

LG.Philips LCD Co., Ltd.  
Form 6-K  
March 31, 2006  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form 6-K

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REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2006

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## LG.Philips LCD Co., Ltd.

(Translation of Registrant's name into English)

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20 Yoido-dong, Youngdungpo-gu, Seoul 150-721, The Republic of Korea

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

*Note:* Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

*Note:* Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's

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securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes \_\_\_\_\_ No  X

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YEARLY REPORT

(From January 1, 2005 to December 31, 2005)

THIS IS A TRANSLATION OF THE YEARLY REPORT ORIGINALLY PREPARED IN KOREAN AND IS IN SUCH FORM AS REQUIRED BY THE KOREAN FINANCIAL SUPERVISORY COMMISSION.

IN THE TRANSLATION PROCESS, SOME PARTS OF THE REPORT WERE REFORMATTED, REARRANGED OR SUMMARIZED FOR THE CONVENIENCE OF READERS.

UNLESS EXPRESSLY STATED OTHERWISE, ALL INFORMATION CONTAINED HEREIN IS PRESENTED ON A NON-CONSOLIDATED BASIS IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN KOREA, OR KOREAN GAAP, WHICH DIFFER IN CERTAIN RESPECTS FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CERTAIN OTHER COUNTRIES, INCLUDING THE UNITED STATES. WE HAVE MADE NO ATTEMPT TO IDENTIFY OR QUANTIFY THE IMPACT OF THESE DIFFERENCES.

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### 1. Overview

#### A. Industry

##### (1) Industry characteristics and growth potential

- TFT-LCD technology is one of the most widely used technologies in the manufacture of flat panel displays and the demand for flat panel displays is growing rapidly. The flat panel display industry is characterized by high entry barriers due to rapidly evolving technology, capital-intensive characteristics, and the significant investments required to achieve economies of scale, among other factors. There is strong competition between a limited number of players within the industry and production capacity in the industry, including ours, is being continually increased.
- The demand for LCD panels for Notebook PCs & Monitors has been closely related to the IT industry cycle. In addition, the demand for LCD panels for TVs is growing with the start of HDTV broadcasting and as LCD TV is anticipated to play a key role in the digital display area. We expect competition between TFT-LCD and PDP technologies to intensify in the area of large flat TV products. In addition, LCD panel markets for applications, such as mobile phones, PDAs, medical applications and automobile navigation systems, among others, are growing steadily.
- The average selling prices of our display panels have declined in general and are expected to continually decline with time irrespective of industry-wide fluctuations as a result of, among other factors, technology advances and cost reductions.

##### (2) Cyclicalities

- The TFT-LCD business has high cyclicalities as well as being a capital intensive business. In spite of the increase in demand for products, this industry has experienced periodic volatility caused by imbalances between demand and supply due to capacity expansion within the industry.
- Intense competition and expectations of demand growth may lead panel manufacturers to invest in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities.
- During such surges in capacity growth, our customers can exert and have exerted strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in our gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases.

##### (3) Competitiveness

- Our ability to compete successfully depends on factors both within and outside our control, including product pricing, performance and reliability, successful and timely investment and product development, success of our end-brand customers in marketing their brands and products, component and raw material supply costs, and general economic and

industry conditions.

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- Core competitiveness includes technology leadership, capability to design new products and premium products, timely investment in advanced fabs, cost leadership through application of large production lines, innovation of process and productivity, and collaborative customer relationships.
  
  - Most importantly, cost leadership and stable and long-term relationships with customers are critical to secure profit even in a buyer's market.
  
  - A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. The loss of these end-brand customers, as a result of customers entering into strategic supplier arrangements with our competitors or otherwise, would thus result in reduced sales.
  
  - 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 protect our intellectual property internationally by obtaining patents and undertaking monitoring activities in our major markets. It is also necessary to recruit and retain the experienced key staffs and highly skilled line operators.
- (4) Sourcing material
- Materials are sourced in-house (color filters) as well as from domestic and overseas vendors. However, recently, the domestic portion is growing due to the active participation of domestic vendors.
  
  - The shortage of raw materials may arise temporarily due to the rapid increase in demand for raw materials from capacity expansion in the TFT-LCD industry.
  
  - 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.
- (5) Others
- Most TFT-LCD panel makers are located in Asia.
    - a. Korea: LG.Philips LCD, Samsung Electronics (including Joint Venture between Samsung Electronics and Sony Corporation), BOE-Hydis
    - b. Taiwan: AU Optronics, Chi Mei Optoelectronics, CPT, QDI, etc.
    - c. Japan: Sharp, Hitachi, etc.
    - d. China: SVA-NEC, BOE-OT, etc.



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B. Company

(1) Business overview

- We started the TFT-LCD business in 1998. We currently operate seven fabrication facilities located in Gumi and Paju, Korea and four module facilities located in Gumi & Paju, Korea and Nanjing, China.
- We became the first LCD maker in the world to commence commercial production at a 4th generation fab (P3) in July 2000 and at a 5th generation fab (P4) in March 2002, and we started mass production at our 6th generation fab (P6) in August 2004, which allows us to produce LCD panels for large TVs and monitors. Following mass production at our 7th generation fab (P7) in January 2006, we became a panel maker who operates both 6th and 7th generation lines, which we believe will strengthen our position as a leader in the LCD TV market.
- In the fiscal year 2005, despite the difficult business environment, including a fall in product prices, volatile foreign exchange rates and high oil prices, our non-consolidated sales revenue grew 10% year-on-year to KRW 8,890 billion with operating income of KRW 448 billion and net income of KRW 517 billion.
- In addition, we successfully completed the capital increase of USD 1,386 million through the issuance of ADRs in July 2005, resulting in our financial stability with non-consolidated liability to equity ratio of 69.3% and net debt to equity ratio of 21.5% as of December 31, 2005.
- In terms of our operational performance, we were recognized as the number one producer of large TFT-LCD panels based on the number of units sold in 2005, according to DisplaySearch.
- Business area of the company for disclosure is limited to LCD business

(2) Market shares

- World wide market share of large-size TFT-LCD panels ( $\geq 10$  ) based on revenue

|                       | 2005  | 2004  | 2003  |
|-----------------------|-------|-------|-------|
| Panel for Notebook PC | 22.5% | 19.7% | 19.9% |
| Panel for Monitor     | 20.5% | 22.7% | 23.4% |
| Panel for TV          | 22.6% | 19.9% | 26.0% |
| Total                 | 20.7% | 21.0% | 22.2% |

Source: DisplaySearch Q1 2006

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(3) Market characteristics

- Due to the recent high growth in the display appliance market for the flat display format, the scale of the LCD market is growing at a rapid rate, resulting in expansion of the market centered mainly in America, Japan, Europe and China.

(4) New business

- P7, the 7th generation fab which has been constructed at our Paju industrial complex in Korea, started mass production in January 2006. P7 is scheduled to reach a production capacity of 45,000 input glass sheets per month by the third quarter of 2006 and is expected to reach its initial design capacity of 90,000 input glass sheets per month by the first quarter of 2007.
- We have commenced building construction of P8 at our Paju industrial complex in Korea in anticipation of growth of TFT-LCD market.
- In September 2005, we entered into an agreement to build a back-end module production plant in Wroclaw, Poland, becoming the first global LCD industry player to commence such production in Europe. We plan to break ground on the plant in 2006 and expect to begin production during the first half of 2007. The Polish plant is expected to have an initial capacity of 3 million modules per year. We are going to invest a total of EUR 429 million in the plant by 2011, at which time it is scheduled to reach its design capacity of 11 million units per year.

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(5) Organization chart

- JRD : Joint Representative Director

- CEO : Chief Executive Officer

- CFO : Chief Financial Officer

- COO : Chief Operating Officer

- CTO : Chief Technology Officer

- CMSO: Chief Marketing Sales Officer

**2. Information Regarding Shares**

A. Change in Capital Stock

| Date         | Descriptions             | Change of Number of<br>Common Shares | (Unit : KRW, Share)      |
|--------------|--------------------------|--------------------------------------|--------------------------|
|              |                          |                                      | Face amount<br>per share |
| Jul 23, 2004 | Initial Public Offering* | 33,600,000                           | 5,000                    |
| Sep 8, 2004  | Over-allotment Option**  | 1,715,700                            | 5,000                    |
| Jul 27, 2005 | Follow-on Offering***    | 32,500,000                           | 5,000                    |

\* ADSs offering : 24,960,000 shares (US\$ 30 per Share, US\$ 15 per ADS)  
Offering of common stock : 8,640,000 shares (KRW 34,500 per share)

\*\* Pursuant to underwriters exercise of over-allotment option (US\$ 30 per Share, US\$ 15 per ADS)

\*\*\* ADSs offering (US\$ 42.64 per Share, US\$ 21.32 per ADS)

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## B. Convertible Bonds

(Unit : US\$, Share)

| Item              | Convertible Bonds  |
|-------------------|--|
| Issuance Date     | April 19, 2005   |
| Maturity          | April 19, 2010   |
| Face Amount       | 475,000,000  |
| Offering method   | Public Offering  |
| Conversion period | Convertible into common shares in the period from<br>June 27, 2005 to April 4, 2010  |
| Conversion price  | KRW 58,251 per share*  |
| Conversion status | Amount already converted None<br>Amount convertible 475,000,000 (8,276,681 shares if all convertible bonds are converted)* |
| Remarks           | - Registered form<br><br>- Listed on Singapore stock exchange  |

\* Conversion price was adjusted from KRW 58,435 to KRW 58,251 and number of shares convertible was adjusted from 8,250,620 to 8,276,681 after the follow-on offering as of July 27, 2005.

## C. Shareholder List

(1) Total shares issued : 357,815,700 shares as of December 31, 2005

(2) Largest shareholder and related parties as of December 31, 2005

(Unit: share)

| Name           | December 31, 2004    | Increase/Decrease | December 31, 2005    | Cause of change* |
|----------------|----------------------|-------------------|----------------------|------------------|
| LG Electronics | 145,000,000 (44.57)% | (-) 9,375,000     | 135,625,000 (37.90)% |                  |
| Total          | 145,000,000 (44.57)% | (-) 9,375,000     | 135,625,000 (37.90)% |                  |

\* Our issuance of new share (32,500,000 shares) in ADSs and the disposal of our shares (18,750,000 shares) by major shareholders in Jul. 2005.

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(3) Shareholders who own 5% or more of our shares as of December 31,2005

(Unit: share)

| Name                | Type of Stock | Number of shares | Ratio  |
|---------------------|---------------|------------------|--------|
| LG Electronics      | Common Stock  | 135,625,000      | 37.90% |
| Philips Electronics | Common Stock  | 117,625,000      | 32.87% |
| Citibank N.A.*      | Common Stock  | 36,518,569       | 10.21% |
| Total               |               | 289,768,569      | 80.98% |

\* ADSs Depositary

D. Voting rights as of December 31, 2005

(Unit: share)

| Description                                     | Number of shares |
|---|------------------|
| 1. Shares with voting rights [A-B]              | 357,815,700      |
| A. Total shares issued                          | 357,815,700      |
| B. Shares without voting rights                 |                  |
| 2. Shares with restricted voting rights         |                  |
| Total number of shares with voting rights [1-2] | 357,815,700      |

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## E. Dividends

## (1) Dividends during the recent 3 fiscal years

| Description                                  | 2005      | 2004      | 2003      |
|--|-----------|-----------|-----------|
| Par value (Won)                              | 5,000     | 5,000     | 5,000     |
| Net income (Million Won)                     | 517,012   | 1,655,445 | 1,019,100 |
| Earnings per share (Won)                     | 1,523     | 5,420     | 3,514     |
| Retained earning for dividends (Million Won) | 3,480,349 | 2,963,337 | 1,307,892 |
| Total cash dividend amount (Million Won)     |           |           |           |
| Total stock dividend amount (Million Won)    |           |           |           |
| Cash dividend payout ratio (%)               |           |           |           |
| Cash dividend yield (%)                      |           |           |           |
| Stock dividend yield (%)                     |           |           |           |
| Cash dividend per share (Won)                |           |           |           |
| Stock dividend per share (Won)               |           |           |           |

\* Earnings per share are calculated based on par value of 5,000 won.

(Stock split was made from par value of 10,000 won to par value of 5,000 won per share as of May 25, 2004)

\* Retained earnings for dividends is the amount before dividends are paid.

\* Earnings per share was calculated by net income divided by weighted average number of common stock

**3. Major Products and Materials**

## A. Major products in 2005

(Unit: In billions of won)

| Business area | Sales types                         | Items (Market)        | Specific use                                       | Major trademark | Sales (%)     |
|---------------|-------------------------------------|-----------------------|--|-----------------|---------------|
| TFT-LCD       | Product/<br>Service/<br>Other Sales | TFT-LCD<br>(Overseas) | Notebook PC, Monitor, TV Applications Panels, etc. | LG.Philips LCD  | 8,114 (91.3)% |
|               |                                     | TFT-LCD<br>(Korea*)   | Notebook PC, Monitor, TV Applications Panels, etc. | LG.Philips LCD  | 776 (8.7)%    |
| Total         |                                     |                       |  |                 | 8,890 (100)%  |

\* Local export was included.

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B. Average selling price trend of major products

(Unit: USD / M<sup>2</sup>)

| Description   | 2005  | 2004  | 2003  |
|---------------|-------|-------|-------|
| TFT-LCD panel | 2,247 | 3,066 | 3,033 |

\* Half-finished products in cell format are excluded.

- (1) Assumptions for calculations
  - Average annual selling price per panel
- (2) Major factors contributing to price fluctuation
  - Price change due to fluctuation in market
  - Price change due to change in model mix

C. Major materials

(Unit: In billions of won)

| Business area | Purchase types | Items      | Specific use  | Purchase amount (%) | Remarks  |
|---------------|----------------|------------|---------------|---------------------|--|
|               |                | Glass      |               | 1,071 (21.8)%       | Samsung Corning Precision Glass Co., Ltd., NEG, etc. |
|               |                |            | LCD Panel     |                     |  |
| TFT-LCD       | Materials      | Back-Light | Manufacturing | 973 (19.8)%         | Heesung Electronics Ltd., etc.                       |
|               |                | Polarizer  |               | 418 (8.5)%          | LG Chem., etc.                                       |
|               |                | Others     |               | 2,451 (49.9)%       |  |
| Total         |                |            |               | 4,913 (100.0)%      |  |

D. Price trend of major materials

(Unit : Won)

| Description | 2005   | 2004   | 2003   |
|-------------|--------|--------|--------|
| Glass       | 82,944 | 76,080 | 57,488 |
| Back-Light  | 46,020 | 35,800 | 33,441 |
| Polarizer   | 8,386  | 8,256  | 7,288  |

- (1) Assumption for calculation
  - Average unit price of major raw materials
- (2) Major factors contributing to price fluctuations

- Difference between demand and supply
- Change in size of raw materials and changes in quantity
- Continuous cost reduction efforts by key vendors



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**4. Production and Equipment**

A. Production capacity and calculation

(1) Production capacity

(Unit : 1,000 Glass sheets)

| Business area | Items   | Business place | 2005  | 2004  | 2003  |
|---------------|---------|----------------|-------|-------|-------|
| TFT-LCD       | TFT-LCD | Gumi           | 8,128 | 6,644 | 5,280 |

(2) Calculation of Capacity

a. Method

Assumptions for calculation

- Based on input glass

Calculation method

- Average monthly input capacity for the fourth quarter x given periods (12 months)

b. Average working hours

- Refer to B-(2)

B. Production performance and working ratio

(1) Production performance

(Unit: 1,000 Glass sheets)

| Business area | Items | Business place | 2005 | 2004 | 2003 |
|---------------|-------|----------------|------|------|------|
|---------------|-------|----------------|------|------|------|

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|         |         |      |       |       |       |
|---------|---------|------|-------|-------|-------|
| TFT-LCD | TFT-LCD | Gumi | 7,544 | 6,033 | 4,715 |
|---------|---------|------|-------|-------|-------|

\* Based on input glass

(2) Working Ratio

(Unit: Hours)

| <b>Business place<br/>(area)</b> | <b>Available working hours<br/>of 2005</b> | <b>Real working hours<br/>of 2005</b> | <b>Average<br/>working ratio</b> |
|----------------------------------|--|---------------------------------------|----------------------------------|
| Gumi<br>(TFT-LCD)                | 8,760<br>(24HR. X 365Days)                 | 8,760<br>(24HR. X 365Days)            | 100%                             |

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## C. Investment plan

## (1) Investment in progress

(Unit: In billions of won)

| Business area | Description           | Investment period | Investment Assets         | Investment effect  | Total investment | Already invested | To be invested (Estimate) | Remarks |
|---------------|-----------------------|-------------------|---------------------------|--------------------|------------------|------------------|---------------------------|---------|
| TFT-LCD       | New / Expansion, etc. | Q1 04~            | Building/ Machinery, etc. | Capacity expansion | 7,300            | 4,500            | 2,800                     |         |

## (2) Investment Plan (Consolidated basis)

(Unit: In billions of won)

| Business area | Project               | Expected yearly investment |        |        | Investment effects       | Remarks |
|---------------|-----------------------|----------------------------|--------|--------|--------------------------|---------|
|               |                       | 2006 *                     | 2007** | 2008** |                          |         |
| TFT-LCD       | New / Expansion, etc. | 4,230                      |        |        | Capacity Expansion, etc. |         |

\* Expected investments in 2006 are subject to change depending on market environment, etc.

\*\* Expected investment in 2007 and 2008 cannot be projected due to industry characteristics.

