as a new product category in our audited consolidated financial statements for the three-year period ended December 31, 2013 included in this annual report. Previously, tablet computer panels were reported in the notebook computer and mobile and other application product categories. For comparison purposes, we have restated revenue derived from the notebook computer, tablet computer and mobile and other application product categories for the years ended December 31, 2009 and 2010.

Table of Contents

(5) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

(6) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won, expressed in Korean Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Korean Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2013, which was 1,055.25 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 April 25, 2014, the noon buying rate was 1,041.0 = 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.

Year Ended December 31,	At End of Period	Average Rate [1]	High	Low
		(Korean Won per US$1.00)		
2009	1,163.7	1,270.0	1,570.1	1,149.0
2010	1,130.6	1,158.7	1,253.2	1,104.0
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.7	1,161.3	1,050.1
October	1,060.8	1,065.9	1,075.5	1,057.5
November	1,057.8	1,061.6	1,072.7	1,054.8
December	1,055.3	1,055.6	1,061.4	1,050.1
2014 (through April 25)	1,041.0	1,063.6	1,084.3	1,035.4
January	1,080.4	1,067.1	1,083.7	1,050.3
February	1,066.0	1,071.3	1,084.3	1,062.1
March	1,064.7	1,070.5	1,079.6	1,064.1
April (through April 25)	1,041.0	1,044.2	1,058.3	1,035.4

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

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

Not applicable.

Item 3.C. ***Reasons for the Offer and Use of Proceeds***
Not applicable.

Item 3.D. ***Risk Factors***
You should carefully consider the risks described below.

Risks Relating to Our Industry

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

Display panel manufacturers are vulnerable to cyclical market conditions. Intense competition and expectations of growth in demand across the industry may cause display panel manufacturers to make additional investments 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, as evidenced by past experiences, customers can exert strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in the panel manufacturers gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases.

Table of Contents

In recent years, we have been affected by overcapacity in the industry relative to the general demand for TFT-LCD panels which, together with lingering uncertainties in the global economic environment, has resulted in a general decline in the average selling prices of a number of our TFT-LCD products. We attempt to counteract, at least in part, the effects of overcapacity in the industry by increasing the proportion of high margin, differentiated specialty products based on newer technologies in our product mix, which are relatively less affected by the industry-wide overcapacity problems affecting TFT-LCD products using older technologies. Due in part to these efforts, our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, increased by 13.5% from US$679 in 2011 to US$771 to 2012. However, our average revenue per square meter of net display area decreased by 6.2% to US$723 in 2013 as the operation of new fabrication facilities by our competitors coupled with inventory adjustments by our customers of television panels in particular, which was partly in response to the expiration of a Chinese government sponsored consumer rebate program for purchases of energy efficient televisions in May 2013, resulted in downward pricing pressure.

While we believe that overcapacity and other cyclical issues in the industry are best addressed by increasing the proportion of high margin, differentiated specialty products based on newer technologies in our product mix that are tailored to our customers evolving needs, we also address overcapacity issues by, in the short-term, adjusting the utilization rates of our existing fabrication facilities based on our assessment of industry inventory levels and demand for our products and, in the mid- to long-term, by fine-tuning our investment strategies relating to capacity growth in light of our assessment of future market conditions.

However, we cannot provide any assurance that an increase in demand, which helped to mitigate the impact of industry-wide overcapacity in the past, can be sustained in future periods. We will therefore continue to closely monitor the overcapacity issues in the industry and respond accordingly. However, construction of new fabrication facilities and other capacity expansion projects in the display panel industry are undertaken with a multiple-year time horizon based on expectations of future market trends. Therefore, even if overcapacity issues persist in the industry, there may be continued capacity expansion in the near future due to pre-committed capacity expansion projects in the industry that were undertaken in past years. Any significant industry-wide capacity increases that are not accompanied by a sufficient increase in demand could further drive down the average selling price of our panels, which would negatively affect our gross margin. Any decline in prices may be further compounded by a seasonal weakening in demand growth for end products such as personal computer products, consumer electronics products and mobile and other application products. Furthermore, once the differentiated products that had a positive impact on our performance mature in their technology cycle, if we are not able to develop and commercialize newer products to offset the price erosion of such maturing products in a timely manner, our ability to counter the impact of cyclical market conditions on our gross margins would be further limited. We cannot provide assurance 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.

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

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The recent global economic downturn has adversely affected demand for consumer products manufactured by our customers in Korea and overseas, including televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products utilizing TFT-LCD panels, which in turn led them to reduce or plan reductions of their production. Even though we saw an increase in demand for our products since the end of 2011, initially due in part to channel inventory replenishment and then, especially in the second half of 2012, due in large part to increasing demand for our differentiated specialty products used in certain types of televisions,

tablet computers and smartphones, demand for our products decreased in 2013 due in part to inventory adjustments by our customers in light of lingering uncertainties in the global economic environment.

We cannot provide any assurance that demand for our products can be sustained at current levels in future periods or that the demand for our products will not decrease again in the future due to another such economic downturn which may adversely affect our profitability. We may decide to adjust our production levels in the future subject to market demand for our products, the production outlook of the global display panel industry, in particular, the TFT-LCD industry, and global economic conditions in general. Any decline in demand for display panel products may adversely affect our business, results of operations and/or financial condition.

Table of Contents

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

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

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

The display panel industry is highly competitive. We have experienced pressure on the prices and margins of our major products due largely to additional capacity from panel makers in Korea, Taiwan, China and Japan. Our main competitors in the industry include Samsung Display (which was spun off from Samsung Electronics in 2012), Hydis Technologies, AU Optronics, Innolux, Chunghwa Picture Tubes, HannStar Display, BOE, China Star Optolectronics Technology, Japan Display (which was founded in 2011 by integrating the TFT-LCD panel businesses of Hitachi and TMDisplay, as well as certain businesses of Sony Mobile Display), Sharp and Panasonic LCD. Some of our competitors may currently, or at some point in the future, have greater financial, sales and marketing, manufacturing, research and development or technological resources than we do. In addition, our competitors may be able to manufacture panels on a larger scale or with greater cost efficiencies than we do and we anticipate increases in production capacity in the future by other display panel manufacturers using similar display panel technologies as us. Any price erosion resulting from strong global competition or additional industry capacity may materially adversely affect our financial condition and results of operations.

In addition, industry consolidation among our competitors may result in increased competition as the entities emerging from such consolidation may have greater financial, manufacturing, research and development and other resources than we do, especially if such mergers or consolidations are sponsored by a government entity. Recently, certain of our competitors have pursued strategic alternatives such as mergers or formation of new alliances, resulting in, for example, the creation of Japan Display in 2011. Increased competition resulting from such mergers or consolidations may lead to decreased margins, which may have a material adverse effect on our financial condition and results of operations.

We and our competitors each seek to establish our own products and technologies as the industry standards. For example, in the large-sized television panel market, we currently manufacture primarily 32-inch, 42-inch, 47-inch, 49-inch and 55-inch television panels and utilize FPR and white RGB, or WRGB, technologies for our 3D and organic light-emitting diode, or OLED, television panels, respectively. Other display panel manufacturers produce competing large-sized television panels in slightly different dimensions, such as 39-inch, 40-inch, 46-inch, 48-inch and 50-inch panels and utilize competing display panel technologies such as shutter glass and direct emission technologies for their 3D and OLED television panels, respectively. If our competitors panels or the technologies they adopt become the market standard, we may lose market share and may not realize the expected return on our investments in the technologies we utilize in our display panels, which may have a material adverse effect on our financial condition and results of operations.

Our ability to compete successfully also depends on factors both within and outside our control, including product pricing, performance and reliability, our relationship with customers, 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 maintain a competitive edge with respect to all these factors and, as a result, we may be unable to sustain our current market position.

Table of Contents

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

Our 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, any of which may or may not reflect a continued trend from one period to the next. 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.

Our success will depend greatly on our ability to respond quickly to rapidly evolving customer requirements and to develop new and differentiated products in anticipation of future demand. A failure or delay on our part to develop products of such quality and technical specifications that meet our customers evolving needs may adversely affect our business.

Close cooperation with our customers to gain insights into their product needs and to understand general trends in the end-product market is a key component of our strategy to produce successful products. In addition, when developing new products, we often work closely with equipment suppliers to design equipment that will make our production processes for such new products more efficient. If we are unable to work together with our customers and equipment suppliers, or to sufficiently understand their respective needs and capabilities or general market trends, we may not be able to introduce new products in a timely manner, which may have a material adverse effect on our financial situation.

In addition, product differentiation, especially the ability to develop and market differentiated specialty products that command higher premiums in a timely manner, has become a key competitive strategy in the display panel market. This is in part due to trends in consumer electronics and other markets, such as televisions, tablet computers and mobile devices, where the growth in demand is led by end products employing newer technologies with specifications tailored to deliver enhanced performance, convenience and user experience in a cost-efficient manner. Accordingly, we have focused our efforts on developing and marketing differentiated specialty products, including our television panels utilizing FPR 3D and ultra-high definition, or Ultra HD, technologies, Advanced High-Performance In-Place Switching or, AH-IPS, panels for tablet computers, mobile devices, notebook computers and desktop monitors, curved OLED television panels utilizing WRGB OLED technology, smartphone panels utilizing flexible plastic OLED technology and ultra-large displays for television, public display and interactive whiteboard panels. In addition, we have developed differentiated sales and marketing strategies to promote our panels for such products as part of our strategy to grow our operations to meet increasing demand for new applications in consumer electronics and other markets. However, we cannot provide assurance that the differentiated products we develop and market will be responsive to our end customers needs nor that our products will be successfully incorporated into end products or new applications that lead market growth in consumer electronics or other markets.

Problems with product quality, including defects, in our products could result in a decrease in customers and sales, unexpected expenses and loss of market share.

Our products are manufactured using advanced, and often new, technology and must meet stringent quality requirements. Products manufactured using advanced and new technology such as ours may contain undetected errors or defects, especially when first introduced. For example, our latest display panels may contain defects that are not detected until after they are shipped or installed because we cannot test for all possible scenarios. Such defects could cause us to incur significant re-designing costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation. In addition, future product failures could cause us to incur substantial expense to repair or replace defective products. We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products, which covers defective products and is normally valid for eighteen months from the date of purchase. The warranty provision is largely based on historical and anticipated rates of warranty claims, and therefore we cannot provide assurance that the provision would be sufficient to cover any surge in future warranty expenses that significantly exceed historical and anticipated rates of warranty claims. In addition, if we deliver products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Widespread product failures may damage our market reputation and reduce our market share and cause our sales to decline.

Table of Contents

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

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. Sales attributed to our end-brand customers are for their end-brand products and do not include sales to these customers for their system integration activities for other end-brand products, if any. Our top ten end-brand customers, including LG Electronics Inc., our largest shareholder, together accounted for approximately 71% of our sales in 2011, 71% in 2012 and 76% in 2013.

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 their 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 a select group of key end-brand customers, including our largest shareholder, will continue to place orders with us in the future at the same levels as in prior periods, or at all.

We engage in related party transactions with LG Electronics and its affiliates:

Sales to LG Electronics sales to LG Electronics and its subsidiaries, which include sales to LG Electronics both as an end-brand customer and a system integrator, amounted to 21.4%, 21.0% and 22.9% of our sales in 2011, 2012 and 2013, respectively.

Sales to LG International sales to LG International Corp., our affiliated trading company, and its subsidiaries amounted to 6.3%, 5.0% and 5.4% of our sales in 2011, 2012 and 2013, respectively.

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

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 together accounted for approximately 71% of our sales in 2011, 71% in 2012 and 76% in 2013. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through our affiliated trading company, LG International and its subsidiaries. Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 60 days. Although we have not experienced any material problems relating to customer payments to date, as a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the sales we make to our affiliated trading company and its subsidiaries, we are exposed to credit risks associated with these entities.

Consolidation and other 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 or other products. In addition, we cannot provide assurance that a combined entity resulting from a merger, acquisition or consolidation or a newly formed entity resulting from a divestment will continue to purchase TFT-LCD or other panels from us at the same level, if at all, as each entity purchased in the aggregate when they were separate companies or that a divested company will purchase panels from us at the same level, if at all, as prior to the divestment.

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. For example, the rapidly expanding mobile display market for smart devices such as smartphones and certain tablet computers has resulted in increased demand for display panels using new energy-efficient technologies that provide for greater resolutions, wider viewing angles, high light transmittance and stability of images even when used on a touchscreen device. We have introduced mobile display products based on AH-IPS, which have helped us quickly secure a leading role in this market.

Table of Contents

While the TFT-LCD technology undergoes continued innovation, we and our competitors are also developing new display technologies that depart from TFT-LCD technology, such as OLED technology. In particular, we and some of our competitors have already commenced commercial production of OLED products. We commenced limited production of glass OLED panels for mobile devices for a number of our strategic customers in September 2011 and commenced mass production of flexible plastic OLED panels for smartphones in the fourth quarter of 2013 at our AP2 and E2 fabrication facilities. In addition, we started production of OLED television panels toward the end of 2012 and are in the process of converting a second set of production lines in our P8 fabrication facility, our first eighth-generation fabrication facility, for the production of OLED television panels. We expect to commence mass production on the second set of lines sometime in the second half of 2014, subject to market conditions and any changes in our investment timetable. With the launch of retail sales of flat and curved 55-inch OLED televisions by certain of our customers starting in the first and third quarters of 2013, respectively, we intend to deploy greater resources into expanding our large-sized OLED panel fabrication capabilities with the aim of establishing an early competitive edge in the market. Our ability to develop differentiated products with new display technologies and utilize advanced manufacturing processes to increase production yields while lowering production cost will be critical to our sustained competitiveness. However, we cannot provide assurance that we will be able to continue to successfully develop new products or manufacturing processes through our research and development efforts or through obtaining technology licenses, or that we will keep pace with technological changes in the marketplace.

Our revenue depends on continuing demand for televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products with panels of the type we produce. 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 who use our products in televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products with display devices. In particular, a substantial percentage of our sales is derived from end-brand customers, or their designated system integrators, who use our panels in their televisions, which accounted for 47.7%, 45.9% and 43.6% of our total revenue in 2011, 2012 and 2013, 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 13.4%, 12.5% and 10.4% of our total revenue in 2011, 2012 and 2013, respectively, those who use our panels in their desktop monitors, which accounted for 20.5%, 17.1% and 19.4% of our total revenue in 2011, 2012 and 2013, respectively, those who use our panels in their tablet computers, which accounted for 9.2%, 12.6% and 13.2% of our total revenue in 2011, 2012 and 2013, respectively, and those who use our panels in their mobile and other applications, which accounted for 9.0%, 11.5% and 13.1% of our total revenue in 2011, 2012 and 2013, respectively. Although sales of our television panels decreased in 2012 and 2013 as compared to previous years, television panels remain our largest product category in terms of revenue and we will therefore continue to be dependent on continuing demand from the television industry. In addition, we will continue to be dependent on continuing demand from the personal computer industry, the tablet computer industry and the mobile device industry for a substantial portion of our sales. Any downturn in any of those industries in which our customers operate would result in reduced demand for our products, which may in turn result in reduced revenue, lower average selling prices and/or reduced margins.

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

New display technologies, such as OLED technology, which are at various stages of development and production by us and other display panel makers, may gain wider market acceptance than TFT-LCD technology for use in certain consumer products, such as televisions, smartphones and tablet computers, and industrial and other applications, including public displays, interactive whiteboards, entertainment systems, automotive displays, portable navigation

devices and medical diagnostic equipment. If consumers do not purchase products utilizing TFT-LCD panels as we expect, or if TFT-LCD technology itself is rendered obsolete, or if we are unable to develop and commercialize OLED and other technologies in a commercially viable and timely manner, or if consumers prefer products manufactured by our competitors utilizing competing technologies we have not adopted, 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.

Table of Contents

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 further enhance the diversity and capacity of our display panel production, we estimate that we will continue to incur significant capital expenditures for the enhancement of existing production facilities, including the construction of additional production lines, and the construction of new production facilities. In March 2011, we commenced mass production at the second expansion to our P8 fabrication facility. In June 2012, we also commenced mass production at P9, our newest eighth-generation panel fabrication facility located in our Paju Display Cluster in Paju, Korea. In December 2013, we commenced mass production at our E2 fabrication facility. In addition, in May 2012, we held a groundbreaking ceremony for the construction of an eighth-generation fabrication facility in Guangzhou, China. We expect mass production to commence at the Guangzhou fabrication facility in the middle of 2014, subject to market conditions and any changes in our investment timetable. In January 2011, we signed a memorandum of understanding with Gumi City regarding its administrative support for our 1.35 trillion investment to expand our module production facilities in Gumi City, Korea, over a five-year period starting in 2011, and in July 2012, we entered into an agreement with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our 1.20 trillion investment to convert existing production lines in our P61 fabrication facility located in Gumi City that produced amorphous silicon, or a-Si, based TFT backplanes into production lines that produce low temperature polycrystalline silicon, or LTPS, based TFT backplanes. Mass production on the converted LTPS production lines commenced in the first quarter of 2014. In September 2013, we entered into another memorandum of understanding with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our additional 0.83 trillion investment to convert additional a-Si production lines into LTPS production lines in our P61 fabrication facility. We expect mass production to commence at the additional converted LTPS production lines in the second half of 2014, subject to market conditions and any changes in our investment timetable. In addition, starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at our P8 fabrication facility, for which we expect to invest 0.71 trillion. Mass production is expected to commence at the new large-sized OLED panel production lines in the second half of 2014, subject to market conditions and any changes in our investment timetable.

In 2013, our total capital expenditure on a cash out basis amounted to 3.5 trillion. In 2014, we currently expect that our total capital expenditures on a cash out basis will be similar to that of 2013, primarily to fund the construction of our eighth-generation fabrication facility in Guangzhou, China and expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment.

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

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Because we rely on financing both within and outside of Korea from time to time, the difficulties affecting the global and Korean economies, including any increase in market volatility and their lingering effects,

could adversely affect our ability to obtain sufficient financing on commercially reasonable terms. The failure to obtain sufficient financing on commercially reasonable terms to complete our expansion plans could delay or impair 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 processes for TFT-LCD, OLED and other display products are highly complex, requiring sophisticated and costly equipment that is periodically modified and upgraded 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 building new plants, difficulties in modifying existing or adopting new manufacturing line technologies or processes 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 growth 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 due to building new fabrication facilities and the expansion and conversion of existing fabrication facilities to meet the evolving demands of our customers. For example, we increased our capacity at our Korean facilities by commencing mass production at the second expansion to our P8 fabrication facility in March 2011, P9 in June 2012 and E2 in December 2013. In addition, we converted a number of production lines in our P61 fabrication facility, which originally produced a-Si based display panels, to produce LTPS based display panels for mobile devices and commenced mass production in the first quarter of 2014. In addition, we converted a number of production lines in our P8 fabrication facility to produce OLED panels for televisions and commenced production in the fourth quarter of 2012. We are currently converting additional production lines to expand our LTPS and OLED production capacities, and we expect to commence mass production on the additional LTPS and OLED lines in the second half of 2014, subject to market conditions and any changes in our investment timetable. See Item 4.D. Property, Plants and Equipment Expansion Projects. With respect to our overseas facilities in recent years, we commenced mass production at our module production plant in Reynosa, Mexico in March 2012, and we commenced construction of an eighth-generation fabrication facility in Guangzhou, China, in May 2012. We expect mass production to commence at the Guangzhou fabrication facility in the middle of 2014, subject to market conditions and any changes in our investment timetable. See also We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans above.