**5. Sales**

## A. Sales performance

(Unit: In billions of won)

| Business area | Sales types    | Items (Market) |                 | 2005  | 2004  | 2003  |
|---------------|----------------|----------------|-----------------|-------|-------|-------|
| TFT-LCD       | Products, etc. | TFT-LCD        | Overseas Korea* | 8,114 | 7,298 | 5,053 |
|               |                |                |                 | 776   | 782   | 978   |
|               |                |                | Total           | 8,890 | 8,080 | 6,031 |

\* Local export was included.

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B. Sales route and sales method

(1) Sales organization

- Sales departments for Notebook PC, Monitor and TV panels, qualification department and sales planning & administration department are grouped under the Chief Marketing Sales Officer. Sales department for Application and Customer Service department for Application are in the Application Division.
  
- Sales subsidiaries in America, Germany, Japan, Taiwan and China (Hong Kong, Shanghai) perform sales activities in overseas countries and provide technical support to customers.
  
- \* We have a back-end manufacturing subsidiary in Nanjing, China and we have entered into investment agreement with Polish Government to build a back-end module production plant in Wroclaw, Poland.

(2) Sales route

- LG.Philips LCD HQ & Overseas manufacturing subsidiary → Overseas subsidiaries (USA/Europe/Japan/Taiwan /Hong Kong/Shanghai) → System integrators, Branded customers → End users
  
- LG.Philips LCD HQ & Overseas manufacturing subsidiary → System integrators, Branded customers → End users

(3) Sales methods and conditions

- Direct sales & sales through overseas subsidiaries, etc.

(4) Sales strategy

- To secure stable sales to major PC makers and the leading consumer electronics makers globally
  
- To increase sales of premium Notebook PC products, to strengthen sales of the larger size and high-end Monitor segment and to lead the large and wide LCD TV market
  
- To diversify our market in the applications segment, including products such as mobile phone, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment, etc.

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## A. Members of Board of Directors as of March 31, 2006

| <b>Name</b>          | <b>Date of Birth</b> | <b>Position</b>   | <b>Principal Occupation</b>   |
|----------------------|----------------------|---|---|
| Bon Joon Koo         | December 24, 1951    | Joint Representative<br>Director,<br>Vice-Chairman and<br>Chief Executive Officer |   |
| Ron H. Wirahadiraksa | June 10, 1960        | Joint Representative<br>Director, President and<br>Chief Financial Officer        |   |
| Hee Gook Lee         | March 19, 1952       | Director  | President and Chief Technology Officer of LG Electronics  |
| Rudy Provoost*       | October 16, 1959     | Director  | Chief Executive Officer of Philips Consumer<br>Electronics and Member of Philips Group Management Committee   |
| Bongsung Oum         | March 2, 1952        | Outside Director  | Chairman, KIBNET Co., Ltd.  |
| Bart van Halder      | August 17, 1947      | Outside Director  | Member of Boards of Directors of Cosun u.a. and Air Traffic Control<br>in the Netherlands   |
| Ingoo Han            | October 15, 1956     | Outside Director  | Professor, Graduate School of Management, Korea Advanced<br>Institute of Science and Technology   |
| Doug J. Dunn         | May 5, 1944          | Outside Director  | Member of Boards of Directors of ARM<br><br>Holdings plc, STMicroelectronics N.V., Soitec Group, Optical<br>Metrology Innovations and TomTom International BV |
| Dongwoo Chun         | January 15, 1945     | Outside Director  | Outside Director, Pixelplus   |

\* Appointed on February 28, 2006

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## B. Committees of the Board of Directors

| <b>Committee</b>   | <b>Members</b>   |
|--|--|
| Audit Committee  | Mr. Bongsung Oum, Mr. Bart van Halder, Mr. Ingoo Han                     |
| Remuneration Committee   | Mr. Hee Gook Lee, Mr. Doug J. Dunn, Mr. Dongwoo Chun, Mr. Ad Huijser*    |
| Outside Director Nomination and Corporate Governance Committee | Mr. Hee Gook Lee, Mr. Bart van Halder, Mr. Dongwoo Chun, Mr. Ad Huijser* |

\* Resigned as of February 28, 2006

## C. Director &amp; Officer Liability Insurance

## (1) Overview of Director &amp; Officer Liability Insurance (As of December 31, 2005)

| <b>Name of insurance</b>                 | <b>Premium paid in 2005</b> | <b>Limit of liability</b> | <b>Remarks</b> |
|--|-----------------------------|---------------------------|----------------|
| Directors & Officers Liability Insurance | 2,623,000                   | 100,000,000               |                |

(Unit: USD)

## (2) The approval procedure for the Director &amp; Officer Liability Insurance

- Joint Representative Directors approved the limit of liability, coverage and premium. (Reported to Board of Directors)

## (3) The insured

1. LG Philips LCD Co., Ltd. and its subsidiaries / their Directors and Officers
2. Duly elected or appointed Directors or Officers, past and new Directors and Officers during the Policy Period
3. The estates and heirs of deceased Directors or Officers, and the legal representatives of Directors or Officers in the event of their incompetency, insolvency or bankruptcy (only if the Directors or Officers were employed at the time the acts were committed)

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(4) The Covered Risks

1. The Loss for shareholders or 3rd party, arising from any alleged Wrongful Act of director or officer of the company in their respective capacities, in spite of their fiduciary duties
  - a. Wrongful Act means any breach of duty, neglect, error, misstatement, misleading statement, omission, or act by the Directors or Officers
  - b. Loss means damages, judgments, settlements and Defense Costs
  
2. Coverage for security holder derivative action & security claims

The Loss arising out of any security holder derivative action is paid in accordance with Security Holder Derivative Action Inclusion Clause . Securities Loss, incurred on account of a Securities Claim against the Directors, Officers and/or the Company is covered. (Except for exclusions)

(5) Exclusions

1. General Exclusions (any loss related to following items)
  - Any illegal gaining of personal profit, dishonest or criminal act;
  - Remuneration payment to the Insureds without the previous approval of the stockholders, which payment was illegal;
  - Profits in fact made from the purchase or sale of securities of the Company using non- public information in an illegal manner;
  - Payment of commissions, gratuities, benefits or any other favor provided to political group, government official, director, officer, employee or any person having an ownership interest in any customers of the company or their agent(s), representative(s) or member(s) of their family or any other entity(ies) with which they are affiliated.
  - Wrongful Acts alleged in any claim which has been reported under any policy of which this policy is a renewal or replacement;
  - Any pending or prior litigation as of the inception date of this policy, or derived from the same facts as alleged in such pending or prior litigation, etc. ;
  - Wrongful Act which Insured knew or should reasonably have foreseen at the inception date of this policy;

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- Pollutants, contamination;
  
- Act or omission as directors or officers of any other entity other than the Company;
  
- Nuclear material, radioactive contamination;
  
- Bodily injury, disease, death or emotional distress of any person, or damage to tangible property, loss of use of property, or injury from oral or written publication of a libel or slander, or material that violates a person's right of privacy ;
  
- Any alleged Wrongful Act of any Subsidiary of which the insured did not own more than 50% of stock either directly or indirectly through its Subsidiaries.



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- 2. Special Exclusions (any loss related to following items)
  - Punitive Damage
  - Nuclear Energy Liability
  - Mutual claim between Insureds
  - Claim of 15% Closely Held entity
  - Claim of Regulator
  - Professional Service liability
  - SEC (Securities Exchange Commission) 16(b)
  - ERISA (Employee Retirement Income Security Act)
  - The so called Year 2000 Problem
  - War & Terrorism
  - Asbestos/Mould liability
  - Patent / Copyright liability, etc.

D. Employees

(as of Dec. 31, 2005)

(Unit: person, in millions of won)

| Sex | Number of employees |                |        |  | Total | Total Salary<br>in 2005 | Per<br>Capita<br>Yearly | Average<br>Service Year |
|-----|---------------------|----------------|--------|--|-------|-------------------------|-------------------------|-------------------------|
|     | Office<br>Worker    | Line<br>Worker | Others |  |       |                         |                         |                         |

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|        |       |        |        |         | Salary |     |
|--------|-------|--------|--------|---------|--------|-----|
| Male   | 4,917 | 5,100  | 10,017 | 339,214 | 40     | 3.7 |
| Female | 450   | 5,025  | 5,475  | 116,497 | 28     | 1.8 |
| Total  | 5,367 | 10,125 | 15,492 | 455,711 | 36     | 3.0 |

\* Directors and Executive officers are excluded.

E. Stock Option

The following table sets forth certain information regarding our stock option plan as of March 31, 2006.

|                      | Grant Date    | Exercise Period |               | Exercise Price | Number of | Number of | Number of   |
|----------------------|---------------|-----------------|---------------|----------------|-----------|-----------|-------------|
|                      |               | From            | To            |                | Granted   | Exercised | Exercisable |
| Executive Officers   |               |                 |               |                | Options   | Options   | Options     |
| Ron H. Wirahadiraksa | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 100,000   | 0         | 100,000     |
| Ki Seon Park         | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 70,000    | 0         | 70,000      |
| Duke M. Koo          | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Budiman Sastra       | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Won Wook Kim         | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Woo Shik Kim         | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Sang Deog Yeo        | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Jae Geol Ju          | April 7, 2005 | April 8, 2008   | April 7, 2012 | (Won) 44,050   | 40,000    | 0         | 40,000      |
| Total                |               |                 |               |                | 410,000   |           | 410,000     |

**Table of Contents****7. Financial Information**

## A. Financial Highlights (Based on Non-consolidated, Korean GAAP)

(Unit: In millions of won)

| Description                 | 2005       | 2004      | 2003      | 2002      | 2001       |
|-----------------------------|------------|-----------|-----------|-----------|------------|
| [Current Assets]            | 3,196,934  | 2,638,616 | 1,918,329 | 806,156   | 374,198    |
| • Quick Assets              | 2,725,169  | 2,170,617 | 1,644,838 | 463,539   | 189,708    |
| • Inventories               | 471,765    | 467,999   | 273,491   | 342,617   | 184,490    |
| [Fixed Assets]              | 9,798,981  | 6,960,077 | 4,295,753 | 3,613,748 | 3,361,220  |
| • Investments               | 660,628    | 409,955   | 203,343   | 147,832   | 128,397    |
| • Tangible Assets           | 8,988,459  | 6,366,651 | 3,874,428 | 3,210,884 | 2,937,209  |
| • Intangible Assets         | 149,894    | 183,471   | 217,982   | 255,032   | 295,614    |
| Total Assets                | 12,995,915 | 9,598,693 | 6,214,082 | 4,419,904 | 3,735,418  |
| [Current Liabilities]       | 2,594,282  | 1,900,765 | 2,044,005 | 1,117,066 | 904,952    |
| [Non-current Liabilities]   | 2,726,036  | 1,925,286 | 1,276,045 | 1,436,775 | 1,251,713  |
| Total Liabilities           | 5,320,318  | 3,826,051 | 3,320,050 | 2,553,841 | 2,156,665  |
| [Capital Stock]             | 1,789,079  | 1,626,579 | 1,450,000 | 1,450,000 | 1,450,000  |
| [Capital Surplus]           | 2,279,250  | 1,012,271 |           |           |            |
| • Capital Reserve           | 2,279,250  | 1,012,271 |           |           |            |
| • Asset Revaluation Reserve |            |           |           |           |            |
| [Retained Earnings ]        | 3,608,686  | 3,091,674 | 1,436,229 | 417,129   | 128,337    |
| [Capital Adjustment]        | (-)1,418   | 42,118    | 7,803     | (-)1,066  | 416        |
| Total Shareholder s Equity  | 7,675,597  | 5,772,642 | 2,894,032 | 1,866,063 | 1,578,753  |
| Sales Revenues              | 8,890,155  | 8,079,891 | 6,031,261 | 3,518,289 | 2,386,617  |
| Operating Income            | 447,637    | 1,640,708 | 1,086,517 | 215,724   | (-)344,976 |
| Ordinary Income             | 367,281    | 1,683,067 | 1,009,731 | 293,249   | (-)420,342 |
| Net Income                  | 517,012    | 1,655,445 | 1,019,100 | 288,792   | (-)381,603 |

\* For the purpose of comparison, Financial Statements for FY 2003, 2002 & 2001 were reclassified according to changes in the Statements of Korean Financial Accounting Standards.

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## B. R&amp;D Expense

## (1) Summary

(Unit: In millions of won)

| Account  | 2005           | 2004           | 2003           | Remarks |
|--|----------------|----------------|----------------|---------|
| Direct Material Cost   | 253,930        | 170,051        | 141,614        |         |
| Direct Labor Cost  | 72,142         | 58,202         | 14,421         |         |
| Depreciation Expense   | 11,710         | 11,078         | 6,165          |         |
| Others   | 23,979         | 13,874         | 9,082          |         |
| <b>R&amp;D Expense Total</b>   | <b>361,761</b> | <b>253,205</b> | <b>171,282</b> |         |
| Accounting Treatment   |                |                |                |         |
| Selling & Admin. Expenses  | 55,057         | 43,095         | 29,708         |         |
| Manufacturing Cost   | 306,704        | 210,110        | 141,574        |         |
| R&D Expense / Sales Ratio [Total R&D Expense÷Sales for the period×100] | 4.07%          | 3.13%          | 2.84%          |         |

\* Capex for R&D, Manufacturing Cost for R&D test run, and other R&D related cost are excluded.

## (2) R&amp;D achievements

[Achievement in 2004]

## 1) Development of 20.1-inch AMOLED

- Joint development of 20.1-inch AMOLED with LG Electronics
- Development of world's largest 20.1-inch wide AMOLED based on LTPS technology

## 2) Development of Copper bus line

- Next generation LCD technology to significantly improve brightness, definition and resolution, etc.

## 3) Mass production and development of World's largest TFT-LCD panel for Full-HD TV (55-inch) in Oct. 2004.

- Stitch Lithography and Segmented Circuit Driving to cope with Large-size LCD Panel
- Achievement of High Contrast Ratio and Fast Response Time through new technologies

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- Application of innovative panel technology to solve the weak point (gravity/touch stains) of large size
- 4) Development of Ultra High Resolution Product (30-inch)
- World's 1st success in mass production of LCM applying Cu Line (source & gate Area)
  - Achievement of Ultra High Resolution (2560x1600 : 101ppi)
- 5) Development of the World's Lowest Power-Consumption, 32" Wide LCD TV Model
- Development of the world's lowest, under 90W model (EEFL applied)
  - High Contrast Ratio, Fast Response Time (DCR + ODC applied)

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[Achievement in 2005]

- 6) Development of High Luminance and High Color Gamut 17-inch wide LCD Panel for Notebook PC
  - World's 1st 500nit luminance and 72% color gamut in 17-inch wide for Notebook PC
  - Development of 6200nit luminance backlight
  
- 7) Development of World's largest 10.1-inch Flexible Display
  - Joint development with E-ink Corporation
  
- 8) 37-inch, 42-inch, 47-inch Full-HD Model Development, applying Low Resistance Line (Copper bus Line)
  - World's 1st Mass production of copper bus line Model
  - Realize Full HD Resolution (1920x1080)
  
- 9) 37-inch wide LCD Model development which is world's best in power consumption
  - The lowest power consumption of below 120W (applying EEFL Tech.)
  - High Contrast Ratio, Fast Response Time with DCR, ODC Tech.

[Achievement in 2006]

- 10) Development of High Brightness/Color gamut 17-inch wide slim LCD for Notebook PC
  - Slim model (10→7t), featuring 500nit, NTSC 72%
  - Development of Slim and High Brightness Backlight
  
- 11) World's largest size 100-inch TFT-LCD development

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- High quality image without noise or signal distortion, applying Low Resistance Line (Copper Bus Line)
  
- High dignity picture for Full HDTV

### C. Domestic Credit Rating

| Subject             | Month of Rating | Credit Rating | Rating Agency<br>(Rating range)                                |
|---------------------|-----------------|---------------|--|
| Corporate Debenture | Apr. 2004       | AA-           | Korea Investors Service, Inc. (AAA ~ D)                        |
|                     | May. 2004       | AA-           |  |
|                     | Nov. 2004       | AA-           | National Information & Credit Evaluation, Inc.                 |
|                     | Mar. 2005       | AA-           |  |
|                     | Jun. 2005       | AA-           |  |
| Commercial Paper    | Apr. 2004       | A1            | Korea Investors Service, Inc. (A1 ~ D)                         |
|                     | May. 2004       | A1            | National Information & Credit Evaluation, Inc.<br><br>(A1 ~ D) |
|                     | Nov. 2004       | A1            |  |
|                     | Jun. 2005       | A1            |  |
|                     | Dec.2005        | A1            |  |

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## D. Remuneration for directors in 2005

(Unit: In millions of won)

| Classification                | Salary Paid | Approved Salary at   | Per Capita Average | Remarks  |
|-------------------------------|-------------|----------------------|--------------------|--|
|                               |             | Shareholders Meeting | Salary Paid        |  |
| Inside Directors (4 persons)  | 9,615       | 13,400               | 2,404              |  |
| Outside Directors (5 persons) | 235         |                      | 47                 | Audit committee consists of three outside directors. |

Note1) Company did not pay remuneration for the first quarter of 2005 to outside directors who were appointed at the 20<sup>th</sup> AGM (March 23, 2005).

## E. Derivative contracts

## (1) Foreign currency forward contracts

(Unit: In millions)

| Contracting party                 | Contract foreign |                 | exchange rate                              | Maturity date             |
|-----------------------------------|------------------|-----------------|--|---------------------------|
|                                   | Selling position | Buying position |  |                           |
| HSBC and others                   | US\$ 3,266       | (Won)3,357,233  | (Won)994.31:US\$1 ~<br>(Won)1,058.65:US\$1 | 2006.1.2 ~<br>2006.12.12  |
| CITI and others                   | EUR 104          | (Won)131,182    | (Won)1,219.31:EUR1 ~<br>(Won)1,352.44:EUR1 | 2006.1.23 ~<br>2006.12.20 |
| ABN Amro and others               | (Won) 370,919    | JP¥40,239       | (Won)8.669:JP¥1 ~<br>(Won)9.92:JP¥1        | 2006.1.2 ~<br>2006.12.1   |
| Korea Exchange Bank<br>and others | US\$ 135         | JP¥15,800       | JP¥112.23:US\$1 ~<br>JP¥120.4:US\$1        | 2006.1.4 ~<br>2006.3.28   |

## (2) Cross Currency Swap

(Unit: In millions)

| Contracting party   | Contract Amount  |              | Contract Interest Rate | Maturity Date         |
|---------------------|------------------|--------------|------------------------|-----------------------|
| ABN Amro and others | Buying position  | US\$430      | 3 Month Libor          | 2006.2.10 ~ 2006.12.8 |
|                     | Selling position | (Won)442,830 | 3.25% ~ 4.40%          |                       |



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## F. Status of Equity Investment

| Company                            | Total issued and<br>outstanding shares | No. of shares owned by<br>the Controlling Company | Ownership<br>ratio |
|------------------------------------|--|---|--------------------|
| LG.Philips LCD America, Inc.       | 5,000,000                              | 5,000,000   | 100%               |
| LG.Philips LCD Japan Co., Ltd.     | 1,900                                  | 1,900   | 100%               |
| LG.Philips LCD Germany GmbH        | 960,000                                | 960,000   | 100%               |
| LG.Philips LCD Taiwan, Co., Ltd.   | 11,549,994                             | 11,549,994  | 100%               |
| LG.Philips LCD Nanjing Co., Ltd.   | (*)                                    | (*)   | 100%               |
| LG.Philips LCD Hong Kong Co., Ltd. | 115,000                                | 115,000   | 100%               |
| LG.Philips LCD Shanghai Co., Ltd.  | (*)                                    | (*)   | 100%               |
| LG.Philips LCD Poland Sp. z o.o.   | 500                                    | 500   | 100%               |
| Paju Electric Glass Co., Ltd.      | 3,600,000                              | 1,440,000   | 40%                |

\* No shares have been issued in accordance with the local laws and regulations.

## 8. Others

## A. Regarding External Auditor Independence

Samit PricewaterhouseCoopers has recently notified our audit committee that pension plans that manage pension funds for the benefit of the employees of three PricewaterhouseCoopers member firms held investments in the equity of Philips Electronics from time to time between 2001 and 2005. PricewaterhouseCoopers became aware of the investments in September 2005 and disposed of all the shareholdings in Philips Electronics by November 2005. The market value of the Philips Electronics shares owned by each of these pension plans ranged from the U.S. dollar equivalent of approximately US\$112,233 to US\$802,753.

The U.S. Securities and Exchange Commission's auditor independence rules require that, as our independent auditor, PricewaterhouseCoopers maintain independence from us, as well as from Philips Electronics, to which we are a material investee. Such auditor independence rules extend the definition of an accounting firm to the organization's pension plans. Accordingly, the investments in Philips Electronics by PricewaterhouseCoopers member firms' pension plans are not permitted under the U.S. Securities and Exchange Commission's auditor independence rules.

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After conducting an internal review, PricewaterhouseCoopers has concluded that its objectivity and impartiality were unaffected by these investments and therefore its independence has not been impaired. This conclusion is based on the following:

those professionals who conducted our audit were at all times unaware of the investments;

the investments were held by pension plans of PricewaterhouseCoopers member firms that are legal entities distinct from the relevant PricewaterhouseCoopers member firms, and as such, the holdings belong to those of the individual current and retired partners and staff of the member firms rather than of the firms themselves;

the shareholdings in Philips Electronics were disposed of as soon as practicable once they came to the attention of the engagement team conducting our audit;

the percentage of equity interest in Philips Electronics held by the three individual pension plans were at all times insignificant in the context of the overall investments of the pension funds concerned (constituting less than 1.25%, 0.12% and 0.5% of their respective overall investments, at all relevant times) ; and

all final decisions related to our audit are made by Samil PricewaterhouseCoopers and not by any other member firm of PricewaterhouseCoopers, including those member firms whose pension funds made the investments in Philips Electronics. PricewaterhouseCoopers has discussed the facts and circumstances of this matter with the staff of the U.S. Securities and Exchange Commission, including discussion of PricewaterhouseCoopers' conclusion that its independence was not impaired. In February 2006, PricewaterhouseCoopers issued its Independence Standards Board Standard No. 1 independence letter to our audit committee and therein reported that it is independent under applicable standards in connection with its audit opinion for the financial statements contained in this annual report.

Our audit committee has reviewed this matter in detail and has discussed the matter with PricewaterhouseCoopers and our outside legal counsel. Upon careful review, the audit committee concurred with PricewaterhouseCoopers in concluding the accounting firm's independence was not impaired by the above described incidents.

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**LG.Philips LCD Co., Ltd.**

**Non-Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**LG.Philips LCD Co., Ltd.**

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**December 31, 2005 and 2004**

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Kukje Center Building  
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Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

**Report of Independent Auditors**

To the Board of Directors and Shareholders of

LG.Philips LCD Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of LG.Philips LCD Co., Ltd. (the Company) as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG.Philips LCD Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in Note 1 and 15, in July 2005, pursuant to a Form F-1 registration statement filed on July 22, 2005, with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of American Depositary Shares (ADSs) for gross proceeds of US\$1,189,656 thousand. In addition, pursuant to Underwriting Agreement dated July 21, 2005, the Company issued 4,600,000 shares of common stock for gross proceeds of US\$196,144 thousand. The Company intends to use the proceeds of these sales to fund the capital expenditures in connection with the construction of TFT-LCD fabrication plant and other LCD facilities in Korea.

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Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea

January 20, 2006

This report is effective as of January 20, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samil PricewaterhouseCoopers is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refer to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**Table of Contents****LG.Philips LCD Co., Ltd.****Non-consolidated Balance Sheets****December 31, 2005 and 2004***(in millions of Korean won)*

|   | 2005             | 2004            |
|---|------------------|-----------------|
| <b>Assets</b>   |                  |                 |
| Current assets  |                  |                 |
| Cash and cash equivalents (Note 3)  | (Won) 1,465,025  | (Won) 1,274,989 |
| Available-for-sale securities   | 354              | 15              |
| Trade accounts and notes receivable, net (Notes 4, 5 and 20)                | 1,034,196        | 635,903         |
| Inventories, net (Note 6)   | 471,765          | 467,999         |
| Other accounts receivable, net (Notes 4, 5 and 20)                          | 15,751           | 6,690           |
| Accrued income, net (Note 4)  | 1,369            | 1,470           |
| Advance payments, net (Note 4)  | 5,959            | 9,793           |
| Prepaid expenses  | 20,532           | 27,905          |
| Prepaid value added tax   | 102,094          | 80,917          |
| Deferred income tax assets (Note 18)  | 4,647            |                 |
| Others (Note 14)  | 75,242           | 132,935         |
| Total current assets  | 3,196,934        | 2,638,616       |
| Property, plant and equipment, net (Note 8)                                 | 8,988,459        | 6,366,651       |
| Long-term financial instruments (Note 3)                                    | 16               | 16              |
| Equity-method investments (Note 7)  | 213,968          | 168,039         |
| Non-current guarantee deposits  | 24,000           | 19,070          |
| Long-term prepaid expenses  | 83,023           | 49,652          |
| Deferred income tax assets (Note 18)  | 339,621          | 173,178         |
| Intangible assets, net (Note 9)   | 149,894          | 183,471         |
| Total assets  | (Won) 12,995,915 | (Won) 9,598,693 |
| <b>Liabilities and Shareholders Equity</b>                                  |                  |                 |
| Current liabilities   |                  |                 |
| Trade accounts and notes payable (Notes 5 and 20)                           | (Won) 563,874    | (Won) 451,755   |
| Other accounts payable (Notes 5 and 20)                                     | 1,445,471        | 978,501         |
| Advances received   | 609              | 53              |
| Withholdings  | 12,004           | 4,860           |
| Accrued expenses (Note 5)   | 73,772           | 116,585         |
| Income tax payable (Note 18)  | 19,499           | 74,581          |
| Warranty reserve  | 16,023           | 15,150          |
| Current maturities of debentures and long-term debts (Note 10)              | 429,352          | 205,139         |
| Others (Note 14)  | 33,678           | 54,141          |
| Total current liabilities   | 2,594,282        | 1,900,765       |
| Debentures, net of current maturities and discounts on debentures (Note 11) | 2,385,272        | 1,707,716       |
| Long-term debts, net of current maturities (Note 11)                        | 297,577          | 185,632         |
| Accrued severance benefits, net (Note 12)                                   | 43,187           | 31,938          |
| Total liabilities   | 5,320,318        | 3,826,051       |

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|  |                  |                 |
|--|------------------|-----------------|
| Commitments and contingencies (Note 14)  |                  |                 |
| Shareholders' equity   |                  |                 |
| Capital stock (Note 15)  |                  |                 |
| Common stock, (Won)5,000 par value per share; 400 million shares authorized ; 358 million shares issued and outstanding (2004 : 325 million) | 1,789,079        | 1,626,579       |
| Capital surplus (Note 16)  | 2,279,250        | 1,012,271       |
| Retained earnings (Note 16)  | 3,608,686        | 3,091,674       |
| Capital adjustments (Note 17)  | (1,418)          | 42,118          |
| Total shareholders' equity   | 7,675,597        | 5,772,642       |
| Total liabilities and shareholders' equity   | (Won) 12,995,915 | (Won) 9,598,693 |

The accompanying notes are an integral part of these non-consolidated financial statements.



**Table of Contents****LG.Philips LCD Co., Ltd.****Non-Consolidated Statements of Income**

Years ended December 31, 2005 and 2004

*(in millions of Korean won, except per share amounts)*

|   | 2005            | 2004            |
|---|-----------------|-----------------|
| <b>Sales (Notes 20 and 22)</b>  | (Won) 8,890,155 | (Won) 8,079,891 |
| <b>Cost of sales (Note 20)</b>  | 8,029,141       | 6,196,624       |
| <b>Gross profit</b>   | 861,014         | 1,883,267       |
| <b>Selling and administrative expenses</b>                                      | 413,377         | 242,559         |
| <b>Operating income</b>   | 447,637         | 1,640,708       |
| <b>Non-operating income</b>   |                 |                 |
| Interest income   | 48,942          | 19,496          |
| Foreign exchange gains (Note 14)  | 181,522         | 152,781         |
| Gain on foreign currency translation (Note 14)                                  | 47,714          | 155,857         |
| Gain on valuation of investments using the equity method of accounting (Note 7) | 946             | 81,627          |
| Gain on disposal of property, plant and equipment                               | 2,090           | 4,727           |
| Others  | 24,849          | 11,136          |
|   | 306,063         | 425,624         |
| <b>Non-operating expenses</b>   |                 |                 |
| Interest expenses   | 97,544          | 49,972          |
| Foreign exchange losses (Note 14)   | 228,158         | 244,256         |
| Loss on foreign currency translation (Note 14)                                  | 23,914          | 67,571          |
| Loss on disposal of property, plant and equipment                               | 115             | 3,522           |
| Loss on disposal of accounts receivable   | 7,868           | 6,838           |
| Loss on disposal of available-for-sale securities                               |                 | 25              |
| Loss on valuation of investments using the equity method of accounting (Note 7) | 7,574           |                 |
| Ramp up cost  | 18,928          |                 |
| Donations   | 2,318           | 11,080          |
| Others  |                 | 1               |
|   | 386,419         | 383,265         |
| <b>Income before income taxes</b>   | 367,281         | 1,683,067       |
| <b>Income tax benefit (expense) (Note 18)</b>                                   | 149,731         | (27,622)        |
| <b>Net income</b>   | (Won) 517,012   | (Won) 1,655,445 |
| <b>Ordinary income per share (Note 19)</b>                                      | (Won) 1,523     | (Won) 5,420     |
| <b>Earnings per share (Note 19)</b>   | (Won) 1,523     | (Won) 5,420     |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Diluted ordinary income per share (Note 19) | (Won) | 1,523 | (Won) | 5,420 |
| Diluted earnings per share (Note 19)        | (Won) | 1,523 | (Won) | 5,420 |

The accompanying notes are an integral part of these non-consolidated financial statements.

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**LG.Philips LCD Co., Ltd.**

**Non-Consolidated Statements of Appropriations of Retained Earnings**

**Years ended December 31, 2005 and 2004**

**(Date of appropriations : February 28, 2006 and March 23, 2005 for the years ended December 31, 2005 and 2004, respectively)**

*(in millions of Korean won)*

|  | 2005            | 2004            |
|--|-----------------|-----------------|
| <b>Retained earnings before appropriations</b>                                 |                 |                 |
| Unappropriated retained earnings carried over from prior year                  | (Won) 2,963,337 | (Won) 1,307,892 |
| Net income   | 517,012         | 1,655,445       |
|  | 3,480,349       | 2,963,337       |
| <b>Appropriation of retained earnings</b>                                      |                 |                 |
| <b>Unappropriated retained earnings carried forward to the subsequent year</b> | (Won) 3,480,349 | (Won) 2,963,337 |

The accompanying notes are an integral part of these non-consolidated financial statements.

**Table of Contents****LG.Philips LCD Co., Ltd.****Non-Consolidated Statements of Cash Flows****Years ended December 31, 2005 and 2004***(in millions of Korean won)*

|  | 2005          | 2004            |
|--|---------------|-----------------|
| <b>Cash flows from operating activities</b>  |               |                 |
| Net income   | (Won) 517,012 | (Won) 1,655,445 |
| Adjustments to reconcile net income to net cash provided by operating activities   |               |                 |
| Depreciation   | 1,704,733     | 1,206,674       |
| Amortization of intangible assets  | 44,400        | 44,461          |
| Provision for severance benefits   | 43,834        | 32,565          |
| Gain on foreign currency translation, net  | (27,942)      | (98,606)        |
| Loss on disposal of available-for-sale securities                                  |               | 25              |
| Gain on disposal of property, plant and equipment, net                             | (1,975)       | (1,205)         |
| Amortization of discount on debentures   | 29,891        | 11,719          |
| Loss (gain) on valuation of investments using the equity method of accounting, net | 6,628         | (81,627)        |
| Provision for warranty reserve   | 17,215        | 8,680           |
|  | 1,816,784     | 1,122,686       |
| Changes in operating assets and liabilities  |               |                 |
| (Increase) decrease in trade accounts and notes receivable                         | (410,487)     | 410,219         |
| Increase in inventories  | (3,766)       | (194,508)       |
| (Increase) decrease in other accounts receivable                                   | (11,425)      | 5,289           |
| Decrease (increase) in accrued income  | 100           | (1,187)         |
| Decrease (increase) in advance payments  | 3,834         | (6,785)         |
| Decrease in prepaid expenses   | 16,930        | 8,004           |
| (Increase) decrease in prepaid value added tax                                     | (21,178)      | 1,416           |
| Decrease in other current assets   | 67,645        | 1,039           |
| Decrease in long-term other accounts receivable                                    |               | 166             |
| Increase in long-term prepaid expenses   | (42,927)      | (28,070)        |
| Increase in deferred income tax  | (175,720)     | (58,217)        |
| Increase in trade accounts and notes payable                                       | 113,747       | 73,469          |
| Increase in other accounts payable   | 222,019       | 29,888          |
| Increase(decrease) in advances received  | 556           | (3,856)         |
| Increase in withholdings   | 7,144         | 869             |
| (Decrease) increase in accrued expenses  | (42,813)      | 11,396          |
| (Decrease) increase in income taxes payable  | (55,081)      | 35,028          |
| Decrease in warranty reserve   | (16,342)      | (13,309)        |
| Decrease in other current liabilities  | (54,142)      | (10,662)        |
| Accrued severance benefits transferred from affiliated company                     | 2,485         | 1,130           |
| Payment of severance benefits  | (16,282)      | (8,291)         |
| Increase in severance insurance deposit  | (18,817)      | (14,500)        |
| Decrease in contribution to National Pension Fund                                  | 29            | 76              |
|  | (434,491)     | 238,604         |
| Net cash provided by operating activities  | 1,899,305     | 3,016,735       |



**Table of Contents****LG.Philips Lcd Co., Ltd.****Non-Consolidated Statements of Cash Flows****Years ended December 31, 2005 and 2004***(in millions of Korean won)*

|   | 2005            | 2004            |
|---|-----------------|-----------------|
| <b>Cash flows from investing activities</b>             |                 |                 |
| Acquisition of equity method investments                | (Won) (54,557)  | (Won) (63,084)  |
| Acquisition of available-for-sale securities            | (339)           | (225)           |
| Proceeds from disposal of available for sale securities |                 | 253             |
| Proceed from non-current guarantee deposits             | 3               | 731             |
| Payment of non-current guarantee deposits               | (4,933)         | (3,238)         |
| Proceeds from disposal of property, plant and equipment | 2,830           | 6,092           |
| Acquisition of property, plant and equipment            | (4,071,762)     | (3,771,029)     |
| Acquisition of intangible assets                        | (10,811)        | (3,254)         |
| Net cash used in investing activities                   | (4,139,569)     | (3,833,754)     |
| <b>Cash flows from financing activities</b>             |                 |                 |
| Repayment of short-term borrowings                      |                 | (62)            |
| Repayment of current maturities of long-term debts      | (207,120)       | (467,202)       |
| Issuance of debentures                                  | 1,073,684       | 811,171         |
| Proceeds from long-term debts                           | 162,395         | 110,033         |
| Proceeds from issuance of common stock                  | 1,401,341       | 1,188,850       |
| Net cash provided by financing activities               | 2,430,300       | 1,642,790       |
| Net increase in cash and cash equivalents               | 190,036         | 825,771         |
| <b>Cash and cash equivalents (Note 23)</b>              |                 |                 |
| Beginning of the year                                   | 1,274,989       | 449,218         |
| End of the year   | (Won) 1,465,025 | (Won) 1,274,989 |

The accompanying notes are an integral part of these non-consolidated financial statements.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****1. The Company**

LG.Philips LCD Co., Ltd. (the Company) was incorporated in 1985 under the Commercial Code of the Republic of Korea and commenced the manufacturing and sales of Thin Film Transistor Liquid Crystal Display ( TFT LCD ) in 1999. On July 26, 1999, LG Electronics Inc., Koninklijke Philips Electronics N.V. ( Philips ) and the Company entered into a joint venture agreement. Pursuant to the agreement, the Company changed its name from LG LCD CO., Ltd. to LG.Philips LCD Co., Ltd. effective August 27, 1999, and on August 31, 1999, the Company issued new shares of common stock to Philips for (Won)725,000 million.