Sustained growth in the scope and complexity of our operations may strain our managerial, financial, manufacturing and other resources. We may experience manufacturing difficulties in starting new production lines, upgrading existing facilities or building new plants as a result of cost overruns, construction delays or shortages of, or quality problems with, materials, labor or equipment, any of which could result in a loss of future revenue. In addition, failure to keep up with our competitors in future investments in next-generation panel fabrication facilities or in the upgrading of manufacturing capacity of existing facilities would impair our ability to effectively compete within the display panel 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 and OLED 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 a higher gross margin. However, due to any number of reasons, including fluctuating demand for our products or overcapacity in the display industry, we may need to reduce production, resulting in lower-than-optimal capacity utilization rates. As such, we cannot provide assurance that we will be able to sustain our capacity utilization rates in the future nor can we provide assurance that we will not reduce our utilization rates in the future as market and industry conditions change.

Limited availability of raw materials, components and manufacturing equipment could materially and adversely affect our business, results of operations or financial condition.

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 raw material and component 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, such as glass substrates, driver integrated circuits, polarizers and color filters used in both our TFT-LCD and OLED

products, backlight units and liquid crystal materials used in our TFT-LCD products and hole transport materials and emission materials used in our OLED products, from two or more suppliers for each key component. However, we may establish a working relationship with a single supplier if we believe it is advantageous to do so due to performance, quality, support, delivery, capacity, price or other considerations. We may experience shortages in the supply of these key components, as well as other components or raw materials, as a result of, among other things, anticipated capacity expansion in the display industry or our dependence on a limited number of suppliers. Our results of operations would be adversely affected if we were unable to obtain adequate supplies of high-quality raw materials or components in a timely manner or make alternative arrangements for such supplies in a timely manner.

Table of Contents

Furthermore, we may be limited in our ability to pass on increases in the cost of raw materials and components to our customers. We do not typically enter into binding long-term contracts with our customers, and even in those cases where we do enter into long-term agreements with certain of our major end-brand customers, the price terms are contained in the purchase orders which are generally placed by them one month in advance of delivery. Except under certain special circumstances, the price terms in the purchase orders are not subject to change. Prices for our products are generally determined through negotiations with our customers, based generally on the complexity of the product specifications and the labor and technology involved in the design or production processes. However, if we become subject to any significant increase in the cost of raw materials or components that were not anticipated when negotiating the price terms after the purchase orders have been placed, we may be unable to pass on such cost increases to our customers.

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 revenue and cause financial stress on our operations.

Earthquakes, tsunamis, floods and other natural calamities could materially adversely affect our business, results of operations or financial condition.

If earthquakes, tsunamis, floods or any other natural calamities were to occur in the future in any area where any of our assets, suppliers or customers are located, our business, results of operations or financial condition could be adversely affected. A number of suppliers of our raw materials, components and manufacturing equipment, as well as customers of our products, are located in Japan, which suffered an earthquake and tsunami in March 2011, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake. While we believe the impact was not material to our financial condition or operating results, any future recurrence of such natural calamities in Japan or any other countries where our suppliers are located may lead to shortages or delays in the supply of raw materials, components or manufacturing equipment. In addition, natural calamities in areas where our customers are located, including Japan, may cause disruptions in their businesses, which in turn could adversely impact their demand for our products.

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 display 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 display products as well as changes in product mix and specifications may result in lost revenue, 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 and other panels and the obsolescence of our existing TFT-LCD or other panel inventory. This can result in a decrease in the stated value of our 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 and typically operate with a two- to four-week inventory. 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.

Table of Contents

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

In December 2006, LG Display received notices of investigation by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission with respect to possible anti-competitive activities in the TFT-LCD industry. Subsequently, the Competition Bureau of Canada, the Secretariat of Economic Law of Brazil, the Taiwan Fair Trade Commission and the Federal Competition Commission of Mexico announced investigations regarding the same.

In November 2008, LG Display executed an agreement with the U.S. Department of Justice whereby LG Display and LG Display America pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of US$400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against LG Display and LG Display America and ordered the payment of US$400 million. The agreement resolved all federal criminal charges against LG Display and LG Display America in the United States in connection with this matter, provided that LG Display continues to cooperate with the U.S. Department of Justice in connection with the ongoing proceedings.

In December 2010, the European Commission issued a decision finding that LG Display engaged in anti-competitive activities in the TFT-LCD industry in violation of European Union competition laws, and imposed a fine of 215 million. In February 2011, LG Display filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the European Commission. In November 2011, LG Display received a request for information from the European Commission relating to certain alleged anti-competitive activities in the TFT-LCD industry and has responded to the request. In February 2014, the European Union General Court reduced the fine to 210 million. We plan to appeal the European Union General Court s decision to the European Court of Justice.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation without any finding of violations or levying of fines. As of April 29, 2014, no decision has been issued by the Japan Fair Trade Commission, and we believe the statutory time period by which the Commission was required to have issued a decision has already lapsed. As of April 29, 2014, the investigation by the Secretariat of Economic Law of Brazil is ongoing, and LG Display filed its defense to the Secretariat of Economic Law of Brazil in February 2014.

In December 2011, the Korea Fair Trade Commission imposed a fine of 31.4 billion after finding that LG Display and certain of its subsidiaries engaged in anti-competitive activities in violation of Korean fair trade laws. In December 2011, LG Display filed an appeal of the decision with the Seoul High Court. In February 2014, the Seoul High Court annulled the decision of the Korea Fair Trade Commission. In March 2014, the Korea Fair Trade Commission filed an appeal of the Seoul High Court decision with the Supreme Court of Korea. As of April 29, 2014, no decision has been issued by the Supreme Court of Korea.

After the commencement of the U.S. Department of Justice investigation, a number of class action complaints were filed against LG Display, LG Display America and other TFT-LCD panel manufacturers in the United States and Canada alleging violation of respective antitrust laws and related laws. In a series of decisions in 2007 and 2008, the class action lawsuits in the United States were transferred to the Northern District of California for pretrial proceedings, which we refer to as the MDL Proceedings. In March 2010, the federal district court granted the class certification motion filed by the indirect purchaser plaintiffs, and granted in part and denied in part the class certification motion filed by the direct purchaser plaintiffs. In January 2011, 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. In April 2012, ten entities (including groups

of affiliated companies) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against LG Display, alleging similar antitrust violations as alleged in the MDL Proceedings.

In June 2011, LG Display reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, LG Display reached a settlement with the indirect purchaser class plaintiffs and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia and Wisconsin, which was approved by the federal district court in April 2013 and, in the case of the state attorneys general actions, by their respective state governments. In March 2013, the attorney general of Oklahoma dismissed its action as to LG Display pursuant to a separate settlement agreement. In February 2014, the attorneys general of Mississippi and South Carolina dismissed their actions as to LG Display pursuant to settlement. As of April 29, 2014, the Illinois, Oregon and Washington attorneys general actions remain pending. While the Oregon attorney general action is pending in the MDL Proceedings, the Illinois and Washington attorneys general actions are pending in their respective state courts.

Table of Contents

In addition, in relation to the MDL Proceedings, in 2009, ATS Claim, LLC (assignee of Ricoh Electronics, Inc.), AT&T Corp. and its affiliates, Motorola Mobility, Inc., and Electrograph Technologies Corp. and its subsidiary filed separate claims in the United States, and all of the actions were subsequently consolidated into the MDL Proceedings. In November 2010, ATS Claim, LLC dismissed its action as to LG Display pursuant to a settlement agreement. In addition, in 2010, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliate, SB Liquidation Trust and the trustee of the Circuit City Stores, Inc. Liquidation Trust filed claims in the United States. In addition, in 2011, the AASI Creditor Liquidating Trust on behalf of All American Semiconductor Inc., CompuCom Systems, Inc., Interbond Corporation of America, Jaco Electronics, Inc., Office Depot, Inc., P.C. Richard & Son Long Island Corporation, MARTA Cooperative of America, Inc., ABC Appliance, Inc., Schultze Agency Services, LLC on behalf of Tweeter Opco, LLC and its affiliate, T-Mobile U.S.A., Inc., Tech Data Corporation and its affiliate filed similar claims in the United States. In 2012, ViewSonic Corp., NECO Alliance LLC, Rockwell Automation LLC, Proview Technology Inc. and its affiliates filed similar claims. In November 2013, Acer America Corporation and its affiliates filed similar claims in the United States. To the extent these claims were not filed in the MDL Proceedings, they have been transferred to the MDL Proceedings for pretrial proceedings. In December 2012, Sony Europe Limited and its affiliate filed similar claims in the High Court of Justice in the United Kingdom. In January 2013, AT&T Corp. and its affiliates dismissed their action as to LG Display pursuant to settlement. In January 2013, the trustee of Circuit City Stores, Inc. Liquidation Trust dismissed its action as to LG Display pursuant to settlement, which was approved by the U.S. Bankruptcy Court. In April 2013, Sony Electronics, Inc. and Sony Europe Limited, together with their respective affiliates, dismissed their actions as to LG Display pursuant to settlement. LG Display reached a settlement with T-Mobile, U.S.A., Inc. in April 2013. In August 2013, Best Buy Co., Inc. and its affiliates dismissed their actions as to LG Display pursuant to settlement. In September 2013, Target Corporation, Sears, Roebuck and Co., Kmart Corporation, Old Comp Inc., Good Guys, Inc., RadioShack Corporation, and Newegg, Inc. dismissed their actions as to LG Display pursuant to settlement. In October 2013, Rockwell Automation, Inc., Jaco Electronics, Inc. and ViewSonic Corporation dismissed their actions as to LG Display pursuant to settlement.

In 2007, class action complaints alleging violations of Canada competition laws were filed against LG Display and other TFT-LCD manufacturers in Canadian provinces of British Columbia, Ontario and Quebec. The Ontario Superior Court of Justice certified the class action complaints filed by the direct and indirect purchasers in May 2011. We are pursuing an appeal of the class certification decision. The actions in Quebec and British Columbia have been stayed.

In December 2013, a class action complaint was filed in the Central District in Israel. As of April 29, 2014, we have yet to receive the service of complaint from the class. We plan to vigorously defend against any claims asserted by the class.

In October 2012, Arkema France and Altuglas International SAS filed a request for arbitration in the International Court of Arbitration of the International Chamber of Commerce regarding the termination of a supply contract with LG Display. In April 2014, LG Display and Arkema France reached settlement.

In April 2014, Deyi Investment Limited filed a complaint against LG Display in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. As of April 29, 2014, we have yet to receive the service of the complaint. We plan to vigorously defend against the claims asserted by the plaintiff.

In each of these ongoing matters, we are continually evaluating the merits of the respective claims and vigorously defending ourselves. Irrespective of the validity or the successful assertion of the claims described above, we may incur significant costs with respect to litigating or settling any or all of the asserted claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings Antitrust and Others for a description of these matters.

While we continue to vigorously defend the various proceedings described above, it is possible that one or more proceedings may result in cash outflow to settle or resolve these claims. We have recognized provisions with respect to those legal claims in which our management has concluded that there is a present or constructive obligation arising from a past event, it is more likely than not that an outflow of resources will result, and the amount of the assessment and/or remediation can be reasonably estimated. However, actual outcome may be materially different from that estimated as of December 31, 2013 and may have a material adverse effect on our operating results or financial condition.

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

We are subject to financial and other covenants, including maintenance of credit ratings and debt-to-equity ratios, under certain of our debt obligations. The documentation for such debt also contains negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

Table of Contents

If we breach the financial or other covenants contained in the documentation governing our debt obligations, our financial condition will be adversely affected to the extent we are not able to cure such breaches, obtain a waiver from the relevant lenders or debtholders or repay the relevant debt.

Our results of operations are subject to exchange rate fluctuations.

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

Our sales of display panels are denominated mainly in U.S. dollars, whereas our purchases of raw materials are denominated mainly in U.S. dollars and Japanese Yen. Our expenditures on capital equipment are denominated principally in Korean Won. In 2013, 97.5% of our sales were denominated in U.S. dollars. During the same period, 83.2% of our purchases of raw materials and components were denominated in U.S. dollars and 15.5% in Japanese Yen. In addition, 57.5% of our equipment purchases and construction costs were denominated in Korean Won, 17.5% in Chinese Renminbi, 13.8% in Japanese Yen and 10.8% in U.S. dollars.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won as well as between the Japanese Yen and the Korean Won, affect our pre-tax income, and in recent years, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. Although a depreciation of the Korean Won against the U.S. dollar increases the Korean Won value of our export sales and enhances the price-competitiveness of our products in foreign markets in U.S. dollar terms, it also increases the cost of imported raw materials and components in Korean Won terms and our cost in Korean Won of servicing our U.S. dollar denominated debt. A depreciation of the Korean Won against the Japanese Yen increases the Korean Won cost of our Japanese Yen denominated purchases of raw materials and components and, to the extent we have any debt denominated in Japanese Yen, our cost in Korean Won of servicing such debt, but has relatively little impact on our sales as most of our sales are denominated in U.S. dollars. In addition, continued exchange rate volatility may also result in foreign exchange losses for us. Although a depreciation of the Korean Won against the U.S. dollar, in general, has a net positive impact on our results of operations that more than offsets the net negative impact caused by a depreciation of the Korean Won against the Japanese Yen, we cannot provide assurance that the exchange rate of the Korean Won against foreign currencies will not be subject to significant fluctuations, including a sharp appreciation of the Korean Won against the U.S. dollar or the Japanese Yen, or that the impact of such fluctuations will not adversely affect the results of our operations.

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

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

licensors will be entitled to any rights in purported inventions claimed in pending or future patent applications, or that we were, or any of our licensors was, the first to file patent applications on such inventions.

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

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

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

Table of Contents

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.

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. Although we take and will continue to take steps to ensure that our new products do not infringe upon third party rights, if our products or manufacturing processes are found to infringe upon third party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.

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

In February 2007, Anvik Corporation filed a complaint in the U.S. District Court for the Southern District of New York against LG Display and LG Display America, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of photo-masking equipment manufactured by Nikon Corporation. In April 2012, the district court granted Nikon Corporation s motion for summary judgment of invalidity of the patents-in-suit and entered a judgment in favor of Nikon Corporation, LG Display and LG Display America and the other TFT-LCD manufacturing companies, dismissing the case. Anvik Corporation appealed the district court s decision to the U.S. Court of Appeals for the Federal Circuit in April 2012. In March 2013, the U.S. Court of Appeals for the Federal Circuit reversed the district court s summary judgment ruling and remanded the case back to the district court for further proceedings. In January 2014, LG Display and Anvik Corporation filed a stipulation for dismissal of the case and amicably settled all claims between the parties.

In February 2012, the United States International Trade Commission, or USITC, granted a motion by Industrial Technology Research Institute, or ITRI, to add LG Display and LG Display America as additional respondents in a Section 337 investigation pending before the USITC. ITRI sought an exclusion order prohibiting the importation of televisions and monitors incorporating LG Display s products into the United States for alleged patent infringement. In October 2012, USITC issued a preliminary finding that LG Display and LG Display America had not infringed ITRI s patents. In May 2013, USITC issued a final determination finding that the asserted patent was invalid and LG Display and LG Display America had not infringed ITRI s asserted patent. ITRI appealed USITC s decision to the United States Court of Appeals for the Federal Circuit.

In December 2013, Delaware Display Group LLC and Innovative Display Technologies LLC filed a complaint in the U.S. District Court for the District of Delaware against LG Display and LG Display America for alleged patent infringement. LG Display is currently defending against their claims.

Table of Contents

In September 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display claiming misappropriation of trade secrets relating to OLED technology and seeking injunctive relief. In September 2012, LG Display filed a complaint in the Seoul Central District Court against Samsung Display and Samsung Electronics claiming infringement of certain of LG Display s patents relating to OLED display technology and manufacturing methods and sought monetary damages. In addition, in December 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display and LG Electronics claiming infringement of certain of Samsung Display s patents relating to TFT-LCD technology and sought monetary damages. Also, in December 2012, LG Display filed an application in the Seoul Central District Court seeking temporary injunctive relief to prohibit Samsung Display and Samsung Electronics from manufacturing and selling products that we claimed to be infringing upon certain of LG Display s patents relating to IPS technology and the related manufacturing methods. In February 2013, under the mediation of the Korean government, LG Display and Samsung Display agreed in principle to work toward resolving the foregoing patent infringement proceedings through an amicable settlement. In September 2013, LG Display and Samsung Display reached an amicable settlement and withdrew their respective claims.

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. See Item 5.C. Research and Development, Patents and Licenses, etc. Intellectual Property License Agreements.

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 display panel industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could negatively affect our business.

We also rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot provide assurance that these types of agreements will be fully enforceable, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any such breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade

secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of our confidentiality agreements, and there can be no assurance that any such disputes would be resolved in our favor. Furthermore, others may acquire or independently develop similar technology, or if patents are not issued with respect to technologies arising from our 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 display panel industry.

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

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

Table of Contents

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, if at all. We also employ highly skilled line operators at our various production facilities.

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

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

When exercising its rights as our largest shareholder, LG Electronics may take into account not only our interests but also its interests and the interests of its affiliates. The interests of display businesses of LG Electronics may at times conflict with ours since the growth of our business depends, in part, on successful competition with other display technologies. These conflicts may result in alternative display technologies gaining wider market acceptance than TFT-LCDs or a decision by our largest shareholder to sell products using other display technologies.

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

Labor unrest may disrupt our operations.

As of December 31, 2013, approximately 72% 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. Any deterioration in our relationship with our employees or labor unrest resulting in a work stoppage or strike may have a material adverse effect on our financial condition and results of operations.

We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea s interpretation of ordinary wages.

Under the Labor Standards Act, an employee is legally entitled to ordinary wages . Under the guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), ordinary wages include base salary and certain fixed monthly allowances for overtime work performed during night shifts and holidays. Prior to the Supreme Court of Korea s decision described below, we and other companies in Korea had interpreted these guidelines as excluding from the scope of ordinary wages, fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannual basis.

On December 18, 2013, the Supreme Court of Korea ruled that regular bonuses (including those that are paid other than on a monthly basis) shall be deemed ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding differential amounts based on seniority. Under this decision, any collective bargaining agreement or labor-management agreement which attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that an employee s claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on principles of good faith if (i) there is an agreement

between the employer and employees that the regular bonus shall be excluded from ordinary wage in determining the total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees and (iii) such claim would cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer s existence. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

While we anticipate that it is not likely that this decision would result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages incurred in the past three years, if any such additional payments are incurred, they may have an adverse effect on our financial condition and results of operation.

Table of Contents

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. See Item 4.B. Business Overview Environmental Matters for a description of the anti-pollution equipment that we have installed in our various facilities. However, we cannot provide assurance that environmental claims will not be brought against us or that the local or national governments will not take steps toward adopting more stringent environmental standards.