In July 2004, pursuant to Securities Registration Statement filed on July 16, 2004, with the Korea Stock Exchange, the Company sold 8,640,000 shares of common stock for (Won)298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004, with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depositary Shares ( ADSs ) for proceeds of US\$ 748,800 thousand. In September 2004, pursuant the Underwriting Agreement dated July 15, 2004, the Company issued an additional 1,715,700 shares of common stock in the form of ADSs for proceeds of US\$ 51,471 thousand. In July 2005, pursuant to a Form F-1 Registration statement filed on July 22, 2005 with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of American Depositary Shares ( ADSs ) for proceeds of US\$ 1, 189,656 thousand. In addition, pursuant to the Underwriting Agreement dated July 21, 2005, the Company issued 4,600,000 shares of common stock for gross proceeds of US\$ 196,144 thousand.

As of December 31, 2005, the Company's shareholders are as follows:

|                                       | Number of   | Percentage of |
|---------------------------------------|-------------|---------------|
|                                       | Shares      | Ownership (%) |
| LG Electronics Inc.                   | 135,625,000 | 37.90         |
| Koninklijke Philips Electronics N. V. | 117,625,000 | 32.90         |
| Others                                | 104,565,700 | 29.20         |
|                                       | 357,815,700 | 100.00        |

## **Table of Contents**

### **LG. Philips LCD Co., Ltd.**

#### **Notes to Non-Consolidated Financial Statements**

##### **December 31, 2005 and 2004**

## **2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its interim non-consolidated financial statements are summarized below:

### **Basis of Financial Statement Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

### **Accounting Estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

### **Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2004.

And as SKFAS Nos. 15 through 17 became effective for the Company on January 1, 2005, the Company adopted these Standards in its financial statements for the year ended December 31, 2005.

### **Cash and Cash Equivalents**

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

### **Revenue Recognition**

Sales of manufactured products are recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.



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### **LG. Philips LCD Co., Ltd.**

### **Notes to Non-Consolidated Financial Statements**

### **December 31, 2005 and 2004**

#### **Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts and notes receivable based on the aggregate estimated collectibility of the receivables.

#### **Inventories**

The Company accounts for inventories under the provision of SKFAS No.10, *Inventories*.

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable value of inventory is less than its cost, the carrying amount is reduced to the net realizable value. Any inventory valuation loss is added to the cost of sales.

#### **Investments in Affiliates and Other Investments**

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be divided into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at the reasonable interest rate determined considering the credit ratings provided by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

Investments in equity securities of companies, over which the Company exercises significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over the period up to 20 years using the straight-line method.

The Company's proportionate unrealized profit arising from sales between the Company and the equity-method investees or sales between equity-method investees is eliminated. If the equity-method investees are the Company's subsidiaries, unrealized profit arising from sales by the Company to subsidiaries is fully eliminated.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustment account, a component of shareholders' equity.

**Property, Plant and Equipment**

The cost of property, plant and equipment includes purchase costs or manufacturing costs, incidental costs directly related to preparing the premises and equipment for use, and the discounted estimated costs to remove, dismantle or restore property, plant and equipment at the end of the estimated useful lives of the related assets when those costs meet the conditions for the recognition of liabilities.

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as enumerated below:

|                               | <b>Estimated useful lives</b> |
|-------------------------------|-------------------------------|
| Buildings                     | 20 - 40 years                 |
| Structures                    | 20 - 40 years                 |
| Machinery and equipment       | 4 years                       |
| Vehicles                      | 4 years                       |
| Tools, furniture and fixtures | 4 years                       |

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, which enhance the value of the assets over their recently appraised value, are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

## **Table of Contents**

### **LG. Philips LCD Co., Ltd.**

### **Notes to Non-Consolidated Financial Statements**

### **December 31, 2005 and 2004**

#### **Intangible Assets**

Intangible assets, comprising industrial property rights, rights to use electricity and gas supply facilities, rights to use the industrial water facility, and software costs, are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets ranging from four to ten years. Research and development costs are charged to current operations when incurred, and are included in operating expenses.

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

#### **Discounts on Debentures**

Discounts on debentures are amortized over the repayment period of the debentures using the effective interest rate method. Amortization is included in interest expense.

#### **Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date ((Won)1,013.0 : US\$1 as of December 31, 2005; (Won)1,035.6 : US\$1 as of December 31, 2004), and the resulting translation gains and losses are recognized in current operations.

#### **Warranty Reserve**

The Company provides warranty relating to product defects for a specified period of time after sale. Estimated costs of product warranties are charged to cost at the time of sale and are included in the accompanying balance sheet as a warranty reserve. The warranty reserve as of December 31, 2005, is (Won)16,023 million (December 31, 2004 : (Won)15,150 million), and provision for warranty reserve for the year ended December 31, 2005, is (Won)17,215 million (2004: (Won)8,680 million).

#### **Accrued Severance Benefits**

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has made deposits to the National Pension Fund in accordance with the National Pension Fund Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of such deposit.

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**LG. Philips LCD Co., Ltd.**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2005 and 2004**

Accrued severance benefits are funded through a group severance insurance plan and are presented as a deduction from accrued severance benefits.

**Sales or Discount of Accounts Receivable**

The Company sells or discounts certain accounts or notes receivable to financial institutions, and accounts for the transactions as sales of the receivables if the control over the receivables is substantially transferred to the buyers. The losses from the sales of the receivables are charged to current operations as incurred.

**Derivatives**

The Company enters into various derivative transactions to hedge against financial risks. Derivatives are classified into: cash flow hedges, hedges for fluctuations in fair market value caused by the changes in foreign exchange rates, and those acquired for profit. In case of cash flow hedges, unrealized holding gains and losses are recorded as capital adjustments in the balance sheet. In the case of hedging for fluctuations in fair market value, unrealized holding gains and losses are recorded in the income statement. If the contract expires, the gains and losses from derivative transactions are presented in the income statement in case of hedges for fluctuations in fair market value and are offset against sales in case of cash flow hedging.

**Convertible bonds**

When convertible bonds are issued, the amount paid for the conversion right, which is computed as a difference between the issuing value and the present value of future cash flows discounted at effective interest rate of bond without conversion features, is included in other capital surplus. The related adjustment account to the conversion right is presented as a deduction of face value, whereas call premium is presented as an addition.

**Stock Appreciation Plan**

Compensation costs for stock options granted to employees and executives are recognized on the basis of intrinsic value. Under the intrinsic value basis method, compensation costs for stock option plans are determined by calculating the difference between the exercise price and the market price of the underlying stock. Stock-based compensation cost is remeasured at each reporting date, based on the intrinsic value of the award, and is recognized as expense over the agreed minimum service period.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****Income Taxes**

The Company recognizes deferred income tax assets and liabilities, which represent temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are computed on such temporary differences, including available net operating loss carryforwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is almost certain that such deferred income tax assets will be realized. The total income tax provision includes the current income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the period.

Investment tax credits are accounted for by the flow-through method, whereby income taxes are reduced in the period the assets giving rise to such credits are utilized. To the extent such credits are not currently utilized, deferred income tax assets, subject to considerations on their recognition, are recognized as carryforward amount.

**3. Cash and Cash Equivalents, and Financial Instruments**

Cash and cash equivalents, and financial instruments as of December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i>   | <b>Annual interest<br/>rate (%) as of<br/>December 31,<br/>2005</b> | <b>2005</b>     | <b>2004</b>     |
|--|---|-----------------|-----------------|
| <b>Cash and cash equivalents</b>   |   |                 |                 |
| Cash on hand   |   | (Won) 6         | (Won) 7         |
| Checking accounts  |   | 51              | 122             |
| Time deposits  | 3.5-3.7   | 942,359         | 1,130,869       |
| Passbook accounts in Foreign currencies of US\$ 516 million,<br>JP¥ 6 million (2004: US\$ 139 million and JP¥43 million) | 3.8   | 522,609         | 143,991         |
|  |   | 1,465,025       | 1,274,989       |
| <b>Long-term financial instruments</b>   |   |                 |                 |
| Guarantee deposits for checking accounts   | 0.1-0.5   | 16              | 16              |
|  |   | (Won) 1,465,041 | (Won) 1,275,005 |

As of December 31, 2005 and 2004, long-term financial instruments represent key money deposits required to maintain checking accounts and, accordingly, the withdrawal of such deposits is restricted.

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

**4. Receivables**

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i>  | 2005            |                                       |                                     |                   |
|-------------------------------------|-----------------|---------------------------------------|-------------------------------------|-------------------|
|                                     | Gross<br>amount | Allowance for<br>doubtful<br>accounts | Discounts<br>on<br>present<br>value | Carrying<br>value |
| Trade accounts and notes receivable | (Won) 1,035,155 | (Won) 959                             | (Won)                               | (Won) 1,034,196   |
| Other accounts receivable           | 16,148          | 397                                   |                                     | 15,751            |
| Accrued income                      | 1,383           | 14                                    |                                     | 1,369             |
| Advance payments                    | 6,019           | 60                                    |                                     | 5,959             |
|                                     | (Won) 1,058,705 | (Won) 1,430                           | (Won)                               | (Won) 1,057,275   |

| <i>(in millions of Korean won)</i>  | 2004            |  |                                  |                   |
|-------------------------------------|-----------------|--|----------------------------------|-------------------|
|                                     | Gross<br>amount | Allowance<br>for<br>doubtful<br>accounts | Discounts on<br>present<br>value | Carrying<br>value |
| Trade accounts and notes receivable | (Won) 636,724   | (Won) 821                                | (Won)                            | (Won) 635,903     |
| Other accounts receivable           | 7,012           | 320                                      | 2                                | 6,690             |
| Accrued income                      | 1,485           | 15                                       |                                  | 1,470             |
| Advance payments                    | 9,892           | 99                                       |                                  | 9,793             |
|                                     | (Won) 655,113   | (Won) 1,255                              | (Won) 2                          | (Won) 653,856     |

As of December 31, 2005, trade bills negotiated through banks but not yet matured, amounted to approximately (Won)303,904 million (December 31, 2004: (Won)410,824 million).

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LG. Philips LCD Co., Ltd.

**Notes to Non-Consolidated Financial Statements**

December 31, 2005 and 2004

**5. Assets and Liabilities Denominated in Foreign Currencies**

As of December 31, 2005 and 2004, monetary assets and liabilities denominated in foreign currencies, excluding those disclosed elsewhere in the notes to financial statements, are as follows:

| <i>(in millions)</i>                | 2005            |          | 2004          |          |
|-------------------------------------|-----------------|----------|---------------|----------|
|                                     | Korean Won      | Foreign  | Korean Won    | Foreign  |
|                                     | Equivalent      | Currency | Equivalent    | Currency |
| Trade accounts and notes receivable | (Won) 1,027,180 | US\$ 904 | (Won) 605,500 | US\$ 494 |
|                                     |                 | 10,579   |               | 1,264    |
|                                     |                 | JP¥ 17   |               | JP¥ 58   |
|                                     |                 | EUR      |               | EUR      |
| Other accounts receivable           | 2,372           | US\$ 2   | 5,922         | US\$ 1   |
|                                     |                 | 40       |               | 26       |
|                                     |                 | JP¥      |               | JP¥ 3    |
|                                     |                 | EUR      |               | EUR      |
| Trade accounts and notes payable    | 163,496         | US\$ 63  | 168,182       | US\$ 61  |
|                                     |                 | 11,574   |               | 10,445   |
|                                     |                 | JP¥      |               | JP¥      |
| Other accounts payable              | 163,970         | US\$ 14  | 125,868       | US\$ 13  |
|                                     |                 | 15,608   |               | 10,596   |
|                                     |                 | JP¥ 13   |               | JP¥ 4    |
|                                     |                 | EUR      |               | EUR      |
| Accrued expenses                    | 5,769           | US\$ 6   | 14,190        | US\$ 14  |

**6. Inventories**

Inventories as of December 31, 2005 and 2004, consist of the following:

*(in millions of Korean won)*

|                   | 2005          | 2004          |
|-------------------|---------------|---------------|
| Finished products | (Won) 191,918 | (Won) 244,084 |
| Work-in-process   | 131,483       | 112,538       |
| Raw materials     | 124,999       | 108,221       |
| Supplies          | 59,750        | 53,133        |
|                   | 508,150       | 517,976       |

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|                       |               |               |
|-----------------------|---------------|---------------|
| Less : Valuation loss | (36,385)      | (49,977)      |
|                       | (Won) 471,765 | (Won) 467,999 |

As of December 31, 2005, inventories and property, plant and equipment are insured against fire and other casualty losses up to (Won)30,088,667 million (December 31, 2004: (Won)26,873,073 million). Additionally, as of December 31, 2005, the Company insured directors and officers liabilities up to US\$ 100 million (December 31, 2004: US\$ 85 million).



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****7. Equity-method Investments**

Equity-method investments as of December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i>            | No. of shares |                             | 2005          |               | Market or     |       | Carrying |
|---|---------------|-----------------------------|---------------|---------------|---------------|-------|----------|
|   | owned by the  | Percentage of Ownership (%) | Acquisition   | net asset     | Carrying      |       |          |
|   |               |                             |               |               |               | cost  |          |
|   | Company       | (%)                         | (Won)         | (Won)         | (Won)         | (Won) |          |
| LG.Philips LCD America, Inc.                  | 5,000,000     | 100                         | 6,082         | 8,952         | 6,388         |       |          |
| LG.Philips LCD Germany GmbH                   | 960,000       | 100                         | 1,252         | 3,255         | 2,100         |       |          |
| LG.Philips LCD Japan Co., Ltd.                | 1,900         | 100                         | 1,088         | 4,106         | 3,787         |       |          |
| LG.Philips LCD Taiwan Co., Ltd.               | 11,549,994    | 100                         | 6,076         | 12,232        | 7,460         |       |          |
| LG.Philips LCD Nanjing Co., Ltd.              | <sup>1</sup>  | 100                         | 140,212       | 203,406       | 176,814       |       |          |
| LG.Philips LCD HongKong Co., Ltd.             | 115,000       | 100                         | 1,736         | 3,627         | 2,643         |       |          |
| LG.Philips LCD Shanghai Co., Ltd.             | <sup>1</sup>  | 100                         | 596           | 2,713         | 611           |       |          |
| LG.Philips LCD Poland Sp. z o.o. <sup>2</sup> | 500           | 100                         | 16            | 9             | 9             |       |          |
| Paju Electric Glass <sup>2</sup>              | 1,440,000     | 40                          | 14,400        | 14,083        | 14,156        |       |          |
|   |               |                             | (Won) 171,458 | (Won) 252,383 | (Won) 213,968 |       |          |

  

| <i>(in millions of Korean won)</i> | No. of shares |                             | 2004          |               | Market or     |       | Carrying |
|------------------------------------|---------------|-----------------------------|---------------|---------------|---------------|-------|----------|
|                                    | owned by the  | Percentage of Ownership (%) | Acquisition   | net asset     | Carrying      |       |          |
|                                    |               |                             |               |               |               | cost  |          |
|                                    | Company       | (%)                         | (Won)         | (Won)         | (Won)         | (Won) |          |
| LG.Philips LCD America, Inc.       | 5,000,000     | 100                         | 6,082         | 7,133         | 7,133         |       |          |
| LG.Philips LCD Germany GmbH        | 960,000       | 100                         | 1,252         | 2,262         | 2,262         |       |          |
| LG.Philips LCD Japan Co., Ltd.     | 1,900         | 100                         | 1,088         | 4,052         | 4,052         |       |          |
| LG.Philips LCD Taiwan Co., Ltd.    | 11,549,994    | 100                         | 6,076         | 10,974        | 10,974        |       |          |
| LG.Philips LCD Nanjing Co., Ltd.   | <sup>1</sup>  | 100                         | 100,071       | 140,241       | 140,241       |       |          |
| LG.Philips LCD HongKong Co., Ltd.  | 115,000       | 100                         | 1,736         | 2,491         | 2,491         |       |          |
| LG.Philips LCD Shanghai Co., Ltd.  | <sup>1</sup>  | 100                         | 596           | 886           | 886           |       |          |
|                                    |               |                             | (Won) 116,901 | (Won) 168,039 | (Won) 168,039 |       |          |

<sup>1</sup> No shares have been issued according to the local laws or regulation.

<sup>2</sup> Paju Electric Glass and LG.Philips LCD-Poland were established in 2005.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

As of and for the year ended December 31, 2005, condensed financial statements of the affiliates, prior to the elimination of intercompany transactions, are as follows:

## Condensed Balance Sheet

| <i>(in millions of Korean won)</i>               | <b>LG.Philips LCD</b>     | <b>LG.Philips LCD</b>     | <b>LG.Philips LCD</b>   | <b>LG.Philips LCD</b>      | <b>LG.Philips LCD</b>    |
|--|---------------------------|---------------------------|-------------------------|----------------------------|--------------------------|
|  | <b>America, Inc.</b>      | <b>Germany GmbH</b>       | <b>Japan.Co., Ltd.</b>  | <b>Taiwan Co., Ltd.</b>    | <b>Nanjing Co., Ltd.</b> |
| Current assets                                   | (Won) 179,547             | (Won) 195,139             | (Won) 166,443           | (Won) 406,261              | (Won) 790,923            |
| Non-current assets                               | 997                       | 748                       | 1,018                   | 2,073                      | 228,535                  |
| <b>Total assets</b>                              | <b>(Won) 180,544</b>      | <b>(Won) 195,887</b>      | <b>(Won) 167,461</b>    | <b>(Won) 408,334</b>       | <b>(Won) 1,019,458</b>   |
| Current liabilities                              | (Won) 171,592             | (Won) 192,632             | (Won) 163,337           | (Won) 395,659              | (Won) 682,932            |
| Non-current liabilities                          |                           |                           | 18                      | 443                        | 133,120                  |
| <b>Total liabilities</b>                         | <b>171,592</b>            | <b>192,632</b>            | <b>163,355</b>          | <b>396,102</b>             | <b>816,052</b>           |
| Capital stock                                    | 6,082                     | 1,252                     | 1,088                   | 4,189                      | 140,212                  |
| Retained earnings                                | 4,445                     | 2,353                     | 3,941                   | 9,759                      | 73,004                   |
| Capital adjustments                              | (1,575)                   | (350)                     | (923)                   | (1,716)                    | (9,810)                  |
| <b>Total shareholders equity</b>                 | <b>8,952</b>              | <b>3,255</b>              | <b>4,106</b>            | <b>12,232</b>              | <b>203,406</b>           |
| <b>Total liabilities and shareholders equity</b> | <b>(Won) 180,544</b>      | <b>(Won) 195,887</b>      | <b>(Won) 167,461</b>    | <b>(Won) 408,334</b>       | <b>(Won) 1,019,458</b>   |
| <i>(in millions of Korean won)</i>               | <b>LG. Philips LCD</b>    | <b>LG. Philips LCD</b>    | <b>LG. Philips LCD</b>  | <b>Paju Electric Glass</b> | <b>Total</b>             |
|  | <b>HongKong Co., Ltd.</b> | <b>Shanghai Co., Ltd.</b> | <b>Poland Sp z o.o.</b> |                            |                          |
| Current assets                                   | (Won) 144,939             | (Won) 318,230             | (Won) 9                 | (Won) 26,250               | (Won) 2,227,741          |
| Non-current assets                               | 495                       | 353                       |                         | 27,829                     | 262,048                  |
| <b>Total assets</b>                              | <b>(Won) 145,434</b>      | <b>(Won) 318,583</b>      | <b>(Won) 9</b>          | <b>(Won) 54,079</b>        | <b>(Won) 2,489,789</b>   |
| Current liabilities                              | (Won) 141,776             | (Won) 315,870             | (Won)                   | (Won) 18,872               | (Won) 2,082,670          |
| Non-current liabilities                          | 31                        |                           |                         |                            | 133,612                  |
| <b>Total liabilities</b>                         | <b>141,807</b>            | <b>315,870</b>            |                         | <b>18,872</b>              | <b>2,216,282</b>         |
| Capital stock                                    | 1,736                     | 596                       | 16                      | 36,000                     | 191,171                  |

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|   |               |               |         |              |           |
|---|---------------|---------------|---------|--------------|-----------|
| Retained earnings                         | 2,267         | 2,535         | (6)     | (608)        | 97,690    |
| Capital adjustments                       | (376)         | (418)         | (1)     | (185)        | (15,354)  |
| Total shareholders equity                 | 3,627         | 2,713         | 9       | 35,207       | 273,507   |
| Total liabilities and shareholders equity | (Won) 145,434 | (Won) 318,583 | (Won) 9 | (Won) 54,079 | 2,489,789 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

## Condensed Income Statement

| <i>(in millions of<br/>Korean won)</i> | <b>LG.Philips<br/>LCD,<br/>America, Inc.</b> | <b>LG.Philips<br/>LCD,<br/>Germany<br/>GmbH</b> | <b>LG.Philips<br/>LCD,<br/>Japan Co., Ltd.</b> | <b>LG.Philips<br/>LCD,<br/>Taiwan Co.,<br/>Ltd.</b> | <b>LG.Philips LCD,<br/>Nanjing Co.,<br/>Ltd.</b> |
|--|--|---|--|---|--|
| Sales                                  | (Won) 1,054,638                              | (Won) 1,330,822                                 | (Won) 929,977                                  | (Won) 2,734,321                                     | (Won) 4,082,466                                  |
| Cost of sales                          | 1,043,496                                    | 1,318,357                                       | 921,186  | 2,711,618   | 3,981,085  |
| Gross profit                           | 11,142                                       | 12,465  | 8,791  | 22,703  | 101,381  |
| Selling and administrative<br>expenses | 9,022  | 9,176   | 7,702  | 10,440  | 65,490   |
| Operating income                       | 2,120  | 3,289   | 1,089  | 12,263  | 35,891   |
| Non-operating income<br>(expense)      | (1,121)                                      | (1,153)   | 690  | (9,560)   | (2,902)  |
| Ordinary income                        | 999  | 2,136   | 1,779  | 2,703   | 32,989   |
| Income tax expense                     | 411  | 608   | 1,041  | 815   | (1,832)  |
| Net income                             | (Won) 588                                    | (Won) 1,528                                     | (Won) 738                                      | (Won) 1,888   | (Won) 34,821                                     |

| <i>(in millions of<br/>Korean won)</i> | <b>LG. Philips LCD<br/>HongKong Co.,<br/>Ltd.</b> | <b>LG.<br/>Philips LCD<br/>Shanghai Co.,<br/>Ltd.</b> | <b>LG. Philips<br/>LCD<br/>Poland Sp z o.o.</b> | <b>Paju Electric<br/>Glass</b> | <b>Total</b>     |
|--|---|---|---|--------------------------------|------------------|
| Sales                                  | (Won) 1,160,715                                   | (Won) 1,184,751                                       | (Won)   | (Won)                          | (Won) 12,477,690 |
| Cost of sales                          | 1,153,589   | 1,178,182   |   |                                | 12,307,513       |
| Gross profit                           | 7,126   | 6,569   |   |                                | 170,177          |
| Selling and administrative<br>expenses | 6,273   | 6,376   | 6   | 669                            | 115,154          |
| Operating income(loss)                 | 853   | 193   | (6)   | (669)                          | 55,023           |
| Non-operating income<br>(expense)      | 473   | 998   |   | 60                             | (12,515)         |
| Ordinary income(loss)                  | 1,326   | 1,191   | (6)   | (609)                          | 42,508           |
| Income tax expense                     | 168   | 181   |   |                                | 1,392            |
| Net income(loss)                       | (Won) 1,158                                       | (Won) 1,010   | (Won) (6)                                       | (Won) (609)                    | (Won) 41,116     |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

The details of the equity method valuation for the years ended December 31, 2005 and 2004, are as follows:

| <i>(in millions of<br/>Korean won)</i> | 2005                                |                                      |  |                                    |                       |       | Balance as of<br>December 31,<br>2005 |
|--|-------------------------------------|--------------------------------------|--|------------------------------------|-----------------------|-------|---------------------------------------|
|  | Balance as of<br>January 1,<br>2005 | Acquisitions<br>during the<br>period | Gain (loss) on<br>valuation of<br>investments using<br>equity method | Retained<br>earnings<br>adjustment | Capital<br>adjustment |       |                                       |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| America, Inc.                          | (Won) 7,133                         | (Won)                                | (Won) (552)  | (Won)                              | (Won) (193)           | (Won) | 6,388                                 |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Germany GmbH                           | 2,262                               |                                      | 348  |                                    | (510)                 |       | 2,100                                 |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Japan Co., Ltd.                        | 4,052                               |                                      | 388  |                                    | (653)                 |       | 3,787                                 |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Taiwan Co., Ltd.                       | 10,974                              |                                      | (2,881)  |                                    | (633)                 |       | 7,460                                 |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Nanjing Co., Ltd.                      | 140,241                             | 40,141                               | (3,608)  |                                    | 40                    |       | 176,814                               |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| HongKong Co., Ltd.                     | 2,491                               |                                      | 210  |                                    | (58)                  |       | 2,643                                 |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Shanghai Co., Ltd.                     | 886                                 |                                      | (283)  |                                    | 8                     |       | 611                                   |
| LG.Philips LCD                         |                                     |                                      |  |                                    |                       |       |                                       |
| Poland Sp. z o.o. <sup>2</sup>         |                                     | 16                                   | (6)  |                                    | (1)                   |       | 9                                     |
| Paju Electric Glass <sup>2</sup>       |                                     | 14,400                               | (244)  |                                    |                       |       | 14,156                                |
|  | (Won) 168,039                       | (Won) 54,557                         | (Won) (6,628)  | (Won)                              | (Won) (2,000)         | (Won) | 213,968                               |

| <i>(in millions of<br/>Korean won)</i> | 2004                                |                                      |   |                                    |                       |  | Balance as of<br>December 31,<br>2004 |
|--|-------------------------------------|--------------------------------------|---|------------------------------------|-----------------------|--|---------------------------------------|
|  | Balance as of<br>January 1,<br>2004 | Acquisitions<br>during the<br>period | Gain (loss) on<br>valuation of<br>investments<br>using<br>equity method | Retained<br>earnings<br>adjustment | Capital<br>adjustment |  |                                       |

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|                    |       |        |              |       |        |       |       |          |       |         |
|--------------------|-------|--------|--------------|-------|--------|-------|-------|----------|-------|---------|
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| America, Inc.      | (Won) | 6,840  | (Won)        | (Won) | 1,582  | (Won) | (Won) | (1,289)  | (Won) | 7,133   |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| Germany GmbH       |       | 568    |              |       | 1,875  |       |       | (181)    |       | 2,262   |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| Japan Co., Ltd.    |       | 1,788  |              |       | 2,577  |       |       | (313)    |       | 4,052   |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| Taiwan Co., Ltd.   |       | 5,861  |              |       | 5,898  |       |       | (785)    |       | 10,974  |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| Nanjing Co., Ltd.  |       | 21,515 | 63,084       |       | 65,537 |       |       | (9,895)  |       | 140,241 |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| HongKong Co., Ltd. |       |        |              |       | 2,843  |       |       | (352)    |       | 2,491   |
| LG.Philips LCD     |       |        |              |       |        |       |       |          |       |         |
| Shanghai Co., Ltd. |       |        |              |       | 1,315  |       |       | (429)    |       | 886     |
|                    | (Won) | 36,572 | (Won) 63,084 | (Won) | 81,627 | (Won) | (Won) | (13,244) | (Won) | 168,039 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

As of December 31, 2005 and 2004, elimination of unrealized gains or losses in the valuation of investments using the equity method is as follows:

| <i>(in millions of Korean won)</i>  | 2005           |                                     |                | 2004          |                                     |               |
|---|----------------|-------------------------------------|----------------|---------------|-------------------------------------|---------------|
|   | Inventories    | Property,<br>plant and<br>equipment | Total          | Inventories   | Property,<br>plant and<br>equipment | Total         |
| LG.Philips LCD America, Inc.  | (Won) (2,564)  | (Won)                               | (Won) (2,564)  | (Won) (1,392) | (Won)                               | (Won) (1,392) |
| LG.Philips LCD Germany GmbH   | (1,155)        |                                     | (1,155)        |               |                                     |               |
| LG.Philips LCD Japan Co., Ltd.  | (319)          |                                     | (319)          |               |                                     |               |
| LG.Philips LCD Taiwan Co., Ltd.   | (4,772)        |                                     | (4,772)        |               |                                     |               |
| LG.Philips LCD Nanjing Co., Ltd.  | (21,216)       | (5,376)                             | (26,592)       | 16,875        | (4,538)                             | 12,337        |
| LG.Philips LCD HongKong Co., Ltd.   | (984)          |                                     | (984)          | (37)          |                                     | (37)          |
| LG.Philips LCD Shanghai Co., Ltd.   | (2,102)        |                                     | (2,102)        | (809)         |                                     | (809)         |
| LG.Philips LCD Poland Sp. z o.o. <sup>2</sup><br>Paju Electric Glass <sup>2</sup> |                |                                     |                |               |                                     |               |
|   | (Won) (33,112) | (Won) (5,376)                       | (Won) (38,488) | (Won) 14,637  | (Won) (4,538)                       | (Won) 10,099  |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****8. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2005 and 2004, are as follows:

| <i>(in millions of Korean won)</i> | 2005          |                 |               |                               |              |                              |
|------------------------------------|---------------|-----------------|---------------|-------------------------------|--------------|------------------------------|
|                                    | Land          | Buildings       | Structures    | Machinery<br>and<br>equipment | Tools        | Furniture<br>and<br>fixtures |
| Balance as of January 1, 2005      | (Won) 313,620 | (Won) 817,768   | (Won) 114,810 | (Won) 3,374,473               | (Won) 20,119 | (Won) 81,696                 |
| Acquisition during the year        |               | 19,830          | 448           | 39,954                        | 1,616        | 57,152                       |
| Capitalized interest               |               | 7,300           |               | 33,009                        |              |                              |
| Depreciation                       |               | (48,308)        | (6,439)       | (1,583,280)                   | (11,647)     | (56,910)                     |
| Disposal                           |               |                 |               | (580)                         | (12)         | (33)                         |
| Transfer                           | 2,616         | 836,529         | 13,953        | 3,215,268                     | 40,395       | 64,768                       |
| Balance as of December 31, 2005    | (Won) 316,236 | (Won) 1,633,119 | (Won) 122,772 | (Won) 5,078,844               | (Won) 50,471 | (Won) 146,673                |
| Accumulated depreciation           | (Won)         | (Won) 172,237   | (Won) 26,424  | (Won) 5,788,542               | (Won) 54,745 | (Won) 188,769                |

  

|                                 | Machinery-  |             | Construction- |               | Total           |
|---------------------------------|-------------|-------------|---------------|---------------|-----------------|
|                                 | Vehicles    | Others      | in-transit    | in-progress   |                 |
| Balance as of January 1, 2005   | (Won) 4,040 | (Won) 2,501 | (Won) 704,588 | (Won) 933,036 | (Won) 6,366,651 |
| Acquisition during the year     | 1,156       | 604         | 945,207       | 3,218,322     | 4,284,289       |
| Capitalized interest            |             |             | 1,663         | 4,747         | 46,719          |
| Depreciation                    | (1,749)     |             |               |               | (1,708,333)     |
| Disposal                        | (229)       |             |               |               | (854)           |
| Transfer                        | 2,342       | 2,947       | (1,145,671)   | (3,033,160)   | (13)            |
| Balance as of December 31, 2005 | (Won) 5,560 | (Won) 6,052 | (Won) 505,787 | 1,122,945     | 8,988,459       |
| Accumulated depreciation        | (Won) 4,860 | (Won)       | (Won)         | (Won)         | (Won) 6,235,577 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004***(in millions of Korean won)*

|                                 | 2004          |               |               |                         |              |                        |
|---------------------------------|---------------|---------------|---------------|-------------------------|--------------|------------------------|
|                                 | Land          | Buildings     | Structures    | Machinery and equipment | Tools        | Furniture and fixtures |
| Balance as of January 1, 2004   | (Won) 88,669  | (Won) 501,119 | (Won) 119,013 | (Won) 2,056,822         | (Won) 17,751 | (Won) 70,708           |
| Acquisition during the year     | 23            | 8,631         | 2,019         | 13,607                  | 3,622        | 37,106                 |
| Capitalized interest            | 55            | 4,147         |               | 18,327                  |              |                        |
| Depreciation                    |               | (33,670)      | (5,824)       | (1,110,015)             | (9,822)      | (46,030)               |
| Disposal                        |               | (88)          |               | (4,766)                 | (3)          | (28)                   |
| Transfer                        | 224,873       | 337,629       | (398)         | 2,400,498               | 8,571        | 19,940                 |
| Balance as of December 31, 2004 | (Won) 313,620 | (Won) 817,768 | (Won) 114,810 | (Won) 3,374,473         | (Won) 20,119 | (Won) 81,696           |
| Accumulated depreciation        | (Won)         | (Won) 123,929 | (Won) 19,985  | (Won) 4,255,475         | (Won) 43,172 | (Won) 139,789          |

|                                 | Machinery-in- |             | Construction-in- |               | Total           |
|---------------------------------|---------------|-------------|------------------|---------------|-----------------|
|                                 | Vehicles      | Others      | transit          | -progress     |                 |
| Balance as of January 1, 2004   | (Won) 2,587   | (Won) 1,529 | (Won) 28,521     | (Won) 987,709 | (Won) 3,874,428 |
| Acquisition during the year     | 2,736         |             | 1,333,467        | 2,276,579     | 3,677,790       |
| Capitalized interest            |               |             | 4,747            | 5,412         | 32,688          |
| Depreciation                    | (1,313)       |             |                  |               | (1,206,674)     |
| Disposal                        |               |             |                  |               | (4,885)         |
| Transfer                        | 30            | 972         | (662,147)        | (2,336,664)   | (6,696)         |
| Balance as of December 31, 2004 | (Won) 4,040   | (Won) 2,501 | (Won) 704,588    | (Won) 933,036 | (Won) 6,366,651 |
| Accumulated depreciation        | (Won) 3,569   | (Won)       | (Won)            | (Won)         | (Won) 4,585,919 |

As of December 31, 2005, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately (Won)366,820 million (December 31, 2004: (Won)259,230 million).