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

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

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

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

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

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

Our corporate affairs are governed by our articles of incorporation and by the laws governing Korean corporations. The rights and responsibilities of our shareholders and members of our board of directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. In the case of public companies, a shareholder must own, individually or collectively with other shareholders, at least 0.01% of our common stock for at least six consecutive months in order to file a derivative suit on our behalf. 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. Therefore, 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.

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

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

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

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

Table of Contents

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

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. The current limit on the number of shares that may be deposited into our ADR facility is 68,095,700 as of April 29, 2014. The number of shares issued or sold in any subsequent offering by us or our major shareholders, subject to government authorization, raises the limit on the number of shares that may be deposited into the ADR facility, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation, or we decide 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 shares of common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the common stock again to obtain ADSs.

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

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

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

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

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

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

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

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.

Table of Contents

Risks Relating to Korea

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

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. See Item 9.C. Markets The Korea Exchange. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea s economy in the future include:

- difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in selected countries, such as Argentina, and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- continuing adverse conditions 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;
- any adverse economic impact from the recently commenced scale-down by the U.S. Federal Reserve Board of its quantitative easing stimulus program;
- further decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;

declines in consumer confidence and a slowdown in consumer spending;

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

social and labor unrest;

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

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

loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;

the economic impact of any pending or future free trade agreements;

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

the occurrence of severe health epidemics in Korea or other parts of the world;

Table of Contents

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

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

natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

hostilities or political or social tensions involving oil producing countries in the Middle East or North Africa and any material disruption in the supply of oil or increase in the price of oil; and

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il s third son, Kim Jong-un, has assumed power as his father s designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea s nuclear weapon and long-range missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the United States deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space as part of its joint military exercises with Korea.

In March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-U.S. joint military exercises and additional international sanctions imposed on North Korea for its missile and nuclear tests.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests

and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

In November 2010, North Korea fired more than one hundred artillery shells that hit Korea s Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Korean government condemned North Korea for the attack and vowed stern retaliation should there be further provocation. In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility.

North Korea s economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

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

Table of Contents

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

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

Item 4. INFORMATION ON THE COMPANY

Item 4.A. *History and Development of the Company*

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

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

We were incorporated in 1985 under the laws of the Republic of Korea under the original name of LG Soft, Ltd., a subsidiary of LG Electronics whose main business was the development and marketing of software. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, 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 Koninklijke Philips Electronics N.V., pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In connection with this transaction, LG LCD transferred its existing software-related business to LG Electronics in order to focus solely on the TFT-LCD business. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in August 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL . Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders agreement to reflect new arrangements between them as controlling shareholders. The shareholders agreement automatically terminated upon Philips Electronics sale of all of its remaining ownership interest in us in March 2009. Effective March 3, 2008, we changed our name from LG.Philips LCD Co., Ltd. to LG Display Co., Ltd.

Our principal executive offices are located at LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721 and our telephone number is +82-2-3777-1010.

Table of Contents

We have continued to develop our manufacturing process technologies and expand our production facilities. Each successive generation of our fabrication facilities has been designed to process increasingly larger-size glass substrates, which allows us to cut a larger number of panels, sometimes with larger sizes, from each glass substrate. The ability to process larger glass substrates allows us to produce a larger variety of display sizes to accommodate evolving business and consumer demands. For example, in order to respond to business and consumer demands for large-sized panels for televisions, in March 2011, we commenced mass production at the second expansion to our P8 fabrication facility, which is optimized to produce 32-inch, 47-inch and 55-inch display panels for televisions. In addition, in June 2012, we commenced mass production at our P9 fabrication facility, which is optimized to produce 7.85-inch and 9.7-inch display panels for tablet computers and 21.5-inch and 23-inch display panels for desktop monitors in response to demand for such display panels of those sizes. In addition, due to the large number of fabrication facilities we operate, we have the flexibility to make strategic decisions based on market demand to convert existing production lines within a fabrication facility to manufacture display panels based on newer technologies. For example, we converted a number of production lines in our P61 fabrication facility, which originally produced a-Si based display panels, to produce LTPS based display panels for mobile devices and commenced mass production in the first quarter of 2014. In addition, we converted a number of production lines in our P8 fabrication facility to produce OLED panels for televisions and commenced production in the fourth quarter of 2012. We work closely with the local authorities where our fabrication facilities are located, and starting from January 2011, we have signed a number of memoranda of understandings with Gumi City and North Gyeongsang Province for their administrative assistance in connection with the recent expansion and conversion of facilities in our Gumi Display Cluster.

With respect to our on-going expansion and conversion projects, we are currently constructing an eighth-generation fabrication facility in Guangzhou, China, which is expected to commence mass production in the middle of 2014. We are also in the process of converting additional production lines in our P61 fabrication facility to increase our LTPS production capacity and expect to commence mass production on the additional LTPS production lines in the second half of 2014. In addition, we are also in the process of converting additional production lines in our P8 fabrication facility to produce OLED panels for televisions and expect to commence mass production on the additional OLED production lines in the second half of 2014. Each of our on-going expansion and conversion projects are subject to market conditions and any changes in our investment timetable. See Item 4.D. Property, Plants and Equipment Expansion Projects.

With respect to our assembly facilities, from 1995 to early 2003, we assembled all panels in our Gumi assembly facility adjacent to our P1 facility. In May 2003, we commenced operations at a new assembly facility in Nanjing, China, which we built and have since expanded, in order to better serve the needs of our global customers with manufacturing facilities in China. In November 2005, we commenced operations at a new assembly facility in Paju, Korea. In March 2007, we commenced mass production at our module production plant in Wroclaw, Poland. In January 2008, we commenced mass production at our module production plant in Guangzhou, China, our second such module production site in China. In addition, in March 2012, we commenced mass production at our module production plant in Reynosa, Mexico, to better serve the needs of our customers in that region.

For a description of cash outflows relating to our capital expenditures in the past three fiscal years, see Item 5.A. Operating Results Overview Manufacturing Productivity and Costs.

Item 4.B. Business Overview

Overview

We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors, tablet computers and mobile devices, including smartphones, and we are one of the world s leading suppliers of high-definition, or HD, television panels. We also manufacture TFT-LCD panels for industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment. In 2013, we sold a total of 186.6 million display panels that are nine inches or larger. According to DisplaySearch, we had a global market share for display panels of nine inches or larger of approximately 27% based on sales revenue in 2013.

In addition to TFT-LCD panels, we also manufacture OLED panels. Our OLED business began with our acquisition of LG Electronics active matrix OLED, or AMOLED, business in January 2008 by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. In December 2009, we launched our Mobile/OLED Business Division in anticipation of future growth of the OLED business. In September 2011, we commenced limited production of glass OLED panels for mobile devices for a number of our strategic customers at our AP2 fabrication facility. In 2012, partly in recognition of the growing importance of OLED to the future of our business, especially in connection with large-sized products, we restructured our internal organization relating to our OLED business, breaking up the Mobile/OLED Business Division and transferring our mobile-related business (including OLED products for mobile and other applications) to the newly created IT/Mobile Business Division and transferring our OLED television panel business to the Television Business Division. In addition, we started production of 55-inch OLED television panels on one of our eighth-generation production lines toward the end of 2012. With the launch of retail sales of flat and curved 55-inch OLED televisions by certain of our customers starting in the first and third quarters of 2013, respectively, we intend to deploy greater resources into expanding our large-sized OLED panel fabrication capabilities with the aim of establishing an early competitive edge in the market. We also commenced mass production of flexible plastic OLED panels for smartphones in the fourth quarter of 2013 at our AP2 and E2 fabrication facilities.

Table of Contents

We currently operate a total of thirteen panel fabrication facilities, including expansions to certain facilities, located in our Display Clusters in Gumi and Paju, Korea. We also currently operate module facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju), Poland (Wroclaw) and Mexico (Reynosa). For a full description of our current facilities, see Item 4.D. Property, Plants and Equipment Current Facilities.

We seek to build our market position based on collaborative relationships with our customers and suppliers, a focus on high-end differentiated specialty display products and manufacturing productivity. Our end-brand customers include many of the world s leading manufacturers of televisions, notebook computers, desktop monitors, tablet computers and mobile phones such as LG Electronics. For a description of our sales to LG Electronics, our largest shareholder, see Item 7.B. Related Party Transactions.

At the direction of our end-brand customers, we typically ship our display panels to their original equipment manufacturers, known as system integrators, who use our display panels in products they assemble on a contract basis for our end-brand customers. Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. For a description of our sales arrangements with LG International, see Item 7.B. Related Party Transactions.

Our sales were 24,291 billion in 2011, 29,430 billion in 2012 and 27,033 billion (US$25,618 million) in 2013.

Technology Description

TFT-LCD Technology

A TFT-LCD panel 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 frontplane glass substrate is fitted with a color filter, while the backplane glass substrate, also called a TFT array, has many thin film 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 frontplane 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.

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

TFT array process involves fabricating a large number of thin film transistors on the backplane 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 frontplane glass substrate that will overlay the TFT array prior to 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 backplane glass substrate that is arrayed with transistors and the frontplane 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.

Table of Contents

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.

IPS Technology

In-Plane Switching, or IPS, is a liquid crystal switching technology that was developed to address commonly faced problems with TFT-LCD panels that utilized other liquid crystal technologies, namely narrow viewing angles, inconsistent picture uniformity and slow response times. Unlike other liquid crystal technologies where the liquid crystals are aligned vertically or at an angle in relation to the glass substrate, with IPS technology, the liquid crystals are aligned horizontally in parallel to the glass substrate, which allows for wider viewing angles, greater picture uniformity and faster response times. Our TFT-LCD display panels, including our TFT-LCD television panels, utilize IPS technology.

Advanced High Performance IPS, or AH-IPS, is our next-generation IPS technology that integrates ultra-fine pitch technology and high transmittance technology, which allows for ultra-high resolution imagery, increased luminance and greater energy efficiency. For example, in May 2012, we released a 5-inch panel with a resolution of 440 pixels-per-inch. AH-IPS is currently utilized in our smartphone panels and other mobile display products, as well as certain of our panels for notebook computers, tablet computers and desktop monitors.

OLED Technology

An OLED panel consists of a thin film of organic material encased between anode and cathode electrodes. When a current is applied, light is emitted directly from the organic material. Because a separate backlight is not needed, OLED panels can be lighter and thinner compared to TFT-LCD panels, which require a separate backlight. In addition, images projected on OLED panels have higher contrast ratios and more realistic color reproduction compared to images projected on TFT-LCD panels. We commenced mass production of OLED panels for mobile and other applications in September 2011. We produce OLED products for mobile and other applications using LTPS backplane technology and large-sized OLED products primarily for use in televisions using oxide TFT backplane technology, as described in greater detail below. In addition, we are developing plastic OLED products for mobile and other applications using LTPS backplane technology.

Our large-sized OLED products, including the 55-inch OLED television panel, are produced using OLED technologies and processes that are different from the ones we use for our smaller-sized OLED products. Our large-sized OLED products are produced using oxide TFT backplane technology as compared to our smaller-sized OLED products which utilize LTPS backplane technology, as described in greater detail below. Our OLED products are produced at fabrication facilities in our Paju Display Cluster.

Backplane Technology

Oxide TFT

We use oxide TFT technology to produce backplanes for use in our large-sized OLED panels, such as the panels used in OLED television products. The traditional amorphous silicon-based TFT, or a-Si TFT, backplane technology has certain limitations that render it unsuitable for producing backplanes for use in large-sized OLED panels with high resolutions and fast refresh rates. For example, in larger and higher-resolution display panels, a-Si TFT backplanes consume increased rates of power and experience a decrease in the rate at which each transistor is able to switch

between images, or the rate of mobility.

As an alternative to a-Si TFT backplane technology, we have successfully adopted a metal oxide-based TFT, or simply oxide TFT, backplane technology. In place of the amorphous silicon-based semiconductors used in a-Si TFT backplanes, oxide TFT backplanes utilize metal oxide-based semiconductors, which consume less energy, have a higher rate of mobility and allow for construction of display panels with narrower bezels as compared to display panels with traditional a-Si TFT backplanes.

We were the first company in the display industry to successfully adopt oxide TFT technology in large-sized OLED products, which has been a key factor in reducing the costs of manufacturing large-sized OLED panels in large quantities. Because the manufacturing process of oxide TFT-based OLED panels are similar to the process used to manufacture TFT-LCD panels, we are able to use our existing TFT-based fabrication lines with relatively little modification to mass produce large-sized OLED panels.

Table of Contents

Low Temperature Polycrystalline Silicon

Low temperature polycrystalline silicon, or LTPS, backplanes have superior current-driving capacity and produce brighter images, while consuming less energy compared to a-Si TFT or oxide TFT backplanes, due to their higher mobility rates. However, due to a complex manufacturing process, LTPS backplanes have relatively higher production costs compared to a-Si TFT or oxide TFT backplanes, making it uneconomical to use in the production of large-sized panels. As a result, we generally utilize LTPS backplanes in the production of smaller-sized panels, particularly in TFT-LCD and OLED smartphone panels.

3D Technology

Film-Type Patterned Retarder

Film-Type Patterned Retarder 3D, or FPR 3D, technology is utilized in display panels to display three-dimensional imagery when viewed with polarized glasses. A patterned retarder film polarizes images projected on the display panel into left and right images, which are then received by the respective side of the polarized glasses worn by the viewer to create a 3D effect. As both the right and left images are received simultaneously by the polarized glasses, there is no flicker effect commonly associated with display panels utilizing shutter glass technology, which projects left and right images in alternative succession. Since 3D television sets using our FPR 3D television panel products were first introduced to the market in March 2011, television sets using FPR 3D technology rapidly increased their market share. According to DisplaySearch, television sets using FPR 3D technology accounted for 51.5% of the global 3D television market in 2013.

Products

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

- Televisions, which typically utilize large-sized display panels ranging from 17 inches to 105 inches in size, including Ultra HD television panels, which have four times the number of pixels compared to conventional HD television panels;
- Notebook computers, which typically utilize display panels ranging from 10.1 inches to 17.3 inches in size;
- Desktop monitors, which typically utilize large-sized display panels ranging from 15 inches to 34 inches in size;
- Tablet computers, which typically utilize display panels ranging from 7 inches to 12.9 inches in size; and

Mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

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

We design and manufacture our panels to meet the various size and performance specifications of our customers, including specifications relating to thinness, weight, resolution, color quality, power consumption, response times and viewing angles. The specifications vary from product to product. For television panels, a premium is placed on faster response times, wider viewing angles, higher resolution and greater color fidelity. Notebook computer panels require an emphasis on thinness, light weight and power efficiency, while desktop monitor panels demand a greater focus on brightness, color brilliance and wide viewing angles.

In addition to manufacturing and selling display panels, we also manufacture and sell television sets and desktop monitors through our joint venture companies. See Joint Ventures.

Table of Contents

Televisions

Our television display panels range from 17 inches to 105 inches in size. We began mass production of television display panels in 2001. Our sales of display panels for televisions were 11,579 billion, or 47.7% of our total revenue, in 2011, 13,512 billion, or 45.9% of our total revenue, in 2012 and 11,795 billion (US$11,177 million), or 43.6% of our total revenue, in 2013 and constituted our largest product category in each of the past three years.

Our product portfolio includes panels of various sizes such as 17-inch, 19-inch, 20-inch, 22-inch, 26-inch, 32-inch, 37-inch, 42-inch, 47-inch, 49-inch, 50-inch, 55-inch, 60-inch, 65-inch, 72-inch, 84-inch and 105-inch display panels. In 2013, our principal products in this category in terms of sales revenue consisted of 32-inch, 42-inch, 47-inch and 55-inch display panels. A substantial portion of our larger panels shipped in 2013 were equipped with FPR 3D technology.

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.

Notebook Computers

Our display panels for notebook computers range from 10.1 inches to 17.3 inches in size in a variety of display formats and constituted our fifth largest product category in terms of sales revenue in 2013. Revenue from sales of our display panels for notebook computers was 3,246 billion, or 13.4% of our total revenue, in 2011, 3,667 billion, or 12.5% of our total revenue, in 2012 and 2,819 billion (US$2,671 million), or 10.4% of our total revenue, in 2013. In 2013, our principal products in terms of sales revenue in this category were 13.3-inch, 14.0-inch and 15.6-inch display panels.

Consumer demand for notebook computers has steadily declined in recent years due in part from competition from tablet computers and smartphones that are more economical and convenient to use compared to notebook computers while offering similar levels of computing functionality.

Desktop Monitors

Our desktop monitor display panels range from 15 inches to 34 inches in size in a variety of display resolutions and formats. Revenue from sales of our display panels for desktop monitors was 4,975 billion, or 20.5% of our total revenue, in 2011, 5,039 billion, or 17.1% of our total revenue, in 2012 and 5,256 billion (US$4,981 million), or 19.4% of our total revenue, in 2013 and constituted our second largest product category in each of the past three years.

In recent years, consumer demand for larger panels for desktop monitors has steadily grown. In 2013, our principal products in terms of sales revenue in this category were 21.5-inch, 23-inch and 27-inch display panels.

Tablet Computers

Our tablet computer display panels range from 7 inches to 12.9 inches in size in a variety of display formats and constituted our third largest product category in 2013. Revenue from sales of our display panels for tablet computers was 2,224 billion, or 9.2% of our total revenue, in 2011, 3,714 billion, or 12.6% of our total revenue, in 2012 and 3,575 billion (US$3,388 million), or 13.2% of our total revenue, in 2013.

Consumer demand for tablet computers has steadily grown since they were introduced. In 2013, our principal products in terms of sales revenue in this category were display panels smaller than 10 inches.

Mobile and Other Applications

Our product portfolio also includes panels for mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment. TFT-LCD panels that are nine inches and smaller are referred to as small and medium-sized panels, with those smaller than four inches being considered small-sized panels.

Table of Contents

Along with panels for tablet computers, this is our fastest growing category of products in terms of revenue growth in recent years, driven largely by an increase in demand for smartphone panels. Revenue from sales of our display panels for mobile and other applications was 2,190 billion, or 9.0% of our total revenue, in 2011, 3,371 billion, or 11.5% of our total revenue, in 2012 and 3,537 billion (US$3,352 million), or 13.1% of our total revenue, in 2013. In 2013, sales of panels for smartphones continued to constitute a significant majority in terms of both sales revenue and sales volume in the mobile and other applications category.

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

Sales and Marketing

Customer Profile

Our display panels are included primarily in televisions, notebook computers, desktop monitors, tablet computers and mobile and other applications sold by our global end-brand customers, including LG Electronics. LG Electronics is our largest shareholder, and the terms of our sales to LG Electronics are negotiated based on then-prevailing market prices as adjusted for LG Electronics requirements, including volume and specifications. See Item 7.B. Related Party Transactions for further description of our sales to LG Electronics.

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

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers together accounted for approximately 71% of our sales in 2011, 71% in 2012 and 76% in 2013. Of our top ten end-brand customers, two of them accounted for more than 10% of our sales on an individual basis for each of the past three years. For example, sales to LG Electronics amounted to 21.4%, 21.0% and 22.9% of our sales in 2011, 2012 and 2013, respectively.

In addition to our top ten end-brand customers, we sell our TFT-LCD panels to a variety of other manufacturers of computers and electronic products. Sales to these other manufacturers constituted approximately 29% of our sales in 2011, 29% in 2012 and 24% in 2013, respectively.

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

	Year Ended December 31,						
	2011		2012		2013		
	Sales	%	Sales	%	Sales	Sales[3]	%
	(in billions of Won and millions of US$, except for percentages)						
Korea	1,964	8.1%	2,150	7.3%	2,692	US$ 2,551	10.0%
China	14,293	58.9	16,767	57.0	15,230	14,433	56.3
Europe	3,526	14.5	4,403	15.0	3,626	3,436	13.4
Asia (excluding China)	2,248	9.3	2,736	9.3	2,558	2,424	9.5
Americas	2,217	9.1	3,209	10.9	2,446	2,318	9.0
Others [1]	43	0.2	165	0.5	481	456	1.8
Total [2]	24,291	100.0%	29,430	100.0%	27,033	US$ 25,618	100.0%

(1) Includes Oceania, Africa and the Middle East.
(2) Figures provided in this table include our revenue attributable to royalty and others.
(3) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. 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

Sales

Our sales and marketing departments seek to maintain and strengthen relationships with our current customers in existing markets as well as expand our business in new markets and with new customers. We currently have wholly-owned sales subsidiaries in the United States, Japan, Germany, Taiwan, China and Singapore. As of December 31, 2013, our sales and marketing force employed a total of approximately 1,400 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 display 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.

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

Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. Our sales subsidiaries procure purchase orders from, and distribute our products to, system integrators and end-brand customers located in their region. In regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices, we sell our products to LG International and its subsidiaries. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to LG International and its subsidiaries amounted to 5.4% in 2013. See Item 7.B. Related Party Transactions for further discussion of these sales arrangements.

We may establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of solely utilizing LG International or its subsidiaries, and where local market practice permits. For example, in January 2009, we established a sales subsidiary in Singapore to replace LG International Singapore Ltd. in conducting sales to system integrators located in Singapore. We may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

Our end-brand customers or their system integrators generally place purchase orders with us one month prior to delivery based on our non-binding supply and purchase agreements with them. Generally, the head office of an end-brand customer provides us with three- to six-month forecasts, which, together with our own forecasts, enable us to plan our production schedule in advance. Our customers usually issue monthly purchase orders containing prices we have negotiated with the end-brand customer one month prior to delivery, at which point the customer becomes committed to the order at the volumes and prices indicated in the purchase orders. Under certain special circumstances, however, a negotiated price may be subject to change during the one-month period prior to delivery.

Prices for our products are generally determined based on negotiations with our end-brand customers. Pricing of our display panel products is generally market-driven, based on the complexity of the product specifications and the labor and technology involved in the design or production processes.

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.

Table of Contents

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 60 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements and accounts receivable insurance programs, to protect us from excessive exposure to credit risks. To date we have not experienced any material problems relating to customer payments.

Competition

The display panel industry is highly competitive. Due to the capital intensive nature of the display panel 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. In the case of TFT-LCD panel manufacturers, currently almost all of them 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 display panel 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 Display and Hydis Technologies in Korea;
- AU Optronics, Innolux, Chunghwa Picture Tubes and HannStar Display in Taiwan;
- Japan Display, Sharp and Panasonic LCD in Japan; and
- BOE and China Star Optoelectronics in China.

According to DisplaySearch, in 2013, Korean display panel manufacturers had a market share of 48.2% of the 9-inch or larger panel market based on revenue, Taiwanese manufacturers had 34.0%, Japanese manufacturers had 8.0% and Chinese manufacturers had 9.8%. Our market share of the 9-inch or larger panel market based on revenue was approximately 27%.

Components, Raw Materials and Suppliers

Components and raw materials accounted for 69.2% of our cost of sales in 2011, 68.5% in 2012 and 66.7% in 2013. The key components and raw materials of our display products include glass substrates, driver integrated circuits, polarizers and color filters used in both our TFT-LCD and OLED products, backlight units and liquid crystal materials used in our TFT-LCD products, and hole transport materials and emission materials used in our OLED products. We source these components and raw materials from outside sources, although, unlike many other display panel manufacturers, we produce a substantial portion of the color filters we use. With respect to glass substrates, Paju Electric Glass Co., Ltd., a joint venture company of which we and Nippon Electric Glass Co., Ltd. own 40% and 60%, respectively, provides us with a stable supply at competitive prices.

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

In 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 certain key components and raw materials from a limited group of suppliers in order to ensure timely supply and consistent quality. Also, in order to facilitate implementation of our cost reduction strategies, we continually review for potential cost savings in sourcing our components and raw materials from suppliers based in Korea and those based abroad, including competitiveness of the prices offered by such suppliers and any potential for reduction in logistics and transportation costs. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and price of the components, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

Table of Contents

We maintain a strategic relationship with many of our material suppliers, and from time to time, we make equity investments in our material suppliers as part of our efforts to secure a stable supply of key components and raw materials. For example, in April 2012, we invested 2.0 billion in Glonix Co., Ltd., a supplier of tempered glass used for touchscreens, in return for 19.8% of its then outstanding capital stock.

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

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

Equipment, Suppliers and Third Party Processors

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

We purchase equipment from a small number of qualified vendors to ensure consistent quality, timely delivery and performance. We maintain strategic relationships with many equipment manufacturers as part of our efforts to ensure quality while reducing costs. For example, in April and June 2011, we invested a total of 30 billion in return for an aggregate 23.0% of the then outstanding equity interests of Narae Nanotech Corporation, a Korean equipment manufacturer that supplies us with coaters.

Historically, we have relied on a small number of overseas vendors for equipment purchases, but in recent years, we have diversified and localized our equipment purchases by shifting some of our purchases to local vendors. In 2013, approximately 78% of our equipment for our facilities in Korea was purchased from local vendors on an invoiced basis. We plan to maintain this localization effort as part of our sourcing diversification and cost reduction strategy. A large majority of the equipment purchased from overseas vendors are from Japanese vendors. In the procurement of equipment from Japan, we also use LG International s subsidiary in Japan in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. See Item 7.B. Related Party Transactions.

Our engineers begin discussions with equipment manufacturers far in advance of the planned installation of equipment in a new fabrication facility, 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 fabrication facilities 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.

In addition, we outsource certain manufacturing processes to third party processers from time to time to supplement our processing capacity, and in certain cases, we maintain strategic relationships with such third party processors. For example, in December 2011, we invested approximately 11 billion in AVATEC Co., Ltd., a third party processor that etches glass substrates, in return for 20.3% of its then outstanding common stock.

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 fabrication facilities 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.

Table of Contents

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

Our quality assurance team works to ensure effective and consistent application of our quality control procedures, which includes six-sigma quality control procedures, and to introduce new methodologies that could further enhance our quality control procedures. Our quality assurance programs have received accredited ISO/TS 16949 certifications. The ISO/TS certification process involves subjecting our manufacturing processes and quality management systems to reviews and observation for various fixed periods. ISO/TS certification is required by certain European countries and the United States in connection with sales of industrial products in those countries, and provides independent verification to our customers regarding the quality control measures employed in our manufacturing and assembly processes.

Insurance

We currently have insurance coverage for our production facilities in Gumi and Paju, Korea, for up to 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 fabrication facilities, automobile accidents, bodily injury and property damage from gas accidents, as well as mandatory unemployment insurance for our workers and director and officer liability insurance. In addition, we maintain general and product liability, employment practice liability and aviation product liability insurance. Our dormitories in Gumi and Paju, Korea have fire insurance coverage for up to 452 billion per claim. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment, cargo insurance and life and disability insurance for their employees. All of our overseas manufacturing subsidiaries also carry property insurance, business interruption insurance and commercial general liability insurance.

Environmental Matters

Our production processes generate various forms of chemical and other industrial waste, waste water and greenhouse gas emissions at various stages in the manufacturing process. We have installed various types of anti-pollution equipment for the treatment and recycling of such waste products and aggressively engage in greenhouse gas emission reduction and energy conservation efforts.

As a member of the World LCD Industry Cooperation Committee, or WLICC, a TFT-LCD industry organization focusing on environmental issues, we have voluntarily agreed to reduce emission of greenhouse gases, such as nitrogen trifluoride, or NF3, and sulfur hexafluoride, or SF6, gases, by developing and adopting cost-effective abatement technologies and systems and increasing the number of abatement systems installed in our facilities. We installed NF3 abatement systems at all of our production lines when the production facilities were being constructed. In addition, we have voluntarily installed SF6 abatement systems in P1, P61 and P7.

We also have an internal monitoring system to control the use of hazardous substances in the manufacture of our products as we are committed to compliance with all applicable environmental laws and regulations, including European Union Restriction of Hazardous Substances, or RoHS, Directive 2011/65/EU, which restricts the use of certain hazardous substances in the manufacture of electrical and electronic equipment. Furthermore, we are operating a green purchasing system, which excludes the hazardous materials at the purchasing stage. This system has enabled us to comply with various environmental legislations of hazardous substances, including the European Union RoHS. For the more efficient operation of our waste water treatment equipment, we have also entered into a three year agreement with HiEntech, a wholly owned subsidiary of LG Electronics, for the operation of our water treatment system.

Table of Contents

Operations at our manufacturing plants are subject to regulation and periodic scheduled and unscheduled on-site inspections by the Korean Ministry of Environment and local environmental protection authorities. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with local industry practice, and that we are in compliance in all material respects with the applicable environmental laws and regulations in Korea, including the Framework Act on Low Carbon, Green Growth, the Korean government, under which we are required to submit periodic greenhouse gas emission and energy usage statements, performance reports and greenhouse gas emission and energy usage reduction plans to the Korean government. Expenditures related to such compliance may be substantial and are generally included in capital expenditures. As required by Korean law, we employ licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation.

We have been certified by the Korean Ministry of Environment as a Green Company , with respect to our environmental record for our P1 through P61 facilities and our module production plant in Gumi. In addition, we have received ISO 14001 and ISO 50001 certifications from the International Organization for Standardization and KS 7001 and KS 7002 certifications from the Korean Standards Service network with respect to our environmental and energy management systems for our P1 through P9 facilities and our Gumi and Paju module production plants. Our module production plants in Nanjing, Yantai and Guangzhou, China have also received ISO 14001 certification.

Joint Ventures

We consider joint ventures an important part of our business, both operationally and strategically. We have used joint ventures to enter into new geographic markets, in particular China, to gain new customers and/or strengthen positions with existing customers and to procure certain components and raw materials. When entering new geographic markets where we do not have substantial local experience and infrastructure, teaming up with a local partner can reduce capital investment by leveraging the pre-existing infrastructure of local partners. In addition, local partners in these markets can provide knowledge and insight into local customs and practices and access to local suppliers of raw materials and components. All of these advantages can reduce the risk, and thereby enhance the prospects for the success, of an entry into a new geographic market. If the partner of the joint venture already has an established customer base, it can also be an effective means to acquire such new customers. Joint venture arrangements also allow us to access technology we would otherwise have to develop independently, thereby reducing the time and cost of development. They can also provide the opportunity to create synergies and applications of technology that would not otherwise be possible.

In recent years, we have pursued a number of joint venture initiatives. For example:

- In September 2012, we entered into a joint venture agreement with Guangzhou GET Technologies Development Co., Ltd., or GET Tech, and Shenzhen SKYWORTH-RGB Electronic Co., Ltd., or Skyworth, establishing LG Display (China) Co., Ltd., which will own and operate the new eighth-generation fabrication facility that is currently under construction in Guangzhou, China. See Item 4.D. Property, Plants and Equipment Expansion Projects. We acquired a 70.0% equity interest in LG Display (China) and have committed to invest a total of approximately US$934 million over a period of two years from the date of incorporation of LG Display (China). Each of GET Tech and Skyworth owns a 20.0% and 10.0% equity interest in LG Display (China), respectively.

We intend to continue to seek strategic acquisition and joint venture opportunities and conduct feasibility studies with respect to establishing new manufacturing subsidiaries in strategic locations to deepen our market penetration, achieve economies of scale, increase our customer base, expand our geographical reach and reduce costs.

36

Table of Contents

Subsidiaries

The following table sets forth summary information for our subsidiaries as of December 31, 2013:

Subsidiary	Main Activities	Jurisdiction of Organization	Date of Organization	Total Equity Investment		Percentage of Our Ownership Interest	Percentage of Our Voting Power
LG Display Taiwan Co., Ltd.	Sales	Taiwan	April 1999	NT$	115,500,000	100%	100%
LG Display America, Inc.(1)	Sales	U.S.A.	September 1999	US$	375,000,000	100%	100%
LG Display Japan Co., Ltd.	Sales	Japan	October 1999	¥	95,000,000	100%	100%
LG Display Germany GmbH	Sales	Germany	November 1999		960,000	100%	100%
LG Display Nanjing Co., Ltd.	Manufacturing and sales	China	July 2002	RMB	2,834,206,315	100%	100%
LG Display Shanghai Co., Ltd.	Sales	China	January 2003	RMB	4,138,650	100%	100%
LG Display Poland Sp. zo.o.	Manufacturing and sales	Poland	September 2005	PLN	410,327,700	80%	80%
LG Display Guangzhou Co., Ltd. (2)	Manufacturing and sales	China	June 2006	RMB	992,062,354	100%	100%
LG Display Shenzhen Co., Ltd.	Sales	China	August 2007	RMB	3,775,250	100%	100%
LG Display Singapore Pte. Ltd.	Sales	Singapore	January 2009	SG$	1,400,000	100%	100%
LG Display Yantai Co., Ltd	Manufacturing and sales	China	April 2010	RMB	525,016,000	100%	100%
L&T Display Technology (Xiamen) Ltd.	Manufacturing and sales	China	January 2010	RMB	41,785,824	51%	51%
L&T Display Technology (Fujian) Ltd.	Manufacturing and sales	China	January 2010	RMB	59,197,026	51%	51%
LUCOM Display Technology (Kunshan) Ltd.	Manufacturing and sales	China	December 2010	RMB	50,353,677	51%	51%
LG Display USA Inc.	Manufacturing	U.S.A.	October 2011	US$	10,920,000	100%	100%

	and sales						
LG Display Reynosa S.A. de C.V.	Manufacturing	Mexico	November 2011	MXN	111,998,058	100%	100%
Nanumnuri Co., Ltd.	Workplace services	Korea	March 2012	Won	800,000,000	100%	100%
LG Display (China) Co., Ltd.[3]	Manufacturing and sales	China	December 2012	RMB	2,313,523,882	70%	70%
Unified Innovative Technology, LLC	Managing intellectual property	U.S.A.	March 2014	US$	9,000,000	100%	100%

(1) In June and December 2013, we invested US$40 million and US$75 million, respectively, in LG Display America, Inc. The investments did not affect our percentage interest.

(2) In October 2013, Skyworth TV Holdings Limited (Skyworth) exercised its put option on its 10% equity interest in LG Display Guangzhou Co., Ltd. pursuant to a derivatives contract entered into with us, and we were required to purchase Skyworth s 10% equity in LG Display Guangzhou Co., Ltd. at RMB 96 million, which increased our percentage interest from 90% to 100%.

(3) In March, September, October and November 2013, we invested RMB 703 million, RMB 372 million, RMB 1,059 million and RMB 3 million, respectively, in LG Display (China) Co., Ltd. The investments did not affect our percentage interest.

Table of Contents

Item 4.C. Organizational Structure

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

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

Current Facilities

We currently operate a total of thirteen panel fabrication facilities, including expansions to certain facilities (P2 through P9 and AP3 located in our Gumi and Paju Display Clusters, and AP2, E2 and M1 located in our Paju Display Cluster). The following table sets forth the size, primary use and capacity of our fabrication facilities.

Facility	Generation[1]	Gross Floor Area (in square meters)	Input Substrates Size (in mm)/ Mass Production Commencement	Nominal TFT Capacity as of December 31, 2013 (in input substrates per month)[2]	Primary Size of Panels Produced or Other Activity
P1 [3]	2	38,838	370 x 470 September 1995		6.4 , 10.4
P2	3.5	71,149	590 x 670 December 1997	79,000	4.5 , 5.0 , 6.1 , 7.0
P3	4	71,149	680 x 880 July 2000	84,000	4.0 , 4.67
P4	5	93,278	1,000 x 1,200 March 2002	131,000	13.3 , 14.0 , 17.3
P5	5	93,278	1,100 x 1,250 May 2003	109,000	10.1 , 12.5 , 15.4 , 15.6
P61 [4]	6	288,602	1,500 x 1,850 August 2004	132,000	7.85 , 9.7 , 24.0 and LTPS based TFT backplanes
P7	7	310,136	1,950 x 2,250 January 2006	197,000	42.0 , 50.0
P8 [5]	8	422,702	2,200 x 2,500 March 2009	321,000	32.0 , 47.0 , 55.0 and backplanes for OLED (TV)
P62	6	101,607	1,500 x 1,850 April 2009	59,000	15.6 , 18.5 , 20.0
P9	8	85,950	2,200 x 2,500 June 2012	58,000	7.85 , 9.7 , 21.5 , 23.0
AP2	4.5	86,042	730 x 920	75,000	

			May 2010		4.0 and backplanes for OLED (mobile)
E2 [6]	3.5	3,884	730 x 460 December 2013	N/A	5.98
M1 [7]	8.5	6,102	2,200 x 1,250 January 2014	N/A	55 , 65 , 77 for OLED (TV)
AP3	6	N/A	1,500 x 1,850 January 2014	20,000	4.0

N/A= Not applicable.

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

Table of Contents

millimeters)	Gen 2	Gen 3	Gen 4	Gen 5	Gen 6	Gen 7	Gen 8
	360 x 465	550 x 650	680 x 880	1,000 x 1,200	1,500 x 1,800	1,870 x 2,200	2,200 x 2,500
	370 x 470	590 x 670	730 x 920	1,100 x 1,250	1,500 x 1,850	1,950 x 2,250	
	400 x 500	600 x 720		1,100 x 1,300			
		620 x 750		1,200 x 1,300			
		650 x 830					
	370 x 470						
		590 x 670					
			680 x 880				
				1,000 x 1,200			
				1,100 x 1,250			
					1,500 x 1,850		
						1,950 x 2,250	
							2,200 x 2,500
					1,500 x 1,850		
							2,200 x 2,500
			730 x 920				
			730 x 460				
							2,200 x 1,250
					1,500 x 1,850		

(2) Reflects processing capacity for TFT glass substrates only. Currently, all of our fabrication facilities except AP2, E2 and M1 have the capacity to process both TFT and color filter substrates.
(3) We ceased production and closed P1 in July 2013.
(4) Gross floor area of P61 includes gross floor area of AP3.
(5) Includes two expansions, which commenced mass production in May 2010 and March 2011.
(6) Input substrates are OLED backplanes produced at AP2.
(7) Input substrates are OLED backplanes produced at P8.

We also currently operate module assembly facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju), Poland (Wroclaw) and Mexico (Reynosa). In addition, we operate a research and development facility in Paju, Korea, which we refer to as the R&D Center. We opened the R&D Center in April 2012 to consolidate our research and development efforts for next-generation display technologies. The following table sets forth the size of our R&D Center and module assembly facilities.