The Company capitalizes the loss (gain) on foreign currency rate changes and interest expense incurred on borrowings used to finance the cost of constructing facilities and equipment. Capitalized loss on foreign exchange rate fluctuations and interest expenses for the year ended December 31, 2005, amount to (Won)6,719 million (2004: (Won)32,688 million).

For the year ended December 31, 2005, net gain on foreign currency translation, arising from foreign currency borrowings, which was deducted from capitalized interest expenses, is (Won)4,133 million (2004: net gain of (Won)8,597 million).



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LG. Philips LCD Co., Ltd.

**Notes to Non-Consolidated Financial Statements**

December 31, 2005 and 2004

For the year ended December 31, 2005, the accumulated effects of capitalized expenses on significant accounts in the balance sheet and statement of income are as follows:

**Balance sheet**

| <i>(in millions of Korean won)</i> | If interest expenses are capitalized |                 | If interest expenses are expensed as incurred |                 | Difference       |                          |
|------------------------------------|--------------------------------------|-----------------|---|-----------------|------------------|--------------------------|
|                                    | Acquisition                          | Accumulated     | Acquisition                                   | Accumulated     | Acquisition cost | Accumulated Depreciation |
|                                    | cost                                 | Depreciation    | cost  | Depreciation    |                  |                          |
| Property, plant and equipment      | (Won) 15,224,036                     | (Won) 6,235,577 | (Won) 15,135,302                              | (Won) 6,221,806 | (Won) 88,734     | (Won) 13,771             |

**Statement of income**

| <i>(in millions of Korean won)</i> | If interest expenses are capitalized | If interest expenses are expensed as incurred | Difference  |
|------------------------------------|--------------------------------------|---|-------------|
| Depreciation                       | (Won) 1,708,333                      | (Won) 1,698,387                               | (Won) 9,946 |
| Interest expense                   | 97,544                               | 148,396                                       | (50,852)    |
| Foreign currency translation gain  | 47,714                               | 51,847  | 4,133       |
| Net income                         | 517,012                              | 480,239                                       | (36,773)    |

**9. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2005 and 2004, are as follows:

| <i>(in millions of Korean won)</i> | 2005                         |   |                                       |             | Total         |
|------------------------------------|------------------------------|---|---------------------------------------|-------------|---------------|
|                                    | Intellectual property rights | Rights for usage of electricity and gas supply facilities | Rights to industrial water facilities | Software    |               |
| Balance as of January 1, 2005      | (Won) 172,073                | (Won) 260   | (Won) 9,893                           | (Won) 1,245 | (Won) 183,471 |
| Acquisition during the year        | 10,829                       |   | 12                                    |             | 10,841        |
| Reversal                           |                              |   | (18)                                  |             | (18)          |
| Amortization                       | (41,889)                     | (32)  | (1,234)                               | (1,245)     | (44,400)      |
|                                    | (Won) 141,013                | (Won) 228   | (Won) 8,653                           | (Won)       | (Won) 149,894 |

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Balance as of December 31,  
2005

|                          |               |          |             |             |               |
|--------------------------|---------------|----------|-------------|-------------|---------------|
| Accumulated amortization | (Won) 285,138 | (Won) 88 | (Won) 3,646 | (Won) 9,713 | (Won) 298,585 |
|--------------------------|---------------|----------|-------------|-------------|---------------|

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

| <i>(in millions of Korean won)</i> | 2004                         |   |                                       |             |               |
|------------------------------------|------------------------------|---|---------------------------------------|-------------|---------------|
|                                    | Intellectual property rights | Rights for usage of electricity and gas supply facilities | Rights to industrial water facilities | Software    | Total         |
| Balance as of January 1, 2004      | (Won) 209,922                | (Won) 127   | (Won) 4,287                           | (Won) 3,646 | (Won) 217,982 |
| Acquisition during the year        | 3,269                        | 156   | 6,461                                 | 64          | 9,950         |
| Amortization                       | (41,118)                     | (23)  | (855)                                 | (2,465)     | (44,461)      |
| Balance as of December 31, 2004    | (Won) 172,073                | (Won) 260   | (Won) 9,893                           | (Won) 1,245 | (Won) 183,471 |
| Accumulated amortization           | (Won) 243,249                | (Won) 56  | (Won) 2,412                           | (Won) 8,468 | (Won) 254,185 |

The Company has classified the amortization as part of manufacturing overhead costs. The amortization expense for the year ended December 31, 2005, amounts to (Won)44,400 million (2004: (Won)44,461 million).

The details of intellectual property rights as of December 31, 2005 and 2004, are as follows:

| <i>(in millions of Korean won)</i> | Description                         | Remaining     |               |            |
|------------------------------------|-------------------------------------|---------------|---------------|------------|
|                                    |                                     | 2005          | 2004          | Period     |
| Intellectual property rights       | Patent relating to TFT-LCD business | (Won) 141,013 | (Won) 172,073 | 4~10 years |

The Company expensed research and development costs of (Won)61,761 million for the year ended December 31, 2005 (2004: (Won)53,205 million).

For the years ended December 31, 2005 and 2004, the significant expenses, which are expected to have probable future economic benefits but expensed in the year incurred due to the uncertainty in the realization of such benefits, are as follows:

| <i>(in millions of Korean won)</i>    | 2005         | 2004         |
|---------------------------------------|--------------|--------------|
| Training expense                      | (Won) 14,283 | (Won) 12,319 |
| Advertising expense                   | 21,728       | 5,391        |
| Expenses for foreign market expansion | 8,835        | 7,377        |
|                                       | (Won) 44,846 | (Won) 25,087 |

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Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

**10. Current maturities of long-term debts**

Current maturities of long-term debts as of December 31, 2005 and 2004, consist of the following:

| Type of borrowing   | Creditor                 | Annual interest rates (%) as of |               |               |
|---|--------------------------|---------------------------------|---------------|---------------|
|   |                          | December 31, 2005               | 2005          | 2004          |
| <i>(in millions of Korean won)</i>                                |                          |                                 |               |               |
| Long-term debt in won currency loans                              | Korea Export-Import Bank | 5.9-6.1                         | (Won) 29,417  | (Won)         |
| Corporate bonds in won currency                                   |                          | 6.0                             | 200,000       |               |
| Long-term debt in foreign currency debentures of US\$ 182 million |                          | 3M Libor + 1.1                  | 184,872       | 188,997       |
| Long-term debt in foreign currency loans of US\$ 18 million       | Woori Bank               | 3M Libor + 1.1                  | 17,727        | 18,123        |
|   |                          |                                 | 432,016       | 207,120       |
| Less : Discounts on debentures                                    |                          |                                 | (2,664)       | (1,981)       |
|   |                          |                                 | (Won) 429,352 | (Won) 205,139 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****11. Long-Term Debts**

Long-term debts as of December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i>                | Annual interest<br>rates (%) as of |     |                 |                 |
|---|------------------------------------|-----|-----------------|-----------------|
| Type of borrowing                                 | December 31, 2005                  |     | 2005            | 2004            |
| <b>Won currency debentures</b>                    |                                    |     |                 |                 |
| Non-guaranteed, payable through 2010              | 3.5                                | 6.0 | (Won) 1,750,000 | (Won) 1,350,000 |
| Private debentures, payable in 2010               | 5.89                               |     | 200,000         |                 |
| Less : Current maturities                         |                                    |     | (200,000)       |                 |
| Discounts on debentures                           |                                    |     | (28,120)        | (33,396)        |
|   |                                    |     | 1,721,880       | 1,316,604       |
| <b>Foreign currency debentures</b>                |                                    |     |                 |                 |
| Floating rate notes, payable through 2007         | 3M Libor + 0.6,<br>3M Libor + 1.1  |     | 304,913         | 416,311         |
| Term notes, payable through 2006                  | 3M Libor +1.1                      |     | 82,559          | 168,803         |
|   |                                    |     | 387,472         | 585,114         |
| Less : Current maturities                         |                                    |     | (184,872)       | (188,997)       |
| Discount on debentures                            |                                    |     | (1,960)         | (5,005)         |
|   |                                    |     | 200,640         | 391,112         |
| <b>Convertible bonds<sup>1</sup></b>              |                                    |     |                 |                 |
| US dollar-denominated bonds, payable through 2010 |                                    |     | 483,780         |                 |
| Add : Call premium                                |                                    |     | 84,613          |                 |
| Less : Current maturities                         |                                    |     |                 |                 |
| Discount on debentures                            |                                    |     | (2,724)         |                 |
| Conversion adjustment                             |                                    |     | (102,917)       |                 |
|   |                                    |     | 462,752         |                 |
|   |                                    |     | (Won) 2,385,272 | (Won) 1,707,716 |
| <b>Won currency loans</b>                         |                                    |     |                 |                 |
| General loans                                     | 5.9                                | 6.1 | (Won) 117,800   | (Won) 117,800   |
|   | 3.25                               |     | 8,620           |                 |
| Less : Current maturities                         |                                    |     | (29,417)        |                 |
|   |                                    |     | 97,003          | 117,800         |
| <b>Foreign currency loans</b>                     |                                    |     |                 |                 |



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|                           |   |               |               |
|---------------------------|---|---------------|---------------|
| General loans             | 3M Libor+1.1,<br>3M Libor+0.99,<br>3M Libor+1.35,<br>6M Libor+1.2 | 218,301       | 85,955        |
| Less : Current maturities |   | (17,727)      | (18,123)      |
|                           |   | 200,574       | 67,832        |
|                           |   | (Won) 297,577 | (Won) 185,632 |

<sup>1</sup> On April 19, 2005, the Company issued US dollar-denominated convertible bonds totaling US\$475 million, with a zero coupon rate. On or after June 27, 2005 through April 4, 2010, the bonds are convertible into common shares at a conversion price of (Won)58,251 per share of common stock, subject to adjustment based on certain events. The bonds will mature in five years from the issue date and will be repaid at 117.49 % of their principal amount at maturity. The bondholders have a put option to be repaid at 108.39 % of their principal amount on October 19, 2007. As of December 31, 2005, the number of non-converted common shares is 8,276,681.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

As of December 31, 2005, the foreign currency debentures denominated in U.S. dollars amount to US\$ 383 million (December 31, 2004: US\$ 565 million), while the foreign currency loans denominated in U.S. dollars amount to US\$215 million (December 31, 2004: US\$ 83 million).

The aggregate annual maturities of long-term debts outstanding as of December 31, 2005, exclusive of adjustments relating to discounts, are as follows:

*(in millions of Korean won)*

| For the<br>Year ending | Won                    |              | Foreign<br>currency    |                      | Foreign<br>currency |       | Total           |
|------------------------|------------------------|--------------|------------------------|----------------------|---------------------|-------|-----------------|
|                        | currency<br>debentures | loans        | currency<br>debentures | Convertible<br>bonds | loans               |       |                 |
| December 31,<br>2007   | (Won) 300,000          | (Won) 39,267 | (Won) 202,600          | (Won)                | (Won) 34,948        | (Won) | 576,815         |
| 2008                   | 250,000                | 39,266       |                        |                      | 42,546              |       | 331,812         |
| 2009                   | 600,000                | 9,850        |                        |                      | 42,546              |       | 652,396         |
| 2010                   | 600,000                | 862          |                        | 483,780              | 42,546              |       | 1,127,188       |
| 2011                   |                        | 1,724        |                        |                      | 30,390              |       | 32,114          |
| 2012                   |                        | 1,724        |                        |                      | 7,598               |       | 9,322           |
| Thereafter             |                        | 4,310        |                        |                      |                     |       | 4,310           |
|                        | (Won) 1,750,000        | (Won) 97,003 | (Won) 202,600          | (Won) 483,780        | (Won) 200,574       |       | (Won) 2,733,957 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****12. Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2005 and 2004, consist of the following:

*(in millions of Korean won)*

|  | <b>2005</b>  | <b>2004</b>  |
|--|--------------|--------------|
| Balance at the beginning of the year             | (Won) 81,955 | (Won) 56,551 |
| Actual severance payments                        | (16,282)     | (8,291)      |
| Transferred from/to affiliated companies, net    | 2,485        | 1,130        |
| Provision for severance benefits                 | 43,834       | 32,565       |
|  | 111,992      | 81,955       |
| Cumulative deposits to the National Pension Fund | (708)        | (737)        |
| Severance insurance deposit                      | (68,097)     | (49,280)     |
| Balance at the end of the year                   | (Won) 43,187 | (Won) 31,938 |

The severance benefits are funded approximately 60.8% as of December 31, 2005 (2004 : 60.1%), through a severance insurance deposit for the payment of severance benefits, which is deducted from accrued severance benefit liabilities. The beneficiaries of the severance insurance deposit are the Company's employees.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****13. Stock Appreciation Plan**

On April 7, 2005, the Company granted 450,000 shares of stock appreciation rights ( SARs ) for certain executives. Under the terms of this plan, executives, upon exercising their SARs, are entitled to receive cash equal to the excess of the market price of the Company's common stock over the exercise price of (Won) 44,050 per share. The exercise price decreased from (Won) 44,260 to (Won)44,050 due to the additional issuance of common stock in 2005. These SARs are exercisable on or after April 8, 2008, through April 7, 2012. Additionally, when the increase rate of the Company's share price is the same or less than the increase rate of the Korea Composite Stock Price Index ( KOSPI ) over the three-year period following the grant date, only 50% of the initially granted shares can be exercised.

The options activity under the SARs for the year ended December 31, 2005, follows:

|                                       | <b>Number of shares<br/>under SARs</b> |
|---------------------------------------|--|
| Balance, January 1, 2005              | (Won)                                  |
| Options granted                       | 450,000                                |
| Options exercised                     |  |
| Options canceled/expired <sup>1</sup> | 40,000                                 |
| Balance, December 31, 2005            | (Won) 410,000                          |

<sup>1</sup> Option canceled due to the retirement of an executive officer.

The Company did not recognize any compensation costs in 2005 as market price is below the exercise price as of December 31, 2005.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****14. Commitments and Contingencies**

As of December 31, 2005, the Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of December 31, 2005, the Company has a revolving credit facility agreement with several banks totaling (Won)450,000 million and US\$100 million.

As of December 31, 2005, the Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities up to an aggregate of US\$1,175 million. The Company has made agreements with several banks in relation to the opening of letters of credit amounting to (Won)140,000 million and US\$145 million. The related amounts of negotiated foreign currency receivables outstanding as of December 31, 2005, amount to (Won)303,904 million (December 31, 2004: (Won)410,824 million).

As of December 31, 2005, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others. As of December 31, 2005, the Company has trademark license agreements with LG Corporation and Philips Electronics.

The Company enters into foreign currency forward contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. The use of foreign currency forward contracts allows the Company to reduce its exposure to the risk that the eventual Korean won cash outflows resulting from operating expenses, capital expenditures, purchasing of materials and debt service will be adversely affected by changes in exchange rates.

A summary of said contracts is as follows :

*(in millions)*

| <b>Contracting party</b>       | <b>Selling position</b> | <b>Buying position</b> | <b>Contract foreign exchange rate</b>      | <b>Maturity date</b>                    |
|--------------------------------|-------------------------|------------------------|--|---|
| HSBC and others                | US\$ 3,266              | (Won)3,357,233         | (Won)994.31:US\$1-<br>(Won)1,058.65:US\$1  | January 2, 2006 -<br>December 12, 2006  |
| Citi bank and others           | EUR 104                 | (Won)131,182           | (Won)1,219.31:EUR 1-<br>(Won)1,352.44:EUR1 | January 23, 2006 -<br>December 20, 2006 |
| ABN AMRO and others            | (Won) 370,919           | JP¥ 40,239             | (Won)8.669: JP¥1-<br>(Won)9.92:JP¥1        | January 2, 2006 -<br>December 1, 2006   |
| Korea Exchange Bank and others | US\$ 135                | JP¥ 15,800             | JP¥112.23: US\$1-<br>JP¥120.4: US\$1       | January 4, 2006 -<br>March 28, 2006     |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

As of December 31, 2005, the Company recorded unrealized gains and losses on outstanding foreign

currency forward contracts of (Won)63,962 million and (Won)26,061 million, respectively. Total unrealized gains and losses of (Won)26,081 million and (Won)1,514 million, respectively, were charged to operations for the year ended December 31, 2005, as these contracts did not meet the requirements for a cash flow hedge. Unrealized gains and losses of (Won)29,292 million and (Won)18,982 million, respectively, incurred relating to cash flow hedges from forecasted exports, were recorded as capital adjustments.

The forecasted hedged transactions are expected to be completed on December 20, 2006. The aggregate amount of all deferred gains and losses of (Won)37,881 million and (Won)24,547 million, respectively, recorded net of tax under capital adjustments, are expected to be included in the determination of gain and loss within a year from December 31, 2005.

For the year ended December 31, 2005, the Company recorded realized exchange gains of (Won)89,311 million (2004: (Won)80,306 million) on foreign currency forward contracts upon settlement, and realized exchange losses of (Won)100,935 million (2004: (Won)51,597 million).

The Company entered into cross-currency swap contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy and to manage the exposure to changes in interest rates related to floating rate notes. These transactions do not meet the requirements for hedge accounting for financial statement purposes. Therefore, the resulting realized and unrealized gains or losses, measured by quoted market prices, are recognized in current operations as gains or losses as the exchange rates change.