Facility	Gross Floor Area (in square meters)	Mass Production Commencement
R&D Center	69,857	Not applicable (opened in April 2012)
Gumi assembly facility	164,210	January 1995
Nanjing assembly facility	165,002	May 2003
Paju assembly facility	223,664	November 2005

Wroclaw assembly facility	106,928	March 2007
Guangzhou assembly facility	139,590	January 2008
Yantai assembly facility	78,285	May 2010
Reynosa assembly facility	76,129	March 2012

Expansion Projects

We are currently constructing an eighth-generation fabrication facility in Guangzhou, China. We held a groundbreaking ceremony in May 2012, and we expect to commence mass production at the Guangzhou fabrication facility in the middle of 2014. In connection with the construction of the Guangzhou fabrication facility, we entered into a joint venture agreement with GET Tech and Skyworth in September 2012, establishing LG Display (China) Co., Ltd. which will own and operate the Guangzhou fabrication facility. Under the terms of the joint venture agreement, we own a 70.0% equity interest in LG Display (China) and each of GET Tech and Skyworth owns a 20.0% and a 10.0% equity interest, respectively.

Table of Contents

We are also in the process of converting additional production lines in our P61 fabrication facility to increase our LTPS production capacity, for which we expect to invest 0.83 trillion. We expect to commence mass production on the additional LTPS production lines in the second half of 2014. In addition, we are also in the process of converting additional production lines in our P8 fabrication facility to produce OLED panels for televisions, for which we expect to invest 0.71 trillion. We expect to commence mass production on the additional OLED production lines in the second half of 2014. Each of our expansion and conversion projects is subject to market conditions and any changes in our investment timetable.

We currently expect that, in 2014, our total capital expenditures on a cash out basis will be similar to last year s amount of 3.5 trillion, primarily to fund the construction of our eighth-generation fabrication facility in Guangzhou, China and expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment. We may undertake further expansion projects in the future with respect to our existing facilities as our overall business strategy may require.

Item 4A. UNRESOLVED STAFF COMMENTS

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5.A. *Operating Results*

Overview

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

Market Conditions

The industry in which we operate 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. Over the past decade, our industry has grown significantly as a result of cost reductions and product improvements that stimulated consumer demand and supported the technology substitution of traditional CRT-based displays for TFT-LCD panels. According to DisplaySearch, total unit sales in the TFT-LCD industry grew from 117 million units in 2001 to 2,785 million units in 2013. Market revenue grew from US$14 billion to US$118 billion during the same period.

In recent years, the display industry has witnessed the introduction of display panels based on new technologies, such as OLED technology, that could potentially compete with TFT-LCD panels. In particular, we and some of our competitors have already commenced commercial production of OLED panels. Currently, small-sized panels for use in mobile devices such as smartphones make up the bulk of the OLED panel market, accounting for almost 95% of industry revenue from global sales of OLED panels in 2013. These small-sized OLED panels compete with more advanced TFT-LCD products such as our AH-IPS products. However, as of 2013, the OLED market was relatively

small compared to the TFT-LCD market. According to DisplaySearch, 270 million OLED panel units were sold in 2013, with market revenue of approximately US$11 billion in that same year. We believe, however, the market may change rapidly as large-sized OLED panels are introduced to the market and advances in the related technology and manufacturing processes enable mass production in a cost-efficient manner. We have already begun production of flat and curved 55-inch OLED panels, and certain of our customers have already launched retail sales of television products using our flat and curved 55-inch OLED panels in the first and third quarters of 2013, respectively.

Table of Contents

While the display industry has grown rapidly, it has also experienced business cycles with significant and rapid price declines from time to time. Historically, TFT-LCD manufacturers have increased display area fabrication capacity rapidly. Capacity expansion occurs especially rapidly when several manufacturers ramp-up new factories at the same time. During such surges in the rate of supply growth, our customers are able to exert downward pricing pressure, leading to sharp declines in average selling prices and significant fluctuations in our gross margin. In addition, regardless of relative capacity expansion, we expect average selling prices of our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for TFT-LCD panels in some past periods.

In 2012, the TFT-LCD industry recovered as a whole compared to 2011, with total market revenue growing from US$105 billion in 2011 to US$119 billion in 2012, according to DisplaySearch. According to the same source, the average selling price of TFT-LCD panels that are nine inches or larger increased during the same period by 3.7% from approximately US$107 in 2011 to approximately US$111 in 2012. We believe that while our industry continued to be affected by lingering global economic uncertainties and overcapacity issues in 2012, industry-wide demand grew for premium products for use in large-sized televisions, ultra-slim notebooks, tablet computers and smartphones, helped in particular by a surge in seasonal demand in the second half of 2012. In 2013, the TFT-LCD industry contracted slightly, with total market revenue decreasing from US$119 billion in 2012 to US$118 billion in 2013. The average selling price of TFT-LCD panels that are nine inches or larger decreased during the same period by 2.7% from approximately US$111 in 2012 to approximately US$108 in 2013. We believe that our industry has faced renewed overcapacity issues due to capacity expansion by our competitors coupled with inventory adjustments by our customers of television panels in particular, which was partly in response to the expiration of a Chinese government sponsored consumer rebate program for purchases of energy efficient televisions in May 2013, resulted in downward pricing pressure.

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. For example, in the face of industry-wide overcapacity, we have tried to carefully balance the need to scale back our production by lowering the utilization rate of some of our facilities with respect to certain products, while carefully selecting and pursuing areas of expansion in anticipation of future growth with respect to certain other products. Since the end of 2011, we saw an increase in demand for our products, initially due in part to channel inventory replenishment and then, especially in the second half of 2012, due in large part to increasing demand for our differentiated specialty products used in certain types of televisions, tablet computers and smartphones. As a result, we have raised our utilization rates since the end of 2011, which were previously lowered in response to industry-wide overcapacity issues. While we continue to closely monitor market conditions and adjust our production levels accordingly, we have also been proceeding with the construction of new fabrication facilities and additional investments to upgrade and convert existing facilities to produce display panels based on newer technologies that are important to our growth strategy. For example, we started mass production at the second expansion to our P8 fabrication facility in March 2011 and our P9 fabrication facility in June 2012. Construction of an eighth-generation fabrication facility in Guangzhou, China is currently under way and we expect mass production to commence at that fabrication facility in the middle of 2014, subject to market conditions and any changes in our investment timetable. In addition, we made a 1.20 trillion investment to convert existing a-Si production lines in our P61 fabrication facility located in Gumi City into LTPS production lines and commenced mass production on the converted LTPS production lines in the first quarter of 2014. We intend to invest an additional 0.83 trillion investment to convert additional a-Si production lines into LTPS production lines in our P61 fabrication facility. We expect mass production to commence at the additional converted LTPS production lines in the second half of 2014, subject to market conditions and any changes in our investment timetable. Also, starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at our P8 fabrication facility, for which we expect to invest 0.71 trillion.

Mass production is expected to commence at the new large-sized OLED panel production lines in the second half of 2014, subject to market conditions and any changes in our investment timetable. In addition, since 2011, we have been making investments to expand our module production facilities in Gumi, Korea, which investments are being undertaken with a five-year investment horizon, amounting to 1.35 trillion in total.

In addition, we are vigorously pursuing our strategy to develop differentiated specialty products and technologies that better address our customers needs, thereby delivering greater value to our customers. In many cases, these efforts go hand-in-hand with our efforts to develop products based on new technologies that allow us to realize greater premiums. For example, we have allocated greater amounts of our resources to the development and production of FPR 3D television panels, public display panels, display panels utilizing AH-IPS technology for various tablet computers, smartphones, notebook computers, desktop monitors and other applications and flexible plastic OLED technology for smartphones. In particular, we are deploying greater resources into large-sized OLED panels to establish an early competitive edge in the market.

Another key aspect of our strategy is to foster close cooperation with our customers and build on our strategic relationships with many of our key suppliers. Success of a new product depends on, among other things, working closely with our customers to gain insights into their product needs and to understand general trends in the market. At the same, we often work with our equipment suppliers to design equipment that can enhance the efficiency of our production processes for such new products.

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 by investing in fabrication facilities that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and year-end input capacity as a result of ramp-up for each of our fabrication facilities as of the dates indicated:

Fabrication Facility	Mass Production Commencement	Input Substrates Size (in millimeters)	Initial Design Capacity (in input substrates per month)	Year-end Input Capacity[1]		
				2011	2012	2013
				(in input substrates per month)[2]		
P1[3]	September 1995	370 x 470	30,000	42,000	12,000	N/A
P2	December 1997	590 x 670	60,000	84,000	76,000	79,000
P3	July 2000	680 x 880	60,000	111,000	82,000	84,000
P4	March 2002	1,000 x 1,200	60,000	147,000	149,000	131,000
P5	May 2003	1,100 x 1,250	60,000	166,000	134,000	109,000
P61	August 2004	1,500 x 1,850	90,000	190,000	159,000	132,000
P7	January 2006	1,950 x 2,250	90,000	196,000	202,000	197,000
P8[4]	March 2009	2,200 x 2,500	271,000	303,000	338,000	321,000
P62	April 2009	1,500 x 1,850	60,000	63,000	63,000	59,000
P9	June 2012	2,200 x 2,500	60,000	N/A	58,000	58,000
AP2	May 2010	730 x 920	21,000	68,000	71,000	75,000
E2[5]	December 2013	730 x 460	N/A	N/A	N/A	N/A
M1[6]	January 2014	2,200 x 1,250	N/A	N/A	N/A	N/A
AP3	January 2014	1,500 x 1,850	20,000	N/A	N/A	N/A

N/A = Not applicable.

(1) Year-end input capacity is the total input substrates for the month that had the highest monthly input substrates during the fiscal year.
(2) Reflects processing capacity for TFT glass substrates only. Currently, all of our fabrication facilities except AP2 have the capacity to process both TFT and color filter substrates.
(3) We ceased production and closed P1 in July 2013.
(4) Includes two expansions, which commenced mass production in May 2010 and March 2011.
(5) Input substrates are OLED backplanes produced at AP2.
(6) Input substrates are OLED backplanes produced at P8.

Our cash outflows for capital expenditures amounted to 4,063 billion in 2011, 3,972 billion in 2012 and 3,473 billion (US$3,291 million) in 2013. Such capital expenditures relate mainly to the construction and equipping of our P9 fabrication facility and our module production plant in Reynosa, Mexico, as well as additional investments in our AP2 fabrication facility and module production facilities in Gumi, in 2011, the construction and equipping of our P9, E2, M1 and Guangzhou, China fabrication facilities and investments undertaken to convert certain of our existing

production lines in our P61 fabrication facility into LTPS production lines, as well as continuing investments to expand our module production facilities in Gumi, in 2012 and the construction and equipping of production lines for OLED television panels in our P8 fabrication facility, as well as continued investments in our E2, M1 and Guangzhou, China fabrication facilities and LTPS production lines in our P61 fabrication facilities, in 2013. Capital expenditures were also incurred for the acquisition of new equipment during the same period. Our depreciation expense as a percentage of revenue increased from 14.1% in 2011 to 14.3% in 2012 and decreased to 13.3% in 2013. The increase in 2012 was primarily due to recognition of depreciation expenses for P9 and other purchased equipment. The decrease in 2013 was primarily due to the end of the estimated useful life of certain machinery and equipment assets in our P8 and P62 fabrication facilities. We currently expect that, in 2014, our total capital expenditures on a cash out basis will be similar to last year s amount of 3.5 trillion, primarily to fund the construction of our eighth-generation fabrication facility in Guangzhou, China and expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment.

Since inception we have designed our fabrication facilities 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 fabrication facilities 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 fabrication facilities, thereby lowering costs. In addition, in recent years, we have substituted a portion of our equipment purchased from overseas vendors with purchases from local vendors to diversify our supply source and reduce costs. For example, in 2013, we purchased approximately 78% of our equipment for our facilities in Korea from local suppliers on an invoiced basis. We also fabricate certain components internally, such as color filters, which are one of the industry s higher-cost components.

Table of Contents

We also continue to make various process improvements at our fabrication facilities, including enhancing the performance of process equipment, efficiency of material flows and quality of process and product designs. For example, we have reduced the number of mask steps in the TFT process from four to three with respect to certain models, thereby enabling us to process a higher number of substrates in a given period of time. Such process improvements result in increased unit output of our fabrication facilities without significant capital investment, thus enabling us to reduce fixed costs on a per panel basis. In addition, as we prepare for the mass production of large-sized OLED products, we have been making modifications to certain of our existing TFT-LCD fabrication lines to convert them into OLED panel fabrication lines. Because our large-sized OLED panels employ oxide TFT backplane technology, which can be produced using manufacturing processes similar to the processes used to manufacture TFT-LCD panels, relatively little modification has been necessary, thereby reducing the costs of additional investments needed for the conversion of our fabrication lines.

Raw materials comprise the largest component of our costs. In 2013, approximately 84% of the raw materials procured for our facilities in Korea were sourced from local suppliers. To the extent overseas suppliers are able to provide raw materials at competitive prices, we intend to diversify our supplier base by also procuring raw materials from such overseas 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. However, in 2012, while we continued to benefit from increasing cost efficiencies, our cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, increased by 7.4% from US$645 in 2011 to US$693 in 2012. The increase was primarily due to a shift in our product mix in 2012 caused mainly by higher demand for our differentiated specialty products that tend to have high-end specifications and employ the latest technologies, and therefore entail higher per square meter cost. Also, a number of our differentiated specialty products, which include products used in ultra-slim notebooks, tablet computers and mobile devices, such as smartphones, have a smaller size per unit than our traditional products, which contributed to the increase in the cost of sales per square meter of display area. In 2013, our cost of sales per square meter of net display area decreased by 9.2% to US$629 primarily due to a decrease in the cost of raw materials and component parts due in part to the weakening of the Japanese Yen, which we used to purchase 15.5% of our raw materials and component parts in 2013, against the Korean Won.

Product Mix

Our product mix reflects our strategic capacity allocation among various product markets, and is continually reviewed and adjusted based on the demand for, and our assessment of the profitability of, display panels in different markets and size categories. In recent years, we believe market demand has been shaped by a shift toward larger-sized panels, especially in the television and desktop panel markets, and a shift toward differentiated specialty products based on newer technologies, especially in the relatively new markets for Ultra HD televisions, ultra-thin notebooks, tablet computers and smartphones. In response to such market trends, we have increased our production capacity and sales of larger-sized panels, as well as developing and commercializing differentiated specialty products for a variety of applications. For example, with respect to our television panel product portfolio, we increased sales of our large-sized panels and the proportion of sales of our 47-inch, 49-inch and 55-inch television panels in our product mix increased between 2011 and 2013. In addition, with respect to our desktop monitor products, we have expanded our product portfolio to offer panels with full high-definition, or Full HD, resolution ranging from 21.5 inches to 34 inches in a variety of screen aspect ratios, including 21:9 screen aspect ratio for ultra-widescreen monitors, in order capture the market for large-size desktop monitors. At the same time, in response to increasing market demand for differentiated specialty products, we have developed and commercialized, for example, tablet computer panels with AH-IPS

technology with increasingly higher resolution and other features, smartphone panels utilizing flexible plastic OLED technology and large-sized curved television panels utilizing our FPR 3D, Ultra HD and OLED technologies.

Table of Contents

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

	Year Ended December 31,						
	2011		2012		2013		
	Sales	%	Sales	%	Sales	Sales[6]	%
Panels for:	(in billions of Won and millions of US$, except for percentages)						
Televisions[1]	11,579	47.7%	13,512	45.9%	11,795	US$ 11,177	43.6%
Notebook computers[2]	3,246	13.4	3,667	12.5	2,819	2,671	10.4
Desktop monitors[3]	4,975	20.5	5,039	17.1	5,256	4,981	19.4
Tablet computers [4]	2,224	9.2	3,714	12.6	3,575	3,388	13.2
Mobile and other applications[5]	2,190	9.0	3,371	11.5	3,537	3,352	13.1
Sales of goods	24,214	99.7%	29,303	99.6%	26,982	US$ 25,569	99.8%
Royalties and others	77	0.3	127	0.4	51	49	0.2
Revenue	24,291	100.0%	29,430	100.0%	27,033	US$ 25,618	100.0%

(1) For the years ended December 31, 2011 and 2012, includes television sets manufactured and sold by our joint venture company L&T Display Technology (Xiamen) Limited.
(2) Includes panels for semi-finished products manufactured by our joint venture company LUCOM Display Technology (Kunshan) Ltd.
(3) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
(4) We established tablet computers as a new product category in our audited consolidated financial statements for the three-year period ended December 31, 2013 included in this annual report. Previously, tablet computer panels were reported in the notebook computer and mobile and other application product categories.
(5) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.
(6) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. 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.

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,					
	2011		2012		2013	
Panels for	Number of Panels	%	Number of Panels	%	Number of Panels	%
	(in thousands, except for percentages)					

Televisions [1]	53,084	14.5%	56,490	14.2%	53,797	14.0%
Notebook computers [2]	62,923	17.2	69,559	17.4	55,559	14.4
Desktop monitors [3]	50,247	13.7	51,819	13.0	49,986	13.0
Tablet computers [4]	35,640	9.7	56,526	14.2	63,840	16.6
Mobile and other applications [5]	164,702	44.9	164,409	41.2	162,011	42.1
Total	366,596	100.0%	398,803	100.0%	385,193	100.0%

(1) For the years ended December 31, 2011 and 2012, includes television sets manufactured and sold by our joint venture company L&T Display Technology (Xiamen) Limited.
(2) Includes panels for semi-finished products manufactured by our joint venture company LUCOM Display Technology (Kunshan) Ltd.
(3) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
(4) We established tablet computers as a new product category in our audited consolidated financial statements for the three-year period ended December 31, 2013 included in this annual report. Previously, tablet computer panels were reported in the notebook computer and mobile and other application product categories.
(5) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

Table of Contents

Average Selling Prices

Our product mix has an impact on our average selling prices. In addition to business cycles, industry-wide supply and demand balances and other market- or industry-wide variables, our product cost and price vary with the product display area, as well as the technology and specification of such product. 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 can fluctuate significantly. Our average selling price per panel, which is derived by dividing total sales of goods by the total number of panels sold, increased by 11.2% from 66,051 per panel in 2011 to 73,477 in 2012 but decreased by 4.7% to 70,048 (US$66) in 2013. In 2012 compared to 2011, the positive impact of the continued shift in our product mix, along with slightly improved market conditions, contributed to the increase in our average selling price. In 2013, our average selling price decreased primarily due to industry-wide overcapacity coupled with inventory adjustments by our customers of television panels in particular, which was partly in response to the expiration of a Chinese government sponsored consumer rebate program for purchases of energy efficient televisions in May 2013, resulted in downward pricing pressure. The following table sets forth our average selling price per panel by markets for the periods indicated:

	Average Selling Price [6] Year Ended December 31,			
	2011	2012	2013 [7]	
Televisions [1]	218,126	239,193	219,250	US$ 208
Notebook computers [2]	51,587	52,718	50,739	48
Desktop monitors [3]	99,011	97,242	105,149	100
Tablet computers [4]	62,402	65,704	55,999	53
Mobile and other applications [5]	13,297	20,504	21,832	21
All panels	66,051	73,477	70,048	66

(1) For the years ended December 31, 2011 and 2012, includes television sets manufactured and sold by our joint venture company L&T Display Technology (Xiamen) Limited.
(2) Includes panels for semi-finished products manufactured by our joint venture company LUCOM Display Technology (Kunshan) Ltd.
(3) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
(4) We established tablet computers as a new product category in our audited consolidated financial statements for the three-year period ended December 31, 2013 included in this annual report. Previously, tablet computer panels were reported in the notebook computer and mobile and other application product categories.
(5) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.
(5) Average selling price for each market represents revenue per market divided by unit sales per market.
(6) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. 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.

Our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, increased by 13.5% from US$679 per square meter of net display area in

2011 to US$771 in 2012. In 2013, our average revenue per square meter of net display area shipped decreased by 6.2% to US$723.

Critical Accounting Policies

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect the reported amounts in our consolidated financial statements. 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 us to make the most difficult, subjective or complex judgments.

Table of Contents

Inventories

We state our inventory at the lower of cost and net realizable value. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, product life cycle, component cost trends, product pricing, and physical deterioration. Revisions to these adjustments would be required if these factors differ from our estimates. If future demand or market conditions for our products are less favorable than forecasted, we may be required to recognize additional write-downs, which would negatively affect our results of operations in the period in which the write-downs are recognized. The write-downs of inventories increased by 2.3% from 133 billion in 2011 to 136 billion in 2012 and further increased by 55.1% to 211 billion (US$200 million) in 2013. The increases were due in part to the increase in demand for differentiated specialty panels with high-end specifications. The amount of any such adjustment is recognized as cost of sales in the period for which the assessment relates.

Income Taxes

We have significant deferred income tax assets that may be used to offset taxable income in future periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income sufficient to utilize these deferred income tax assets before their expiration. Changes in estimates of our ability to realize our deferred tax assets are generally recognized in earnings as a component of our income tax (benefit) expense. At each reporting date, we review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of reversals of existing temporary differences and expiration of unused tax losses and tax credits. If we are unable to generate sufficient future taxable income, or if we are unable to identify suitable tax planning strategies, the deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. An increase in unrecognized deferred tax assets would result in an increase in our effective tax rate and could materially adversely impact our operating results. Conversely, if conditions improve and we determine that previously unrecognized deferred tax assets should be recognized because of changes in estimates in future taxable income or other conditions that affect our expected recovery of deferred tax assets, this would result in an increase in reported earnings in such period. As of December 31, 2011, 2012 and 2013, unused tax credit carryforwards of 209 billion, 429 billion and 529 billion (US$501 million), respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The increase of 220 billion in unrecognized tax credit carryforwards in 2012 compared to 2011 and the increase of 100 billion in 2013 compared to 2012 were due to lowered estimates of future taxable income and, with respect to the increase in 2013 compared to 2012, an increase in the minimum applicable income tax from 14% in 2012 to 16% in 2013. If the unrecognized deferred tax assets are recognized as deferred tax assets in a future period, the effective tax rate for the period could decrease. In estimating projected future taxable income, we considered a variety of factors, including recent overcapacity issues in the display industry and the industry-wide response to scale back capacity expansion plans and adjust utilization rates, as well as trends in demand for display products.

Provisions Warranty Obligations

We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products. This warranty covers defective products and is normally valid for eighteen months from the date of purchase. These liabilities are accrued when product revenue are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect our warranty liability include historical and anticipated rates of warranty claims on repairs, calculated based on our sales volume and cost per claim to satisfy our warranty obligation. There were no changes in assumptions or methods used which had a significant impact on the amount of warranty obligations from 2011 to 2013. 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. We recognized warranty obligations amounting to 62 billion, 55 billion and 47 billion (US$45 million) as of December 31, 2011, 2012 and 2013, respectively. Warranty expenses in 2012 increased to 79 billion from 56 billion in 2011 largely due to an increase in sales volume in 2012 compared to 2011 and an increase in per unit warranty expenses as a result of the continued shift in our product mix toward larger-sized panels equipped with relatively newer technologies, partially offset by decreases resulting from continued improvements in our product quality and our cost reduction efforts in general. In 2013, warranty expenses increased to 99 billion largely due to certain defects in our products equipped with newer technologies.

Long-Lived Assets: Useful Lives, Valuation and Impairment

Property, plant and equipment are recorded at cost less accumulated depreciation over the estimated useful lives of the individual assets, with depreciation calculated on a straight line basis. The determination of an asset s useful life and salvage value requires judgment based on our historical and anticipated use of the asset. Since 1999, all new machinery is being depreciated on a straight-line basis over four or five years. For goodwill and other intangible assets that have indefinite useful lives or that are not yet available for use, as the case may be, the recoverable amount is estimated each year at the same time irrespective of whether there is any indication of impairment.

Table of Contents

We review the carrying amounts of long-lived assets or cash-generating units at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the relevant asset or cash generating unit is estimated. If circumstances require that a long-lived asset or cash-generating unit be tested for possible impairment, and the carrying value of such long-lived asset or cash-generating unit is considered impaired after such test, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset or cash-generating unit exceeds its estimated recovery value. The recoverable amount of a long-lived asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Fair value is determined by employing a variety of valuation techniques as necessary, including discounted cash flow models, quoted market values and third-party independent appraisals. The determination of the value in use and the fair value requires our judgments and assumptions about future operations. The determination of an asset s useful life, and the potential impairment of our long-lived assets could have a material effect on our results of operations. In 2011, such impairment losses amounted to 9.2 billion. In 2012, we recognized impairment losses of 40.0 billion resulting primarily from lowered estimates of economic benefits from certain goodwill and in-process research and development assets. In 2013, we recognized impairment losses of 2.5 billion (US$2.4 million). Impairment loss is recognized as other expenses.

Employee Benefits

Our accounting for employee benefits, which mainly consists of our defined benefit plan, involves judgments about uncertain events including, but not limited to, discount rates, life expectancy and future pay inflation. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings.

Provisions Legal Proceedings

We are involved from time to time in certain routine legal proceedings and governmental investigations incidental to our business. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. We recognize provisions for claims, assessments, litigation, fines, and penalties and other sources when there is a present or constructive obligation arising from a past event, it is more likely than not that an outflow of our resources will result, and the amount of the assessment and/or remediation can be reasonably estimated. In determining whether a provision should be recognized, we evaluate, among other factors, whether it is more likely than not that our defense to a claim will be successful and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. We estimate the amount of loss, considering factors such as the nature of the litigation, claim, or assessment, the progress of the case and the opinions or views of legal counsel and other advisers. These estimates have been based on our assessment of the facts and circumstances at each reporting date and are subject to change based upon new information and intervening events. Revisions to estimates may significantly impact future net income. If any of the legal proceedings or governmental investigations results in an outcome that differs from our estimates, we may incur charges in excess of the recorded provisions for such proceeding or investigation and our results of operations or financial position may be materially adversely affected. We recognized provisions for litigation and claims amounting to 223 billion, 201 billion and 157 billion (US$149 million) in the statements of financial position as of December 31, 2011, 2012 and 2013, respectively. Legal costs incurred in connection with loss contingencies are expensed as incurred.

47

Table of Contents

Operating Results

The following presents our consolidated results of operation information and as a percentage of our revenue for the periods indicated:

	Year Ended December 31,						
	2011	%	2012	%	2013	2013[1]	%
	(in billions of Won and in millions of US$, except for percentages)						
Revenue	24,291	100.0%	29,430	100.0%	27,033	US$ 25,618	100.0%
Cost of sales	(23,081)	95.0	(26,425)	89.8	(23,525)	(22,293)	87.0
Gross profit	1,210	5.0	3,005	10.2	3,508	3,324	13.0
Selling expenses	(728)	3.0	(814)	2.8	(732)	(694)	2.7
Administrative expenses [2]	(430)	1.8	(494)	1.8	(518)	(491)	1.9
Research and development expenses [2]	(816)	3.4	(785)	2.6	(1,096)	(1,039)	4.1
Other income	1,224	5.0	1,261	4.3	1,109	1,051	4.1
Other expenses	(1,400)	5.8	(1,614)	5.5	(1,269)	(1,203)	4.7
Finance income	207	0.9	293	1.0	185	175	0.7
Finance costs	(363)	1.5	(437)	1.5	(382)	(362)	1.4
Equity income on investments, net	15	0.1	44	0.1	25	23	0.1
Profit (loss) before income tax	(1,081)	4.5	459	1.6	830	787	3.1
Income tax expense (benefit)	(293)	1.2	222	0.8	411	389	1.5
Profit (loss) for the period	(788)	3.2	237	0.8	419	397	1.5
Other comprehensive income (loss) for the period, net of income tax	31	0.1	(140)	0.5	(22)	(21)	0.1
Total comprehensive income (loss) for the period	(757)	3.1%	97	0.3%	397	US$ 376	1.5%

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

(2) Amortization expenses related to certain research and development activities included in administrative expenses for the year ended December 31, 2011 have been reclassified as research and development expenses to conform to the criteria of classification for the years ended December 31, 2012 and 2013.

Comparison of 2013 to 2012

Revenue

Our revenue decreased by 8.1% from 29,430 billion in 2012 to 27,033 billion (US$25,618 million) in 2013. The decrease in revenue resulted from decreases in revenue from sales of panels for televisions, notebook computers and tablet products, which were in turn mainly due to decreases in the average selling prices of panels for televisions and notebook computers, coupled with decreases in the number of notebook computers and television panels sold, offset

in part by slight increases in revenue derived from sales of panels for monitors and mobile and other applications. In particular:

Demand for our large-sized television panels, comprising 42-inch and larger panels, which category includes three of our top selling television panels in 2013, namely 42-inch, 47-inch and 55-inch panels, grew in 2013, leading to an increase in the number of those panels sold by 2.9% from approximately 27.3 million panels in 2012 to approximately 28.1 million panels in 2013. However, the increase in the number of our large-size television panels sold was more than offset by a decrease in the average selling price of those panels, resulting in a decrease in revenue derived from those panels.

Demand for our 15.6-inch or smaller notebook computer panels, which category includes three of our top selling notebook computer panels in 2013, namely 13.3-inch, 14-inch and 15.6-inch panels, fell in 2013, resulting in a decrease in the number of those panels sold by 19.6% from approximately 66.3 million panels in 2012 to 53.3 million panels in 2013 and a slight decrease in the average selling price of those panels, resulting in a decrease in revenue derived from those panels.

The number of units sold of our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, which category includes three of our top selling desktop monitor panels, namely 21.5-inch, 23-inch and 27-inch panels, increased by 14.6% from approximately 28.8 million panels in 2012 to 33.0 million panels in 2013. The average selling price of those panels increased slightly, together resulting in an increase in revenue derived from those panels. The increase in revenue derived from our large-sized desktop panels in 2013 compared to 2012 led to an increase in overall revenues from desktop monitor panels sales, but was offset in part by a decrease in revenue derived from our small-sized desktop panels over the same period, which was due to decreases in both the sales volume and average selling price of those panels.

Table of Contents

Demand for our tablet computer panels smaller than 10 inches grew in 2013, leading to an increase in the number of those panels sold by 10.8% from 55.7 million panels in 2012 to 61.7 million panels in 2013. However, the increase in the number of those panels sold was more than offset by a decrease in the average selling price of those panels, resulting in a decrease in revenue derived from those panels.

In our mobile and other applications category, we experienced continued growth in demand for increasingly larger smartphone panels in 2013 as compared to 2012. For example, the number of units sold of panels in this category that are between 3.5-inch and 6-inch, which category includes all of our smartphone panels and accounts for more than 80% of our sales volume and amount in this category, increased by 2.8% from approximately 133.8 million panels in 2012 to 137.5 million panels in 2013. The average selling price of those panels also increased slightly, together resulting in an increase in revenue derived from those panels.

Revenue attributable to sales of panels for televisions decreased by 12.7% from approximately ₩13,512 billion in 2012 to approximately ₩11,795 billion (US$11,177 million) in 2013, resulting from decreases in both the number of units sold and average selling price of our panels in this category in 2013 compared to 2012. The average selling price of panels for televisions decreased by 8.3% from approximately ₩239,193 in 2012 to approximately ₩219,250 (US$208) in 2013, and the total unit sales of panels in this category decreased by 4.8% from approximately 56.5 million panels in 2012 to approximately 53.8 million in 2013. The decrease in revenue attributable to sales of panels for televisions primarily reflected a decrease in the average selling price mainly due to increased downward pricing pressure resulting from capacity expansion by our competitors coupled with inventory adjustments by our customers in response to the expiration of a Chinese government sponsored consumer rebate program for purchases of energy efficient televisions in May 2013. Notwithstanding the overall decrease in sales volume of our television panels, the sales volume of our television panels that are more than 42-inch in size increased over the same period, in particular panels incorporating differentiated specialty features.

Revenue attributable to sales of panels for notebook computers decreased by 23.1% from approximately ₩3,667 billion in 2012 to approximately ₩2,819 billion (US$2,671 million) in 2013, resulting from decreases in both the number of units sold and average selling price of our panels in this category in 2013 compared to 2012. The total unit sales of panels for notebook computers decreased by 20.1% from approximately 69.6 million panels in 2012 to approximately 55.6 million in 2013, and the average selling price of panels in this category decreased by 3.8% from approximately ₩52,718 in 2012 to approximately ₩50,739 (US$48) in 2013. The decrease in revenue attributable to sales of panels for notebook computers primarily reflected a continued general shift in consumer demand for tablet computers as an alternative to notebook computers, which in turn results in a similar shift in market demand for tablet computer panels over notebook computer panels, as well as increased downward pricing pressure resulting from capacity expansion by our competitors.

Revenue attributable to sales of panels for desktop monitors increased by 4.3% from approximately ₩5,039 billion in 2012 to approximately ₩5,256 billion (US$4,981 million) in 2013, resulting from an increase in the average selling price in 2013 compared to 2012, partially offset by a decrease in the number of units sold in this category in 2013 compared to 2012. The average selling price of panels in this category increased by 8.1% from approximately ₩97,242 in 2012 to approximately ₩105,149 (US$100) in 2013, whereas the total unit sales of panels for desktop monitors decreased by 3.5% from approximately 51.8 million panels in 2012 to approximately 50.0 million in 2013. The increase in revenue attributable to sales of panels for desktop monitors primarily resulted from the continued shift in market demand toward larger-sized desktop monitors in 2013, which led to increases in both the sales volume and average selling price of our desktop monitor panels that are 21.5-inch or larger in size in 2013 compared to 2012, offset by decreases in the sales volume and average selling price of our desktop monitor panels that are less than 21.5-inch in size over the same period.

Revenue attributable to sales of panels for tablet computers decreased by 3.7% from approximately ₩3,714 billion in 2012 to approximately ₩3,575 billion (US$3,388 million) in 2013, resulting from a decrease in the average selling price in 2013 compared to 2012, partially offset by an increase in the number of units sold in this category in 2013 compared to 2012. The average selling price of panels in this category decreased by 14.8% from approximately ₩65,704 in 2012 to approximately ₩55,999 (US$53) in 2013, whereas the total unit sales of panels for tablet computers increased by 12.9% from approximately 56.5 million panels in 2012 to approximately 63.8 million in 2013. The decrease in revenue attributable to sales of panels for tablet computers primarily resulted from decreases in the average selling price and number of units sold of one of our older top selling tablet computer panels in 2013 compared to 2012 as the product life cycle of that panel approaches maturity, offset in part by increases in the average selling price and number of units sold of a newer tablet computer panel.

Table of Contents

Revenue attributable to sales of panels for mobile and other applications increased by 4.9% from approximately 3,371 billion in 2012 to approximately 3,537 billion (US$3,352 million) in 2013, resulting from an increase in the average selling price of our panels in this category in 2013 compared to 2012, which was offset in part by a slight decrease in the number of units sold in this category in 2013 compared to 2012. The average selling price of panels for mobile and other applications increased by 6.5% from approximately 20,504 in 2012 to 21,832 (US$21) in 2013, while the total unit sales of panels in this category decreased by 1.5% from approximately 164.4 million in 2013 to approximately 162.0 million. The increase in the average selling price primarily reflected a shift in our product mix toward increasingly larger panels equipped with newer technologies that enable higher resolutions and meet more advanced performance specifications, particularly in the case of panels for smartphones, which tend to command a higher price premium.

In addition, our revenue attributable to royalty and others decreased by 59.8% from 127 billion in 2012 to 51 billion (US$49 million) in 2013. The decrease was due to a decrease in other revenue, consisting primarily of sales of raw materials on-sold to our customers for module assembly purposes and sales of components to third party after-sales service providers, from 89 billion in 2012 to 32 billion (US$30 million) in 2013, as well as a decrease in royalties from 38 billion in 2012 to 19 billion (US$18 million) in 2013 due to a decrease in lump-sum royalty payments from our licensees in 2013 compared to 2012.

Cost of Sales

Cost of sales decreased by 11.0% from 26,425 billion in 2012 to 23,525 billion (US$22,293 million) in 2013. As a percentage of revenue, cost of sales decreased from 89.8% in 2012 to 87.0% in 2013. The decrease in our cost of sales in 2013 compared to 2012 was attributable mainly to decreases in raw materials and component costs and change in inventories due in part to the weakening of the Japanese Yen, in which 15.5% of our raw materials and component part purchases were denominated in 2013, against the Korean Won in 2013 compared to 2012. In addition, a decrease in depreciation and amortization costs, resulting mainly from the end of estimated useful life of certain machinery and equipment assets in our P8 and P62 fabrication facilities contributed to the decrease in cost of sales in 2013 compared to 2012. Such decreases more than offset increases in overhead costs and labor costs in 2013 compared to 2012.

As a percentage of our total cost of sales, raw materials and component costs and depreciation and amortization costs decreased from 68.5% and 15.8%, respectively, in 2012 to 66.7% and 15.6%, respectively, in 2013, while overhead costs and labor costs increased from 7.6% and 7.3%, respectively, in 2012 to 9.4% and 8.3%, respectively, in 2013.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 9.2% from US$693 per square meter of net display area in 2012 to US$629 in 2013. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, decreased by 7.8% from 66,261 in 2012 to 61,074 (US$58) in 2013.

Gross Profit and Gross Margin

As a result of the cumulative effect of the reasons explained above, our gross profit increased by 16.7% from 3,005 billion in 2012 to 3,508 billion (US$3,324 million) in 2013, and our gross margin improved from 10.2% in 2012 to 13.0% in 2013. Even though our revenue decreased in 2013 compared to 2012, which was mainly due to decreases in the average selling price and number of panels sold over the same period, the decrease in revenue was outpaced by the decrease in the cost of goods sold in 2013 compared to 2012, which was the primary reason for the increases in our gross profit and gross margin.

Selling and Administrative Expenses

Selling and administrative expenses decreased by 4.4% from ₩1,308 billion in 2012 to ₩1,250 billion (US$1,185 million) in 2013. In contrast, as a percentage of revenue, our selling and administrative expenses increased slightly from 4.4% in 2012 to 4.6% in 2013. The decrease in selling and administrative expenses in 2013 compared to 2012 was attributable primarily to decreases in:

- shipping costs, resulting primarily from a decrease in costs relating to our usage of air freight due to reduced usage of such freight and a general decrease in our overall sales volume in 2013 compared to 2012; and

- depreciation expense, resulting primarily from the end of estimated useful life of certain IT equipment assets.