A summary of such contracts follows:

*(in millions)*

| Contracting party   | Buying position | Selling position | Contract foreign exchange rate | Maturity date                           |
|---------------------|-----------------|------------------|--------------------------------|---|
| ABN Amro and others | US\$ 430        | (Won) 442,830    | 3M Libor<br>3.25% -4.40%       | February 10, 2006 -<br>December 8, 2006 |

As of December 31, 2005, unrealized gains and losses of (Won)1,277 million and (Won)7,617 million, respectively, were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

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The Company is subject to several legal proceedings and claims arising in the ordinary course of business. In August 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process for TFT-LCDs. Subsequently the Company filed a complaint against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jeans Co, Lite-On Technology Corp., Lite-On Technology International, Inc., TpV Technology and Invision Peripheral Inc. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged infringement of certain patents and violation of U.S. antitrust laws. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In May 2004, the Company filed a complaint against Tatung Co., the parent company of Chunghwa Picture Tubes and ViewSonic Corp. and others, claiming patent infringement of rear mountable liquid crystal display devices in the United States District of Delaware and the Patent Country Court in the United Kingdom. On November 28, 2005, the Company lost its patent infringement case against Tatung Company and ViewSonic Corp. at first instance in Patent Country Court in United Kingdom, and the Company is preparing the appeal against the decision of U.K. Court. In January 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against the Company. On May 13, 2005, the Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process for TFT-LCDs in the United States District of Delaware. On September 20, 2005, the United States District Court for the Central District of California dismissed the patent case against Tatung Company and other defendants regarding the patent infringement by Chunghwa Picture Tubes relating to side mounting patent. Thereafter, the Company has revised its claim and has refiled the above complaint including the side mounting patent. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have any material adverse effect on the Company's financial condition, results of operations or cash flows.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****15. Capital Stock**

On March 19, 2004, at their Annual General Meeting, the stockholders approved an increase of the authorized shares from 200 million to 400 million, and a stock split on a 2:1 basis effective May 25, 2004. The number of issued common shares as of December 31, 2005, is 357,815,700 (2004: 325,315,700).

In July 2004, pursuant to Securities Registration Statement filed on July 16, 2004, with the Korea Stock Exchange, the Company sold 8,640,000 shares of common stock for (Won)298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004, with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depositary Shares ( ADSs ) for proceeds of US\$748,800 thousand. In September 2004, pursuant to Underwriting Agreement dated July 15, 2004, the Company sold an additional 1,715,700 shares of common stock in the form of ADSs for US\$51,471 thousand. In July 2005, pursuant to the Form F-1 Registration statement filed on July 22, 2005, with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of American Depositary Shares ( ADSs ) for gross proceeds of US\$ 1,189,656 thousand. In addition, pursuant to the Underwriting Agreement dated July 21, 2005, the Company issued 4,600,000 shares of common stock for gross proceeds of US\$ 196,144 thousand. The Company intends to use the proceeds from these sales to fund the capital expenditures in connection with the construction of TFT-LCD fabrication plant and other LCD facilities.

Issuances and other movements in common stock from January 1, 2004 to December 31, 2005, are as follows:

*(in millions of Korean won)*

| <b>Date of Issuance</b>    | <b>Remarks</b>           | <b>Par Value</b> | <b>Additional Paid-in Capital</b> |
|----------------------------|--------------------------|------------------|-----------------------------------|
| January 1, 2004, balance   |                          | (Won) 1,450,000  | (Won)                             |
| July 22, 2004              | Issuance of common stock | 168,000          | 1,001,833                         |
| September 7, 2004          | Issuance of common stock | 8,579            | 50,721                            |
|                            | Stock issuance cost      |                  | (40,283)                          |
| July 26, 2005              | Issuance of common stock | 162,500          | 1,259,469                         |
|                            | Stock issuance cost      |                  | (20,627)                          |
| December 31, 2005, balance |                          | (Won) 1,789,079  | (Won) 2,251,113                   |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****16. Capital Surplus and Retained Earnings**

Capital surplus as of December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|                                | 2005            | 2004            |
|--------------------------------|-----------------|-----------------|
| Additional paid in capital     | (Won) 2,251,113 | (Won) 1,012,271 |
| Conversion rights <sup>1</sup> | 28,137          |                 |
|                                | (Won) 2,279,250 | (Won) 1,012,271 |

<sup>1</sup> Net of tax effects.

Retained earnings as of December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|                                      | 2005            | 2004            |
|--------------------------------------|-----------------|-----------------|
| Legal reserve                        | (Won) 60,086    | (Won) 60,086    |
| Reserve for business rationalization | 68,251          | 68,251          |
| Unappropriated retained earnings     | 3,480,349       | 2,963,337       |
|                                      | (Won) 3,608,686 | (Won) 3,091,674 |

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

**17. Capital Adjustments**

Capital adjustments as of December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|  | 2005           | 2004           |
|--|----------------|----------------|
| Foreign currency translation loss on the affiliates <sup>1</sup> | (Won) (11,729) | (Won) (13,169) |

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|  |               |              |
|--|---------------|--------------|
| Gain on valuation of derivative instruments <sup>1</sup> | 29,293        | 55,287       |
| Loss on valuation of derivative instruments <sup>1</sup> | (18,982)      |              |
|  | (Won) (1,418) | (Won) 42,118 |

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<sup>1</sup> Net of tax effects.

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December 31, 2005 and 2004

**18. Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|   | <b>2005</b>            | <b>2004</b>         |
|---|------------------------|---------------------|
| Current income taxes                                | (Won) 25,989           | (Won) 85,838        |
| Deferred income taxes from temporary differences    | (15,941)               | (12,902)            |
| Deferred income taxes from tax credit               | (155,148)              | (45,314)            |
| Deferred income taxes added to shareholders' equity | (4,631)                |                     |
| <b>Income tax expense (benefit)</b>                 | <b>(Won) (149,731)</b> | <b>(Won) 27,622</b> |

The income tax effect of temporary differences, including available net operating loss carryforwards and tax credits, comprising the deferred income tax assets and liabilities as of December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|   | <b>2005</b>          | <b>2004</b>          |
|---|----------------------|----------------------|
| Inventories   | (Won) 8,354          | (Won) 7,564          |
| Investments   | 7,584                | (1,463)              |
| Other current assets                                | (4,133)              | (2,158)              |
| Property, plant and equipment                       | 34,403               | 24,631               |
| Tax credit carryforward                             | 292,976              | 137,828              |
| Deferred income taxes added to shareholders' equity | (4,631)              |                      |
| Others  | 9,715                | 6,776                |
|   | <b>(Won) 344,268</b> | <b>(Won) 173,178</b> |

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Available tax credits as of December 31, 2005, amounted to (Won)325,529 million. Tax credits can be carried forward up to four or five years under the Corporate Income Tax Law in Korea.

The reconciliation between income before income taxes to taxable income for the years ended December 31, 2005 and 2004, are as follows

*(in millions of Korean won)*

|                            | <b>2005</b>          | <b>2004</b>            |
|----------------------------|----------------------|------------------------|
| Income before income taxes | (Won) 367,281        | (Won) 1,683,067        |
| Add (deduct) :             |                      |                        |
| Temporary differences      | 37,012               | 21,353                 |
| Permanent differences      | (4,578)              | (43,466)               |
| <b>Taxable income</b>      | <b>(Won) 399,715</b> | <b>(Won) 1,660,954</b> |

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2004, and was amended to 27.5% effective for fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003.

Under the Foreign Investment Promotion Act of Korea, from September 1999, the Company is entitled to an exemption from income taxes in proportion to the percentage of foreign equity for seven years following the registration of each foreign equity investment, and at one-half of that percentage for the subsequent three years.

The effective income tax rates applicable to the Company differs from the statutory income tax rate due to temporary differences in recognizing certain income and expenses for financial reporting and income tax purposes, and the tax exemption under the Foreign Investment Promotion Act of Korea. The effective tax rate of the Company for the year ended December 31, 2005, is negative 40.77% (2004: 1.64%).

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**Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

Changes in accumulated temporary differences for the year ended December 31, 2005, are as follows:

*(in millions of Korean won)*

|                               | <b>January 1, 2005</b> | <b>Increase (decrease)</b> | <b>December 31, 2005</b> |
|-------------------------------|------------------------|----------------------------|--------------------------|
| Inventories                   | (Won) 47,233           | (Won) (10,385)             | (Won) 36,848             |
| Investments                   | (9,599)                | 43,049                     | 33,450                   |
| Derivatives                   | (14,157)               | (4,072)                    | (18,229)                 |
| Property, plant and equipment | 109,496                | 26,205                     | 135,701                  |
| Warranty accrual              | 15,151                 | 872                        | 16,023                   |
| Others                        | 12,333                 | (18,657)                   | (6,324)                  |
| <b>Total</b>                  | <b>(Won) 160,457</b>   | <b>(Won) 37,012</b>        | <b>(Won) 197,469</b>     |
| Deduction from capital        | (Won)                  | (Won) (31,350)             | (Won) (31,350)           |
| Tax credit carryforward       | (Won) 137,828          | (Won) 155,148              | (Won) 292,976            |

**19. Earnings Per Share**

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the period.

Earnings per share for the three-month periods and years ended December 31, 2005 and 2004, are calculated as follows:

|  | <b>For the three-month</b>        |                  | <b>For the years</b>      |                    |
|--|-----------------------------------|------------------|---------------------------|--------------------|
|  | <b>periods ended December 31,</b> |                  | <b>ended December 31,</b> |                    |
|  | <b>2005</b>                       | <b>2004</b>      | <b>2005</b>               | <b>2004</b>        |
| Net income as reported on the statements of income   | (Won) 327,848                     | (Won) 35,421     | (Won) 517,012             | (Won) 1,655,445    |
| Weighted-average number of common shares outstanding | 358                               | 325              | 339                       | 305                |
| <b>Earnings per share</b>                            | <b>(Won) 916</b>                  | <b>(Won) 109</b> | <b>(Won) 1,523</b>        | <b>(Won) 5,420</b> |
| Diluted earnings per share                           | (Won) 908                         | (Won) 109        | (Won) 1,523               | (Won) 5,420        |

The Company has issued no diluted securities until the Company issued convertible bonds on April 19, 2005. Diluted earnings per share is identical to basic earnings and diluted ordinary income per share as the convertible bonds issued have no dilutive effect for the year ended December 31, 2005.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004**

The diluted ordinary earnings per share and the diluted net earnings per share are (Won)908 per share for the three-month period ended December 31, 2005. Diluted earnings per share for the three-month period ended December 31, 2005, is calculated as follows:

*(in millions, except for per share amount)*

|   |               |
|---|---------------|
| Net income allocated to common stock  | (Won) 327,848 |
| Add : Interest expense on convertible bonds <sup>1</sup>                                      | 4,548         |
| Diluted net income allocated to common stock  | 332,396       |
| Weighted average number of common shares and diluted securities outstanding during the period | 366           |
| Diluted earnings per share  | (Won) 908     |

<sup>1</sup> Net of tax effect.

Earnings per share for the three-month period ended September 30, 2005, follows:

|                            |                           |
|----------------------------|---------------------------|
|                            | <b>September 30, 2005</b> |
| Basic earnings per share   | (Won) 651                 |
| Diluted earnings per share | (Won) 649                 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****20. Transactions with Related Parties**

Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2005 and 2004, and the related account balances outstanding as of December 31, 2005 and 2004, are summarized as follows:

*(in millions of Korean won)*

|                                   | Sales <sup>1</sup>     | Purchases <sup>1</sup> | Receivables            | Payables             |
|-----------------------------------|------------------------|------------------------|------------------------|----------------------|
| LG Electronics Inc.-Domestic      | (Won) 386,616          | (Won) 179,562          | (Won) 27,383           | (Won) 66,251         |
| LG Electronics Inc.-Overseas      | 101,786                |                        | 40,773                 | 370                  |
| LG Corporation                    |                        | 11,218                 | 10,970                 | 1,692                |
| LG Chem Ltd.                      |                        | 406,035                |                        | 44,602               |
| LG.Philips LCD America, Inc.      | 786,908                |                        | 22,683                 |                      |
| LG.Philips LCD Taiwan Co., Ltd.   | 791,783                | 28                     | 53,521                 | 1                    |
| LG.Philips LCD Japan Co., Ltd.    | 890,659                |                        | 130,090                | 1                    |
| LG.Philips LCD Germany GmbH.      | 1,011,926              | 8,878                  | 103,637                | 8,886                |
| LG.Philips LCD Nanjing Co., Ltd.  | 3,055,775              | 1,795                  | 375,158                | 3,068                |
| LG.Philips LCD Shanghai Co.,Ltd.  | 817,675                |                        | 202,329                |                      |
| LG.Philips LCD Hongkong Co., Ltd. | 516,050                |                        | 45,863                 | 48                   |
| LG.Philips LCD Poland Sp. z o.o.  |                        |                        | 1                      |                      |
| LG International-Domestic         | 905                    | 3,940                  | 11                     | 986                  |
| LG International-Overseas         | 127,240                | 1,271,734              | 3,114                  | 191,252              |
| Serveone                          |                        | 146,109                |                        | 36,792               |
| Micron Ltd.                       |                        | 125,224                |                        | 55,234               |
| LG CNS                            |                        | 108,766                |                        | 32,127               |
| Philips-Domestic                  |                        | 413                    |                        | 291                  |
| Philips-Overseas                  | 391                    | 51,816                 | 171                    | 4,244                |
| Others                            | 74,341                 | 61,959                 | 21,409                 | 9,791                |
| <b>2005 Total</b>                 | <b>(Won) 8,562,055</b> | <b>(Won) 2,377,477</b> | <b>(Won) 1,037,113</b> | <b>(Won) 455,636</b> |
| <b>2004 Total</b>                 | <b>(Won) 7,801,905</b> | <b>(Won) 3,453,188</b> | <b>(Won) 609,970</b>   | <b>(Won) 669,518</b> |

<sup>1</sup> Includes sales and purchases of property, plant and equipment.

<sup>2</sup> As Korean Fair Trade Commission approved GS Group to split from LG Group in January 2005, LG Construction and LG Retail Co. Ltd., and others were no longer classified as related parties.



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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

**21. Value Added Information**

Value added information for the years ended December 31, 2005 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> | <b>2005</b>                           |                                     |                                      |                    |                 |
|------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|--------------------|-----------------|
|                                    | <b>Selling and<br/>administrative</b> | <b>Research and<br/>development</b> | <b>Construction-<br/>in-progress</b> | <b>Total</b>       |                 |
|                                    | <b>Cost of sales</b>                  | <b>expenses</b>                     | <b>expense</b>                       | <b>in-progress</b> | <b>Total</b>    |
| Salaries and wages                 | (Won) 374,972                         | (Won) 42,267                        | (Won) 20,231                         | (Won) 41,748       | (Won) 479,218   |
| Severance benefits                 | 31,624                                | 4,437                               | 1,740                                | 6,033              | 43,834          |
| Employee fringe benefits           | 68,450                                | 8,361                               | 2,635                                | 4,060              | 83,506          |
| Rent                               | 2,110                                 | 2,133                               | 439                                  |                    | 4,682           |
| Depreciation                       | 1,734,903                             | 7,758                               | 6,472                                | 3,600              | 1,752,733       |
| Taxes and dues                     | 5,009                                 | 2,170                               | 169                                  | 200                | 7,548           |
|                                    | (Won) 2,217,068                       | (Won) 67,126                        | (Won) 31,686                         | (Won) 55,641       | (Won) 2,371,521 |

| <i>(in millions of Korean won)</i> | <b>2004</b>                           |                                     |                                      |                    |                 |
|------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|--------------------|-----------------|
|                                    | <b>Selling and<br/>administrative</b> | <b>Research and<br/>development</b> | <b>Construction-<br/>in-progress</b> | <b>Total</b>       |                 |
|                                    | <b>Cost of sales</b>                  | <b>expenses</b>                     | <b>expense</b>                       | <b>in-progress</b> | <b>Total</b>    |
| Salaries and wages                 | (Won) 301,676                         | (Won) 37,955                        | (Won) 17,259                         | (Won) 34,404       | (Won) 391,294   |
| Severance benefits                 | 24,023                                | 3,472                               | 1,598                                | 3,472              | 32,565          |
| Employee fringe benefits           | 59,109                                | 5,222                               | 2,679                                | 2,270              | 69,280          |
| Rent                               | 1,670                                 | 1,435                               | 402                                  |                    | 3,507           |
| Depreciation                       | 1,235,532                             | 5,307                               | 7,685                                | 2,611              | 1,251,135       |
| Taxes and dues                     | 3,870                                 | 1,527                               | 151                                  | 105                | 5,653           |
|                                    | (Won) 1,625,880                       | (Won) 54,918                        | (Won) 29,774                         | (Won) 42,862       | (Won) 1,753,434 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2005 and 2004****22. Segment Information**

The Company operates only one segment, the TFT-LCD division. Export sales represent about 90% of total sales for the years ended December 31, 2005 and 2004.

The following is a summary of operations by country based on the location of the customers for the years ended December 31, 2005 and 2004:

*(in millions of Korean won)*

| Sales | Domestic      | Taiwan         | Japan         | America       | China           | Europe          | Others        | Total           |
|-------|---------------|----------------|---------------|---------------|-----------------|-----------------|---------------|-----------------|
| 2005  | (Won) 776,520 | (Won) ,791,830 | (Won) 890,655 | (Won) 787,329 | (Won) 4,442,763 | (Won) 1,055,853 | (Won) 145,205 | (Won) 8,890,155 |
| 2004  | 781,753       | 1,378,545      | 889,412       | 713,320       | 3,168,641       | 1,049,337       | 98,883        | 8,079,891       |

**23. Supplemental Cash Flow Information**

Significant transactions not affecting cash flows for the years ended December 31, 2005 and 2004, are as follows:

*(in millions of Korean won)*

|   | 2005            | 2004          |
|---|-----------------|---------------|
| Other accounts payable arising from the purchase of property, plant and equipment | (Won) 1,077,932 | (Won) 822,288 |

**24. Operating Results for the Final Interim Period**

Significant operating results for the three-month period ended December 31, 2005, are as follows :

*(in millions of Korean won, except per share amount)*

|                            |                 |
|----------------------------|-----------------|
| Sales                      | (Won) 2,674,987 |
| Cost of sales              | 2,191,933       |
| Operating income           | 338,401         |
| Net income                 | 327,848         |
| Earnings per share         | 916             |
| Diluted earnings per share | 908             |

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**LG. Philips LCD Co., Ltd.**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2005 and 2004**

**25. Approval of Non-Consolidated Financial Statements**

The December 31, 2005 non-consolidated financial statements of the Company were approved at the Board of Directors meeting on January 12, 2006.