Such decreases were offset in part by an increase in advertising expense in 2013 compared to 2012 resulting from an increase in our advertising activities, in particular in connection with our new OLED and Ultra HD panels, and an increase in other employee benefits in 2013 compared to 2012 resulting from the establishment of an employment benefit fund at our subsidiaries in China in 2013.

Table of Contents

The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2013:

	Year Ended December 31,	
	2012	2013
	(in billions of Won)	
Salaries	224	232
Expenses related to defined benefit plan	20	22
Other employee benefits	57	70
Shipping costs	350	215
Fees and commissions	190	197
Depreciation	113	96
Taxes and dues	29	34
Advertising	104	145
After-sales service	106	117
Rent	26	23
Insurance	11	12
Travel	21	23
Training	13	12
Others	44	52
Total	1,308	1,250

Research and Development Expenses

Research and development expenses increased by 39.6% from 785 billion in 2012 to 1,096 billion (US$1,039 million) in 2013. As a percentage of revenue, our research and development expenses increased from 2.7% in 2012 to 4.1% in 2013. The increase in research and development expenses in 2013 compared to 2012 was attributable to increase in research and development activities related to OLED and next generation technologies and products and the average number of research and development employees over the same period.

Other Income (Expense), Net

Other income includes primarily foreign currency gains from operating activities, and other expenses include primarily foreign currency losses from operating activities and expenses related to legal proceedings or claims, and others. Our total net other expense decreased by 54.7% from 353 billion in 2012 to 160 billion (US$152 million) in 2013, primarily due to a decrease in expenses related to legal proceedings or claims and others by 43.4% from 459 billion in 2012 to 260 billion (US$246 million) in 2013, offset in part by a decrease in net foreign currency gain by 39.6% from 134 billion in 2012 to 81 billion (US$77 million) in 2013, mainly due to the depreciation of the U.S. dollar against the Korean Won in 2013 compared to 2012.

We recognized expenses related to legal proceedings or claims of 456 billion and 259 billion (US$245 million) in 2012 and 2013, respectively. These expenses include provisions with respect to certain legal proceedings as well as settlement payments in connection with related claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of our legal proceedings and associated settlement payments.

Finance Income (Costs), Net

Finance income recognized in profit or loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit or loss includes primarily interest expense and foreign currency loss.

Our total net finance costs increased by 36.8% from 144 billion in 2012 to 197 billion (US$187 million) in 2013. Our total net finance costs increased because of a decrease in finance income in 2013 compared to 2012, offset in part by a decrease in finance costs over the same period.

Our finance income decreased by 36.9% from 293 billion in 2012 to 185 billion (US$175 million) in 2013, attributable primarily to a decrease in foreign currency gain by 45.4% from 260 billion in 2012 to 142 billion (US$135 million) in 2013 as the depreciation of the U.S. dollar against the Korean Won in 2013 compared to 2012 was smaller than the depreciation of the U.S. dollar against the Korean Won in 2012 compared to 2011.

Table of Contents

Our finance costs decreased by 12.6% from 437 billion in 2012 to 382 billion (US$362 million) in 2013 primarily due to a decrease in interest expense by 15.4% from 188 billion in 2012 to 159 billion (US$151 million) in 2013, resulting primarily from a decrease in the average interest rates applicable to our financial liabilities, as well as a decrease in our average amounts of financial liabilities outstanding, in 2013 compared to 2012, and a decrease in loss on sale of trade accounts and notes receivable by 40.6% from 32 billion in 2012 to 19 billion (US$18 million) in 2013, largely reflecting a decrease in the average amounts of our outstanding trade accounts and notes receivable sold to financial institutions and a decrease in funding costs in 2013 compared to 2012.

Income Tax Expense

Our income tax expense increased significantly from 222 billion in 2012 to 411 billion (US$389 million) in 2013, primarily due to a significant increase in profit before income tax from 459 billion in 2012 to 830 billion (US$787 million) in 2013. Our effective tax rate increased from 48.4% in 2012 to 49.5% in 2013 mainly due to a reduction in tax credits for capital expenditures in 2013 compared to 2012. The difference between our effective tax rate and our statutory tax rate in 2012 and 2013 was mainly due to the change in unrecognized deferred tax assets of 198 billion and 215 billion (US$204 million), respectively. See Note 29 of the notes to our financial statements. As of December 31, 2013, unused tax credit carryforwards of 529 billion (US$501 million) were not recognized as deferred tax assets because we did not believe realization of such amounts would be probable. As of December 31, 2012, unused tax credit carryforwards of 429 billion were not recognized.

Profit for the Period

As a result of the cumulative effect of the reasons explained above, our profit for the period increased by 76.8% from 237 billion in 2012 to 419 billion (US$397 million) in 2013.

Comparison of 2012 to 2011

Revenue

Our revenue increased by 21.2% from 24,291 billion in 2011 to 29,430 billion in 2012. Increases in the average selling prices of panels for televisions, notebook computers, tablet computers and mobile and other applications, coupled with increases in the number of panels for televisions, notebook computers, desktop monitors and tablet computers sold, were the primary contributing factors to this increase, offset in part by slight decreases in the average selling price of desktop monitors and the number of panels for mobile and other applications sold. In particular:

- Demand for our large-sized television panels, comprising 42-inch and larger panels, grew in 2012, leading to an increase in the number of those panels sold in 2012 compared to 2011. The number of our 42-inch and larger panels sold increased by 33.2% from approximately 20.5 million panels in 2011 to approximately 27.3 million in 2012. In particular, the number of units sold of our 55-inch television panels increased by 75.0% from approximately 2.0 million panels in 2011 to approximately 3.5 million in 2012. Increases in both the sales volume and average selling price of our large-sized television panels in 2012 compared to 2011, particularly of our large-sized television panels equipped with FPR 3D technology which accounted for about half the number of units sold of our large-sized television panels in 2012, outpaced decreases in both the sales volume and average selling price of our television panels that are less than 42-inch in size during the same period.

Demand for our 15.6-inch or smaller notebook computer panels, which category includes three of our top selling notebook computer panels in 2012, namely 13.3-inch, 14-inch and 15.6-inch, grew in 2012, resulting in a 13.5% increase in the number of units sold of our 15.6-inch or smaller notebook computer panels from approximately 58.4 million panels in 2011 to 66.3 million in 2012. The average selling price of our 15.6-inch or smaller notebook computer panels increased in 2012 compared to 2011, in part due to the increased demand for our AH-IPS panels used in notebook computers and our Shuriken panels used in ultra-slim notebook computers.

The number of units sold of our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, grew in 2012, whereas the average selling price of such panels decreased slightly over the same period. In the case of our 21.5-inch desktop monitor panels, for example, the number of units sold increased by 15.1% from approximately 10.6 million panels in 2011 to approximately 12.2 million in 2012, which outpaced a 6.1% decrease in the average selling price of such model of during the same period. In contrast, the number of units sold of desktop monitor panels that are less than 21.5-inch in size decreased in 2012 compared to 2011, whereas the average selling price of such panels increased slightly.

Demand for our tablet computer panels smaller than 10 inches, which category includes panels with new sizes that were added to our product lineup in 2012, grew in 2012, leading to an increase in the number of those panels sold by 60.5% from 34.7 million panels in 2011 to 55.7 million panels in 2012 and an increase in the average selling price during the same period, which in turn resulted in an increase in revenue derived from those panels.

Table of Contents

In our mobile and other applications category, we experienced continued growth in demand for increasingly larger smartphone panels in 2012 as compared to 2011. For example, the number of units sold of smartphone panels that are 3.5-inch or larger increased in 2012 compared to 2011. In particular, certain models that incorporate advanced technology such as AH-IPS technology, including our 4-inch panels, saw large increases in both their average selling prices and number of units sold in 2012 as compared to 2011. In contrast, the average selling prices and sales volume of certain other panels in our mobile and other applications category, such as smaller-sized panels used in older mobile phones that have been increasingly superseded in the market by smartphones, continued to decline in 2012 compared to 2011.

Revenue attributable to sales of panels for televisions increased by 16.7% from approximately ₩11,579 billion in 2011 to approximately ₩13,512 billion in 2012, resulting from increases in both the average selling price and number of units sold of our panels in this category in 2012 compared to 2011. The average selling price of panels for televisions increased by 9.7% from approximately ₩218,126 in 2011 to approximately ₩239,193 in 2012, and the total unit sales of panels in this category increased by 6.4% from approximately 53.1 million panels in 2011 to approximately 56.5 million in 2012. The increase in revenue attributable to sales of panels for televisions primarily reflected a continued growth in market demand in 2012 for increasingly larger-sized television panels, in particular for panels incorporating differentiated specialty features such as FPR 3D, which commanded a higher average selling price in 2012 compared to 2011. In addition, the general recovery in demand for television panels in 2012 contributed to the increase in sales volume of such panels in 2012. This increase was partially offset by decreases in both the sales volume and average selling price of our television panels that are less than 42-inch in size during the same period.

Revenue attributable to sales of panels for notebook computers increased by 13.0% from approximately ₩3,246 billion in 2011 to approximately ₩3,667 billion in 2012, resulting from increases in both the number of units sold and average selling price of our panels in this category in 2012 compared to 2011. The total unit sales of panels for notebook computers increased by 10.7% from approximately 62.9 million panels in 2011 to approximately 69.6 million in 2012, and the average selling price of panels in this category increased by 2.2% from approximately ₩51,587 in 2011 to approximately ₩52,718 in 2012. The growth in revenue attributable to sales of panels for notebook computers primarily reflected continued growth in demand in 2012 for high performance panels used ultra-slim notebooks. These products incorporate newer technologies and therefore command higher price premiums compared to more traditional products, which contributed to the increase in average selling price of our panels in this category in 2012 compared to 2011.

Revenue attributable to sales of panels for desktop monitors increased by 1.3% from approximately ₩4,975 billion in 2011 to approximately ₩5,039 billion in 2012, resulting from an increase in the number of units sold in this category in 2012 compared to 2011, partially offset by a decrease in the average selling price of such panels during the same period. The total unit sales of panels for desktop monitors increased by 3.2% from approximately 50.2 million panels in 2011 to approximately 51.8 million in 2012, whereas the average selling price of panels in this category decreased by 1.8% from approximately ₩99,011 in 2011 to approximately ₩97,242 in 2012. The increase in revenue attributable to sales of panels for desktop monitors primarily resulted from the continued shift in market demand toward larger-sized desktop monitors in 2012, which led to an increase in the sales volume of our desktop monitor panels that are 21.5-inch or larger in size in 2012 compared to 2011, partially offset by a decrease in the sales volume of our desktop monitor panels that are less than 21.5-inch in size over the same period. In addition, the decrease in the average selling price of our panels in this category in 2012 compared to 2011 partially offset the increase in sales volume of such panels over the same period.

Revenue attributable to sales of panels for tablet computers increased by 67.0% from approximately ₩2,224 billion in 2011 to approximately ₩3,714 billion in 2012, resulting from increases in both the number of units sold and average selling price in 2012 compared to 2011. The total unit sales of panels for tablet computers increased by 58.7% from approximately 35.6 million panels in 2011 to 56.5 million in 2012. The average selling price of panels in this category

increased by 5.3% from approximately ₩62,402 in 2011 to approximately ₩65,704 in 2012. The increase in revenue attributable to sales of panels for tablet computers primarily resulted from sales derived from panels with new sizes that were added to our product lineup in this category in 2012.

Revenue attributable to sales of panels for mobile and other applications increased by 53.9% from approximately ₩2,190 billion in 2011 to approximately ₩3,371 billion in 2012, resulting from an increase in the average selling price of our panels in this category while the number of units sold remained relatively flat. The average selling price of panels for mobile and other applications increased by 54.2% from approximately ₩13,297 in 2011 to ₩20,504 in 2012, while the total unit sales of panels in this category decreased by 0.2% from approximately 164.7 million panels in 2011 to approximately 164.4 million in 2012. The increase in the average selling price primarily reflected a shift in our product mix toward increasingly larger panels equipped with newer technologies that enable higher resolutions and meet more advanced performance specifications, particularly in the case of panels for smartphones, which tend to command a higher price premium.

Table of Contents

In addition, our revenue attributable to royalty and others increased by 64.9% from 77 billion in 2011 to 127 billion in 2012. The increase was primarily due to an increase in other revenue, consisting primarily of sales of raw materials on-sold to our customers for module assembly purposes and sales of components to third party after-sales service providers, from 16 billion in 2011 to 89 billion in 2012. Such increase was partially offset by a decrease in royalty income included in revenue from 61 billion in 2011 to 38 billion in 2012 due to a decrease in lump-sum royalty payments from our licensees in 2012 compared to 2011.

Cost of Sales

Cost of sales increased by 14.5% from 23,081 billion in 2011 to 26,425 billion in 2012. As a percentage of revenue, cost of sales decreased from 95.0% in 2011 to 89.8% in 2012. The increase in our cost of sales in 2012 compared to 2011 was attributable primarily to an increase in raw materials and component costs due to an increase in the number of panels sold in 2012 compared to 2011, as well as the increased share of high-end products in our product mix which contributed to the increase in costs on a per unit basis during the same period. In addition, an increase in depreciation and amortization costs, resulting mainly from recognition of depreciation costs in respect of newly constructed facilities and newly purchased equipment, and an increase in labor costs also contributed to the increase in cost of sales in 2012 compared to 2011.

As a percentage of our total cost of sales, raw materials and component costs decreased slightly from 69.2% in 2011 to 68.5% in 2012, while depreciation and amortization costs and labor costs increased slightly from 14.9% and 7.1%, respectively, in 2011 to 15.8% and 7.3%, respectively, in 2012.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, increased by 7.4% from US$645 per square meter of net display area in 2011 to US$693 in 2012. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, increased by 5.2% from 62,960 in 2011 to 66,261 in 2012.

Gross Profit and Gross Margin

As a result of the cumulative effect of the reasons explained above, our gross profit increased significantly from 1,210 billion in 2011 to 3,005 billion in 2012. Our gross margin improved from 5.0% in 2011 to 10.2% in 2012, primarily as a result of an 11.2% increase in the average selling price of our products in 2012 compared to 2011, which outpaced a 5.2% increase in the cost of sales per panel sold over the same period. The continued shift in our product mix toward higher-end products in 2012 resulted in increases in both the average selling price and cost of sales per panel sold in 2012 compared to 2011, but the increase in average selling price outpaced the increase in cost of sales per panel sold because the higher-end products in our product mix tend to command higher premiums and we were able to partially offset the increase in per unit costs by continuing to improve the efficiency of our production processes, as well as maintaining higher utilization rates in 2012 compared to 2011.

Selling and Administrative Expenses

Selling and administrative expenses increased by 13.0% from 1,158 billion in 2011 to 1,308 billion in 2012. In contrast, as a percentage of revenue, our selling and administrative expenses decreased slightly from 4.8% in 2011 to 4.4% in 2012. The increase in selling and administrative expenses in 2012 was attributable primarily to increases in:

shipping costs, resulting primarily from an increase in sales volume shipped to the Americas and Europe, an increase in costs relating to our usage of air freight and a general increase in our overall sales volume in 2012 compared to 2011;

depreciation expense, resulting primarily from recognition of depreciation and amortization costs relating to installation of new upgrades to our IT systems; and

after-sales service expense, resulting primarily from an increase in our overall sales volume in 2012 compared to 2011, as well as the continued shift in our product mix in 2012 toward larger-sized panels equipped with relatively newer technologies, which tend to increase the per unit after-sales service costs.

Such increases were offset in part by a decrease in advertising expense in 2012 compared to 2011 as the initial costs of certain of our advertising campaigns that were undertaken starting in 2011, including FPR 3D promotion activities in markets such as China and Brazil, had a relatively smaller impact on our advertising expense in 2012 compared to 2011.

Table of Contents

The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2012:

	Year Ended December 31,	
	2011[1]	2012
	(in billions of Won)	
Salaries	203	224
Expenses related to defined benefit plan	20	20
Other employee benefits	63	57
Shipping costs	262	350
Fees and commissions	174	190
Depreciation	59	113
Taxes and dues	32	29
Advertising	136	104
After-sales service	72	106
Rent	29	26
Insurance	9	11
Travel	26	21
Training	18	13
Others	55	44
Total	1,158	1,308

(1) Components of selling and administrative expenses for the year ended December 31, 2011 have been reclassified to conform to the criteria of classification for the year ended December 31, 2012.

Research and Development Expenses

Research and development expenses decreased by 3.8% from 816 billion in 2011 to 785 billion in 2012. As a percentage of revenue, our research and development expenses decreased from 3.4% in 2011 to 2.7% in 2012. The decrease in research and development expenses in 2012 compared to 2011 was attributable to a decrease in costs of certain supplies, particularly photo masks and molds, and raw materials used for our research and development activities, offset in part by an increase in average salaries paid to our research and development employees and an increase in depreciation and amortization costs recognized as research and development expenses.

Other Income (Expense), Net

Other income includes primarily foreign currency gains from operating activities, and other expenses include primarily foreign currency losses from operating activities and expenses related to legal proceedings or claims, and others. Our total net other expense increased from 176 billion in 2011 to 353 billion in 2012, primarily due to an increase in expenses related to legal proceedings or claims and others from 151 billion in 2011 to 459 billion in 2012, offset in part by a net foreign currency gain of 134 billion in 2012 compared to a net foreign currency loss of 29 billion in 2011.

We recognized expenses related to legal proceedings or claims of 150 billion and 456 billion in 2011 and 2012, respectively. These expenses include provisions with respect to certain legal proceedings as well as settlement payments in connection with related claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of our legal proceedings and associated settlement payments.

Finance Income (Costs), Net

Finance income recognized in profit or loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit or loss includes primarily interest expense and foreign currency loss.

Our total net finance costs decreased by 7.7% from 156 billion in 2011 to 144 billion in 2012. Our total net finance costs decreased because of an increase in finance income in 2012 compared to 2011, offset in part by an increase in finance costs over the same period.

Our finance income increased by 41.5% from 207 billion in 2011 to 293 billion in 2012, attributable primarily to a net foreign currency gain of 67 billion in 2012 compared to a net foreign currency loss of 32 billion in 2011 due in large part to recording a net foreign currency translation gain in respect of our foreign currency denominated debt in 2012 compared to a loss in 2011 resulting from a higher year-end value of the Korean Won against the U.S. dollar in 2012 compared to 2011, offset in part by a net foreign currency exchange loss in 2012 compared to a gain in 2011 due to a lower average value of the Korean Won against the U.S. dollar in 2012 compared to 2011. The increase in our finance income in 2012 compared to 2011 was offset in part by a 29 billion decrease in interest income primarily due to a decrease in the average interest rates applicable to our time deposits and reduced average amounts of cash held in the form of time deposits in 2012 compared to 2011.

Table of Contents

Our finance costs increased by 20.4% from 363 billion in 2011 to 437 billion in 2012 primarily due to a 43 billion increase in interest expense resulting primarily from an increase in the average interest rates applicable to our financial liabilities, as well as an increase in our average amounts of financial liabilities outstanding, in 2012 compared to 2011, and an increase of 12 billion in loss on sale of trade accounts and notes receivable in 2012 compared to 2011, largely reflecting the increase in trade accounts and notes receivable sold to financial institutions resulting from increased sales in 2012 compared to 2011.

Income Tax Expense (Benefit)

We recognized income tax expense of 222 billion in 2012 compared to an income tax benefit of 293 billion in 2011, primarily due to recording a profit before income tax of 459 billion in 2012 compared to a loss before income tax of 1,081 billion in 2011. As a result, our effective income tax rate was 48.4% in 2012 compared to 27.1% in 2011. As of December 31, 2012, unused tax credit carryforwards of 429 billion were not recognized as deferred tax assets because we did not believe realization of such amounts would be probable. As of December 31, 2011, unused tax credit carryforwards of 209 billion were not recognized.

Profit (Loss) for the Period

As a result of the cumulative effect of the reasons explained above, our profit for the period was 237 billion in 2012 compared to a loss of 788 billion in 2011.

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

Our principal sources of liquidity have been net cash flows generated from our operating activities and debt financing activities. We had cash and cash equivalents of 1,518 billion, 2,339 billion and 1,022 billion (US$968 million) as of December 31, 2011, 2012 and 2013, respectively. We also had deposits in banks of 815 billion, 315 billion and 1,302 billion (US$1,234 million), respectively, as of December 31, 2011, 2012 and 2013. Our primary use of cash has been to fund capital expenditures related to the expansion and improvement of our production capacity with respect to existing and newly developed products, including the construction and ramping-up of new, or in certain cases, expansions of existing, fabrication facilities and the acquisition of new equipment. We also use cash flows from operations for our working capital requirements and servicing our debt payments. We expect our cash requirements for 2014 to be primarily for capital expenditures and repayment of maturing debt.

As of December 31, 2011, we had current assets of 7,858 billion and current liabilities of 9,911 billion, resulting in net current liabilities of 2,053 billion. As of December 31, 2012, we had current assets of 8,915 billion and current liabilities of 9,206 billion, resulting in net current liabilities of 291 billion. As of December 31, 2013, we had current assets of 7,732 billion (US$7,327 million) and current liabilities of 6,789 billion (US$6,434 million), resulting in net current assets of 943 billion (US$894 million). The decrease in net current liabilities as of December 31, 2012 compared to December 31, 2011 was primarily attributable to a 1,182 billion decrease in other accounts payable mainly as a result of repayment of accounts payable amounts associated with the construction of our P9 fabrication facility, OLED panel and LTPS backplane technology-based panel production facilities and other investment projects, a 594 billion increase in trade accounts and notes receivable mainly as a result of increased sales volume, particularly in the second half of 2012, and a 321 billion increase in cash and cash equivalents, net of decreases in deposits in banks, mainly due to an increase in cash received from sales and an increase in the amount of trade accounts and notes receivable sold to financial institutions as of December 31, 2012 compared to December 31, 2011. The decrease in net current liabilities as of December 31, 2012 compared to December 31, 2011 was partially offset by a 364 billion increase in trade accounts and notes payable mainly due to increases in purchases of raw materials and components

resulting from increased production activities in 2012, particularly in the second half of 2012. The change from net current liabilities as of December 31, 2012 to net current assets as of December 31, 2013 was primarily attributable to a 1,357 billion decrease in other accounts payable as of December 31, 2013 compared to December 31, 2012 as result of continued repayment of accounts payable amounts associated with the construction of our P9 fabrication facility, OLED panel and LTPS backplane technology-based panel production facilities and other investment projects and a 1,147 billion decrease in trade accounts and notes payable as of December 31, 2013 compared to December 31, 2012 as a result of a decrease in purchases of raw materials and components resulting from decreased production activities in 2013 compared to 2012.

Table of Contents

Our management constantly monitors our working capital, and we have historically been able to satisfy our cash requirements from cash flows from operations and debt financing. We believe that we have sufficient working capital for our present requirements. We issued domestic debentures in the aggregate principal amount of 590 billion in 2013, proceeds from which have been primarily used for our capital expenditure requirements. In addition, in each of January and December 2013, we entered into a facility loan agreement for an aggregate principal amount of up to 369 billion in long-term loans, under which the full amount was drawn and outstanding as of December 31, 2013.

Our ability to satisfy our cash requirements from cash flows from operations and financing activities 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. Therefore, we re-evaluate our capital requirements regularly in light of our cash flows from operations, the progress of our expansion plans and market conditions. To the extent that we do not generate sufficient cash flows 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.

Our net cash provided by operating activities amounted to 3,666 billion in 2011, 4,570 billion in 2012 and 3,585 billion (US$3,397 million) in 2013. The increase in net cash provided by operating activities in 2012 compared to 2011 was mainly due to an increase in cash collected from our customers as a result of an increase in sales volumes in 2012 compared to 2011, an increase in the amount of trade accounts and notes receivable sold to financial institutions in 2012 compared to 2011 and an increase in long-term advance received in 2012 compared to 2011. The increase in net cash provided by operating activities in 2012 compared to 2011 was offset in part by an increase in cash paid for purchases of components and raw material due to our increased sales and related production volumes in 2012. The decrease in net cash provided by operating activities in 2013 compared to 2012 was mainly due to a decrease in cash collected from sales resulting from a decrease in sales, a decrease in the receipt of advances received and an increase in payments relating to legal proceedings including settlements during the same period.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabrication facilities and our cost reduction measures, contribute to the fluctuations in our inventory levels from period to period. In 2012, an increase in our inventory of supplies such as photo masks and molds, a further increase in the production capacity of our existing facilities and the commencement of mass production at our P9 fabrication facility contributed to a 3.2% increase in our inventory levels from year-end 2011. In 2013, a decrease in our inventory of finished goods and a reduction of utilization rates of our facilities in response to market conditions contributed to a 19.1% decrease in our inventory levels from year-end 2012. Inventories consisted of the following for the periods indicated:

	As of December 31,			
	2011	2012	2013	2013[1]
	(in billions of Won and millions of US$)			
Finished goods	922	1,044	734	US$ 696
Work in process	772	653	606	574
Raw materials	458	371	262	248
Supplies	165	322	331	315
Total	2,317	2,390	1,933	US$ 1,832

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,055.25 to US$1.00, the noon buying rate in effect on December 31, 2013 as certified by the Federal Reserve Bank of New York for customs purposes. 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.

Our net cash used in investing activities amounted to 3,494 billion in 2011, 3,688 billion in 2012 and 4,504 billion (US$4,268 million) in 2013. Net cash used in investing activities primarily reflected the substantial capital expenditures we have made in connection with the expansion and improvement of our production capacity in recent years, mainly relating to construction of our new, or in certain cases, expansions or conversions of existing, fabrication and module assembly facilities and acquisition of new equipment. These cash outflows from capital expenditures amounted to 4,063 billion, 3,972 billion and 3,473 billion (US$3,291 million) in 2011, 2012 and 2013, respectively. We intend to fund our capital requirements associated with our expansion and construction projects with cash flows from operations and financing activities, such as external long-term borrowings.

We currently expect that, in 2014, our total capital expenditures on a cash out basis will be similar to that of last year s amount of 3.5 trillion, primarily to fund the construction of our eighth-generation fabrication facility in Guangzhou, China and expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. However, our overall expenditure levels and our allocation among projects are subject to many uncertainties. We review the amount of our capital expenditures and may make adjustments from time to time based on cash flows from operations, the progress of our expansion plans and market conditions.

Table of Contents

Our net cash used in financing activities amounted to 278 billion in 2011, 48 billion in 2012 and 391 billion (US$371 million) in 2013. The net cash used in financing activities in 2011 reflects primarily the repayment of foreign currency denominated short-term borrowings and, to a lesser degree, certain long-term debt and the payment of dividends. The net cash used in financing activities in 2012 reflects primarily the repayment of foreign currency denominated long-term debt, offset in part by cash provided by our incurrence of Won denominated long-term debt. The net cash used in financing activities in 2013 reflects primarily the net repayment of long-term debt and debentures. On March 11, 2011, we declared a cash dividend of 179 billion to our shareholders of record as of December 31, 2010 and distributed the cash dividend to such shareholders on April 7, 2011. At our shareholders meetings on March 9, 2012, March 8, 2013 and March 7, 2014, we did not declare a cash dividend to our shareholders.

We had a total of 22 billion, 36 billion and 21 billion (US$20 million) of short-term borrowings outstanding as of December 31, 2011, 2012 and 2013, respectively. The weighted average interest rate under the terms of our short-term borrowings was 0.95% as of December 31, 2013.

As of December 31, 2013, we maintained accounts receivable negotiating facilities with several banks for up to aggregate amounts of US$1,713 million and ¥5,000 million. Our subsidiaries have also entered into various accounts receivable negotiating facilities. For further information regarding these facilities, please see Note 20 of the notes to our financial statements.

As of December 31, 2013, we had outstanding long-term debt including current portion and discounts on debentures in the amount of 3,882 billion (US$3,679 million), consisting primarily of 2,640 billion of Korean Won denominated debentures, US$700 million of U.S. dollar denominated long-term loans and 509 billion of Korean Won denominated long-term loans.

The terms of some of our long-term debt 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. We believe we were in compliance with the covenants under our debt obligations at December 31, 2013. For further information about our short- and long-term debt obligations as of December 31, 2013, see Note 14 of the notes to our financial statements.

Set forth below are the aggregate amounts, as of December 31, 2013, 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	3,890,642	887,315	2,465,336	536,733	1,258
Fixed License Payment	81,386	40,693	40,693		
Long-Term Other Payables	40,266	5,320	34,930	16	
Total	4,012,294	933,328	2,540,959	536,749	1,258
Estimates of interest payment based on contractual interest rates effective as of	322,798	142,696	157,804	22,259	39

December 31, 2013

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. We also have similar royalty payment obligations under our license agreements relating to certain OLED technology.

Expenses relating to our license fees and royalty payments under existing license agreements were 35 billion in 2011; 43 billion in 2012 and 63 billion (US$60 million) in 2013, representing 2.7% of our research and development related expenditures in 2011, 3.1% in 2012 and 3.8% in 2013. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

Table of Contents

Taxation

In 2013, the effective statutory corporate income tax rate applicable to us was 11.0% (including local income surtax) for the first 200 million of our taxable income, 22.0% (including local income surtax) for our taxable income between 200 million and 20 billion and 24.2% (including local income surtax) for our taxable income in excess of 20 billion.

Tax Credits

We are entitled to a number of tax credits relating to certain investments in technology and human resources development. For example, under the Special Tax Treatment Control Law, we are entitled to a tax credit of 5% for our capital investments made on or before December 31, 2011.

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, 2013, we had available deferred tax assets related to these credits of 538 billion (US$510 million), which may be utilized against future income tax liabilities through 2018. In addition, we also had unused tax credit carryforwards of 529 billion (US$501 million) as of December 31, 2013 for which no deferred tax asset was recognized.

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

The display panel 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 development related expenditures amounted to 1,314 billion in 2011, 1,373 billion in 2012 and 1,675 billion (US$1,587 million) in 2013, representing 5.4% of our revenue in 2011, 4.7% in 2012 and 6.2% in 2013.

We believe that the future trends for display products will include the widespread use of affordable large-sized flat panel products with higher performance qualities and the use of different types of display products for a variety of purposes, such as using flexible display panels in a range of products, using large-sized display panels for public display or advertising, and using small-sized panels for mobile devices. To meet the demands of the future trends, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the existing products and diversifying the use of display panels as new opportunities arise with the development of communication systems and information technology. The following are examples of products and technologies that have been developed through our research and development activities in recent years:

In 2011, we developed a 4.5-inch HD TFT-LCD panel that utilized AH-IPS technology, which allows for wide viewing angles and high resolution imagery for use in 4G smartphones. In addition, we became the first display panel manufacturer to develop a 55-inch OLED panel that utilized WRGB OLED technology, for which we were awarded the industrial bronze medal by the Korea Invention Promotion Association. We also developed a 55-inch Full HD TFT-LCD panel with a super narrow bezel of just 5.3 mm for use in public displays. The super narrow bezel allows the public displays to be displayed alongside each other to create a large 165-inch multi-screen public display capable of producing large near seamless imagery.

In 2012, we developed an 84-inch Ultra HD TFT-LCD panel, which has a substantially higher screen resolution compared to Full HD panels and may be used in classrooms as interactive whiteboards and in home theaters. In addition, we developed a 55-inch Full HD OLED panel for retail sales with a thickness of just 4 millimeters, wide viewing angles and near-infinite contrast. We also developed a 29-inch ultra-wide TFT-LCD panel with a 21:9 screen aspect ratio to be used in desktop monitors and all-in-one personal computers. In addition, we also developed a 5-inch product with 1920 x 1080 Full HD resolution at 440 pixels-per-inch. We developed 32-inch, 42-inch, 47-inch and 55-inch super narrow bezel TFT-LCD panels that are borderless on three sides and 42-inch, 47-inch, 55-inch and 60-inch super narrow bezel TFT-LCD panels that are borderless on all four sides.

Table of Contents

In 2013, we developed and unveiled the world s first 55-inch curved 3D Full HD OLED television panel and a 77-inch curved Ultra HD OLED television panel. In addition, we developed a 105-inch Ultra HD curved TFT-LCD television panel with a 21:9 screen aspect ratio, which allows for an unprecedented level of viewer immersion. We also collaborated with Intel Corporation, or Intel, and was the first in the world to incorporate Intel s Wireless Display, or WiDi, technology in a display panel with the development of our 23.8-inch TFT-LCD monitor panel. WiDi technology allows viewers to seamlessly stream content from one display device, such as a notebook computer or smartphone, wirelessly to a display device with WiDi technology without the need for any intermediary device. With respect to smartphones, we developed the world s first 5.5-inch quad high-definition panel, which has four times the resolution of a conventional HD panel while being significantly brighter and thinner (only 1.22 mm). Furthermore, we developed and commenced mass production of a flexible plastic OLED panel for smartphones. The plastic substrates allow the panel to be bendable and virtually shatterproof while being much lighter and thinner compared to panels with conventional glass substrates.

As the product life cycle of display panels using certain of the existing TFT-LCD technology is approaching maturity, we plan to further focus on OLED and other newer display technologies, while also exploring new growth opportunities in the application of display panels, such as in tablet computers, smartphones, public displays and automotive displays.

In order to maintain our position as one of the industry s technology leaders, we believe it is important not only to increase direct spending on research and development, but also to manage our research and development capability effectively in order to successfully implement our long-term strategy. In connection with our efforts to consolidate our research and development efforts for next-generation display technologies, we opened the R&D Center in Paju, Korea in April 2012, which houses approximately 2,700 engineers, researchers, designers, technicians and support personnel.

We complement our in-house research and development capability with collaborations with universities and other third parties. For example, we provide project-based funding to both domestic and overseas universities as a means to recruit promising engineering students and to research and develop new technologies. In July 2012, we entered into an agreement with Seoul National University to establish the LGD-SNU Cooperation Center within the university s Research Institute of Advanced Materials to conduct research into display panel technologies, including OLED technology. We also enter into joint research and development agreements from time to time with third parties for the development of technologies in specific fields. In addition, we belong to several display industry consortia, and we receive annual government funding to support our research and development efforts. In addition to these collaborations, we may form strategic technology alliances with the research arms of LG Electronics, as well as suppliers and equipment makers in cluster industries, that is, industries related to the TFT-LCD industry, in order to enhance our capability to develop new technology.

We have developed a research and development management system whereby we encourage our engineers to propose new projects freely and to implement rigorous evaluation criteria for each stage of project development. We select our projects primarily based on their feasibility and alignment with our research and development strategy, and we review the progress of all ongoing projects on a quarterly basis. As of December 31, 2013, we employed approximately 4,400 engineers, researchers, designers, technicians and support personnel in connection with our research and development activities.

While we primarily rely on our own capacity for the development of new technologies in the display panel 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

Our business has benefited from our patent portfolio, which includes patents for display technologies, manufacturing processes, products and applications related to the production of TFT-LCD and OLED panels. We hold a large number of patents in Korea and in other countries, including in the United States, China, Japan, Germany, France, Great Britain and Taiwan. These patents will expire at various dates upon the expiration of their respective terms ranging from 2014 to 2033. In March 2014, we formed Unified Innovative Technology, LLC in the United States, a limited liability company solely owned by us for the purpose of patent portfolio management.

Table of Contents

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 also 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. In addition, we have increased our efforts to safeguard our propriety information by engaging in in-house information protection awareness activities with our employees.

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 35 billion in 2011, 43 billion in 2012 and 63 billion (US$60 million) in 2013, representing 2.7%, 3.1% and 3.8% of our research and development related expenditures in 2011, 2012 and 2013, respectively. We recognized royalty income in the amount of 69 billion in 2011, 42 billion in 2012 and 23 billion (US$22 million) in 2013. The following are examples of license agreements we have entered into in recent years:

We have a license agreement with each of Lemelson Foundation, Columbia University, Penn State University, Honeywell International, Honeywell Intellectual Properties, Plasma Physics Corporation and Fergason Patent Properties. Each license agreement provides for a non-exclusive license under certain patents relating to TFT-LCD technologies.

We entered into a license agreement with Semiconductor Energy Laboratory which provides for a non-exclusive license under certain patents relating to TFT-LCD and AMOLED technologies. For IPS technologies, we have a non-exclusive license with Merck & Co.

We entered into a cross-license agreement with each of Hitachi, HannStar and Hydis for a non-exclusive license under certain patents relating to display technologies.

We entered into separate cross-license agreements with each of NEC, Chunghwa Picture Tubes and AU Optronics in connection with the settlement of certain patent infringement lawsuits. Under the agreements, each party grants the other party a license under certain patents relating to TFT-LCD technologies.

We are licensed to use certain patents for our TFT-LCD products pursuant to a cross license agreement between Philips Electronics and Toshiba Corporation.

In addition to the above, we have also entered into license or cross-license agreements with other third parties in the course of our business operations in connection with certain patents which such third parties own or control.

As well as 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. For example, we entered into a license agreement with Rockwell Collins Inc. under which we granted to Rockwell a non-exclusive, non-transferable license under our patents primarily for use in military applications. We have also entered into certain patent purchase and license agreements with third parties, where we receive a portion of the license payments.

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

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

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

For a discussion of our off-balance sheet arrangements, please see Factoring and securitization of accounts receivable , Letters of credit and Payment guarantees in Note 20 of the notes to our financial statements.

Table of Contents

Item 5.F. ***Tabular Disclosure of Contractual Obligations***
Presented in Item 5.B. above.

Item 5.G. ***Safe Harbor***
See Forward-Looking Statements.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Our board of directors has the ultimate responsibility for the management of our business affairs. Our articles of incorporation provide for a board consisting of between five and seven directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Under the Korean Commercial Code, a representative director of a company established in Korea is authorized to represent and act on behalf of such company and has the power to bind such company. Sang Beom Han is currently our sole representative director.

The term of office for our directors shall not exceed the closing of the annual general meeting of shareholders convened in respect of the last fiscal year within three years after they take office. Our board must meet at least once every quarter, and may meet as often as the chairman of the board of directors or the person designated by the regulation of the board of directors deem necessary or advisable.

The tables below set forth information regarding our current directors and executive officers. The business address of all of the directors and executive officers is LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Korea.

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 Commercial Code and also meets the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

Name	Date of Birth	Position	First Elected/ Appointed	Term Expires	Principal Occupation
Tae Sik Ahn	March 21, 1956	Director	March 2010	March 2016	Professor, School of Business, Seoul National University
Jin Jang	November 28, 1954	&nb			