**26. Reclassification of prior year financial statement presentation**

Certain amounts in the financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders equity.

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**Report on the Review of Internal Accounting Control System**

To the President of

LG.Philips LCD Co., Ltd.

We have reviewed the management's report on the operations of the internal accounting control system ( IACS ) of LG.Philips LCD Co., Ltd. (the Company ) as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the External Audit Law ) of the Republic of Korea, the Company's management is responsible for reporting on the design and operations of its IACS ( IACS report ). Our responsibility is to review the management's IACS report and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005, has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS after December 31, 2005. This report has been prepared for Korean regulatory purposes pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's IACS Report issued by the Korean Audit Standards Committee on March 29, 2005, they apply only from that date until the date the Final Standards for Management's IACS Report, and the Final Standards for Auditors' Review and Report on Management's IACS Report become effective. A review based on the final standards may have different results and accordingly, the content of any updated report may be different.

Samil PricewaterhouseCoopers

January 20, 2006

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Notice to Readers

This report is annexed in relation to the audit of the financial statements as of and for the year ended December 31, 2005, and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

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**LG.Philips LCD Co., Ltd.**

**Consolidated Financial Statements**

**At December 31, 2004 and 2005**

**And for the years ended December 31, 2003, 2004, 2005**

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Kukje Center Building  
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Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

LG.Philips LCD Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in stockholders equity and of cash flows present fairly, in all material respects, the financial position of LG.Philips LCD Co., Ltd. and its subsidiaries (the Company ) as of December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles, which as described in Note 2, are generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule, Valuation and Qualifying Accounts, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Seoul, Korea

January 20, 2006

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**Table of Contents****LG.Philips LCD Co., Ltd.****Consolidated Balance Sheets****December 31, 2004 and 2005***(in millions of Korean won, and thousands**(Note 3)**of US dollars, except for share data)*

|  | 2004                    | 2005                    | 2005                 |
|--|-------------------------|-------------------------|----------------------|
| <b>Assets</b>                              |                         |                         |                      |
| Current assets                             |                         |                         |                      |
| Cash and cash equivalents                  | (Won) 1,361,239         | (Won) 1,579,452         | \$ 1,563,814         |
| Accounts receivable, net                   |                         |                         |                      |
| Trade, net                                 | 461,996                 | 805,766                 | 797,788              |
| Due from affiliates                        | 427,914                 | 461,133                 | 456,567              |
| Others, net                                | 64,407                  | 66,202                  | 65,547               |
| Inventories                                | 804,117                 | 689,577                 | 682,750              |
| Deferred income taxes                      | 7,743                   | 5,414                   | 5,360                |
| Prepaid expense                            | 30,233                  | 23,467                  | 23,235               |
| Prepaid value added tax                    | 95,240                  | 131,230                 | 129,931              |
| Other current assets                       | 146,040                 | 84,524                  | 83,686               |
| <b>Total current assets</b>                | <b>3,398,929</b>        | <b>3,846,765</b>        | <b>3,808,678</b>     |
| Long-term prepaid expenses                 | 49,648                  | 83,112                  | 82,289               |
| Property, plant and equipment, net         | 6,563,977               | 9,234,104               | 9,142,677            |
| Deferred income taxes                      | 178,450                 | 357,453                 | 353,914              |
| Intangibles, net                           | 37,435                  | 43,374                  | 42,945               |
| Other assets                               | 34,062                  | 51,746                  | 51,234               |
| <b>Total assets</b>                        | <b>(Won) 10,262,501</b> | <b>(Won) 13,616,554</b> | <b>\$ 13,481,737</b> |
| <b>Liabilities and Stockholders Equity</b> |                         |                         |                      |
| Current liabilities                        |                         |                         |                      |
| Short-term borrowings                      | (Won) 483,220           | (Won) 308,969           | \$ 305,910           |
| Current portion of long-term debt          | 212,992                 | 442,140                 | 437,762              |
| Trade accounts and notes payable           |                         |                         |                      |
| Trade                                      | 490,524                 | 577,754                 | 572,034              |
| Due to affiliates                          | 92,593                  | 115,833                 | 114,686              |
| Other accounts payable                     |                         |                         |                      |
| Others                                     | 439,210                 | 1,121,043               | 1,109,944            |
| Due to affiliates                          | 576,708                 | 353,514                 | 350,014              |
| Accrued expenses                           | 119,864                 | 69,968                  | 69,275               |
| Income taxes payables                      | 76,812                  | 21,788                  | 21,572               |
| Other current liabilities                  | 82,162                  | 133,950                 | 132,624              |
| <b>Total current liabilities</b>           | <b>2,574,085</b>        | <b>3,144,959</b>        | <b>3,113,821</b>     |
| Long-term debt, net of current portion     | 1,993,151               | 2,851,353               | 2,823,122            |
| Long-term accrued expense                  |                         | 2,833                   | 2,805                |
| Accrued severance benefits, net            | 31,964                  | 43,207                  | 42,779               |
| <b>Total liabilities</b>                   | <b>4,599,200</b>        | <b>6,042,352</b>        | <b>5,982,527</b>     |

Commitments and contingencies (Note 15)

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|  |                  |                  |               |
|--|------------------|------------------|---------------|
| Stockholders' equity   |                  |                  |               |
| Capital stock  |                  |                  |               |
| Common stock : (Won)5,000 par value; authorized 400 million shares; issued and outstanding 325 and 358 million shares at December 31, 2004 and December 31, 2005 | 1,626,579        | 1,789,078        | 1,771,364     |
| Capital Surplus  | 1,001,940        | 2,243,800        | 2,221,584     |
| Retained earnings  | 3,001,042        | 3,542,691        | 3,507,615     |
| Accumulated other comprehensive income   | 33,740           | (1,367)          | (1,353)       |
| Total stockholders' equity   | 5,663,301        | 7,574,202        | 7,499,210     |
| Total liabilities and stockholders' equity   | (Won) 10,262,501 | (Won) 13,616,554 | \$ 13,481,737 |

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****LG.Philips LCD Co., Ltd.****Consolidated Statements of Income**

Years ended December 31, 2003, 2004 and 2005

*(in millions of Korean won, and thousands*

| <i>of US dollars, except for share amount)</i>      | 2003            | 2004            | 2005            | (Note 3)<br>2005 |
|---|-----------------|-----------------|-----------------|------------------|
| <b>Sales</b>  |                 |                 |                 |                  |
| Related parties                                     | (Won) 2,749,696 | (Won) 3,342,602 | (Won) 6,111,527 | \$ 6,051,017     |
| Others  | 3,348,658       | 4,982,192       | 3,964,053       | 3,924,805        |
|   | 6,098,354       | 8,324,794       | 10,075,580      | 9,975,822        |
| <b>Cost of sales</b>                                | 4,741,592       | 6,246,240       | 9,069,848       | 8,980,048        |
| Gross profit  | 1,356,762       | 2,078,554       | 1,005,732       | 995,774          |
| <b>Selling, general and administrative expenses</b> | 234,519         | 318,449         | 528,084         | 522,855          |
| <b>Operating income</b>                             | 1,122,243       | 1,760,105       | 477,648         | 472,919          |
| <b>Other income (expense)</b>                       |                 |                 |                 |                  |
| Interest income                                     | 6,393           | 19,964          | 50,622          | 50,121           |
| Interest expense                                    | (83,619)        | (58,049)        | (107,540)       | (106,475)        |
| Foreign exchange gain (loss), net                   | 15,015          | 19,125          | (23,607)        | (23,373)         |
| Others, net   | 1,045           | 673             | 7,807           | 7,730            |
| Total other income (expense)                        | (61,166)        | (18,287)        | (72,718)        | (71,997)         |
| Income before income tax expense                    | 1,061,077       | 1,741,818       | 404,930         | 400,922          |
| Income tax expense (benefit)                        | 54,574          | 38,131          | (136,719)       | (135,365)        |
| Net income  | (Won) 1,006,503 | (Won) 1,703,687 | (Won) 541,649   | \$ 536,287       |
| Net income per common share                         |                 |                 |                 |                  |
| Basic   | (Won) 3,471     | (Won) 5,586     | (Won) 1,596     | \$ 2.00          |
| Diluted   | (Won) 3,471     | (Won) 5,586     | (Won) 1,596     | \$ 2.00          |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****LG.Philips LCD Co., Ltd.****Consolidated Statements of Changes in Stockholders' Equity****Years ended December 31, 2003, 2004 and 2005**

| <i>(in millions of Korean won)</i>             | Common Stock |                 | Capital Surplus |                       | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) |                 | Total     |               |
|--|--------------|-----------------|-----------------|-----------------------|-----------------------------|---|-----------------|-----------|---------------|
|  | Shares       | Amount          | Paid-In Capital | Unearned Compensation |                             | Earnings (Deficit)                            | Income (Loss)   |           | Comprehensive |
|  |              |                 |                 |                       |                             |   |                 |           |               |
| Balance as of December 31, 2002                | 290,000,000  | (Won) 1,450,000 | (Won)           | (Won)                 | (Won) 290,852               | (Won) (1,068)                                 | (Won) 1,739,784 |           |               |
| Comprehensive income :                         |              |                 |                 |                       |                             |   |                 |           |               |
| Net income                                     |              |                 |                 |                       | 1,006,503                   |   |                 | 1,006,503 |               |
| Cumulative translation adjustment              |              |                 |                 |                       |                             | 1,198   |                 | 1,198     |               |
| Net unrealized gains on derivative, net of tax |              |                 |                 |                       |                             | 3,706   |                 | 3,706     |               |
| Total comprehensive income                     |              |                 |                 |                       |                             |   |                 | 1,011,407 |               |
| Balance as of December 31, 2003                | 290,000,000  | (Won) 1,450,000 | (Won)           | (Won)                 | (Won) 1,297,355             | (Won) 3,836                                   | (Won) 2,751,191 |           |               |
| Issuance of Common Stock, net of issuance cost | 35,315,700   | 176,579         | 1,012,271       |                       |                             |   |                 | 1,188,850 |               |
| Unearned Compensation                          |              |                 |                 | (11,923)              |                             |   |                 | (11,923)  |               |
| Stock compensation expense                     |              |                 |                 | 1,592                 |                             |   |                 | 1,592     |               |
| Comprehensive income :                         |              |                 |                 |                       |                             |   |                 |           |               |
| Net income                                     |              |                 |                 |                       | 1,703,687                   |   |                 | 1,703,687 |               |
| Cumulative translation adjustment              |              |                 |                 |                       |                             | (13,249)                                      |                 | (13,249)  |               |
| Net unrealized gains on derivative, net of tax |              |                 |                 |                       |                             | 43,153  |                 | 43,153    |               |
| Total comprehensive income                     |              |                 |                 |                       |                             |   |                 | 1,733,591 |               |
| Balance as of December 31, 2004                | 325,315,700  | (Won) 1,626,579 | (Won) 1,012,271 | (Won) (10,331)        | (Won) 3,001,042             | (Won) 33,740                                  | (Won) 5,663,301 |           |               |

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|   |             |                 |                 |               |                 |               |                 |           |
|---|-------------|-----------------|-----------------|---------------|-----------------|---------------|-----------------|-----------|
| Issuance of Common Stock, net of issuance cost          | 32,500,000  | 162,499         | 1,238,841       |               |                 |               |                 | 1,401,340 |
| Unearned Compensation                                   |             |                 |                 |               |                 |               |                 |           |
| Stock compensation expense                              |             |                 |                 | 3,019         |                 |               |                 | 3,019     |
| Comprehensive income :                                  |             |                 |                 |               |                 |               |                 |           |
| Net income  |             |                 |                 |               |                 | 541,649       |                 | 541,649   |
| Cumulative translation adjustment                       |             |                 |                 |               |                 |               | 1,441           | 1,441     |
| Net unrealized gains (losses) on derivative, net of tax |             |                 |                 |               |                 |               | (36,548)        | (36,548)  |
| Total comprehensive income                              |             |                 |                 |               |                 |               |                 | 506,542   |
| Balance as of December 31, 2005                         | 357,815,700 | (Won) 1,789,078 | (Won) 2,251,112 | (Won) (7,312) | (Won) 3,542,691 | (Won) (1,367) | (Won) 7,574,202 |           |

| <i>(in thousands of US dollars) (Note 3)</i>            | Common Stock |              | Capital Surplus |                       | Accumulated       |                     |          | Total     |
|---|--------------|--------------|-----------------|-----------------------|-------------------|---------------------|----------|-----------|
|   | Shares       | Amount       | Paid-In Capital | Unearned Compensation | Retained Earnings | Other Comprehensive |          |           |
|   |              |              |                 |                       |                   | Income              |          |           |
| Balance as of December 31, 2004                         | 290,000,000  | \$ 1,610,474 | \$ 1,002,249    | \$ (10,229)           | \$ 2,971,329      | \$ 33,406           | \$       | 4,615,209 |
| Issuance of Common Stock, net of issuance cost          | 35,315,700   | 160,890      | 1,226,575       |                       |                   |                     |          | 1,387,465 |
| Unearned Compensation                                   |              |              |                 |                       |                   |                     |          |           |
| Stock compensation expense                              |              |              |                 | 2,990                 |                   |                     |          | 2,990     |
| Comprehensive income :                                  |              |              |                 |                       |                   |                     |          |           |
| Net income  |              |              |                 |                       |                   | 536,286             |          | 536,286   |
| Cumulative translation adjustment                       |              |              |                 |                       |                   |                     | 1,427    | 1,427     |
| Net unrealized gains (losses) on derivative, net of tax |              |              |                 |                       |                   |                     | (36,186) | (36,186)  |
| Total comprehensive income                              |              |              |                 |                       |                   |                     |          | 501,527   |
| Balance as of December 31, 2005                         | 325,315,700  | \$ 1,771,364 | \$ 2,228,824    | \$ (7,239)            | \$ 3,507,615      | \$ (1,353)          | \$       | 7,499,210 |

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****LG.Philips LCD Co., Ltd.****Consolidated Statements of Cash Flows****Years ended December 31, 2003, 2004 and 2005**

(Note 3)

| <i>(in millions of Korean won, and thousands of US dollars)</i>                   | <b>2003</b>     | <b>2004</b>     | <b>2005</b>   | <b>2005</b> |
|---|-----------------|-----------------|---------------|-------------|
|   | (Won) 1,006,503 | (Won) 1,703,687 | (Won) 541,649 | \$ 536,287  |
| Net income  |                 |                 |               |             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |               |             |
| Depreciation  | 956,997         | 1,224,118       | 1,748,385     | 1,731,074   |
| Provision for severance benefits  | 19,950          | 32,584          | 43,851        | 43,417      |
| Foreign exchange (gain) loss, net   | 3,805           | (101,776)       | (36,934)      | (36,568)    |
| Amortization of intangible assets   | 5,406           | 6,405           | 6,778         | 6,711       |
| Loss on extinguishment of long-term debt  | 1,279           |                 |               |             |
| Loss on disposal of property, plant and equipment                                 | 36              | 3,281           | 444           | 440         |
| Amortization of debt issuance cost  | 4,222           | 4,453           | 5,709         | 5,652       |
| Decrease (increase) in deferred income taxes assets, net                          | 11,786          | (43,923)        | (181,304)     | (179,509)   |
| Others, net   | 16,812          | (4,365)         | 68,661        | 67,981      |
| Change in operating assets and liabilities:                                       |                 |                 |               |             |
| (Increase) decrease in accounts receivable  | (607,480)       | 204,970         | (400,838)     | (396,869)   |
| (Increase) decrease in inventories  | 62,288          | (468,196)       | 114,540       | 113,406     |
| (Increase) decrease in prepaid expense  | 6,554           | 6,443           | 16,323        | 16,161      |
| (Increase) in prepaid value added tax   | (69,533)        | (5,155)         | (35,990)      | (35,634)    |
| (Increase) decrease in other current assets                                       | 9,552           | (63,493)        | 24,518        | 24,275      |
| Increase in trade accounts and notes payable                                      | 152,743         | 181,421         | 121,391       | 120,189     |
| Increase in other accounts payable  | 14,286          | 58,625          | 216,248       | 214,107     |
| (Decrease) Increase in accrued expenses   | 66,472          | 13,635          | (49,896)      | (49,402)    |
| (Decrease) increase in other current liabilities                                  | 10,161          | (9,773)         | (94,829)      | (93,890)    |
| Net cash provided by operating activities   | 1,671,839       | 2,742,941       | 2,108,706     | 2,087,828   |
| <b>Cash flows from investing activities:</b>                                      |                 |                 |               |             |
| Purchase of property, plant and equipment   |                 |                 |               |             |
| Purchase from related parties   | (1,186,909)     | (2,346,297)     | (1,157,334)   | (1,145,875) |
| Purchase from others  | (251,321)       | (1,539,353)     | (3,008,817)   | (2,979,027) |
| Proceeds from sales of property, plant and equipment                              | 3,450           | 6,156           | 460           | 455         |
| Acquisition of intangible assets  | (5,204)         | (7,884)         | (12,704)      | (12,578)    |
| Others, net   | (12,715)        | (5,380)         | (19,479)      | (19,286)    |
| Net cash used in investing activities   | (1,452,699)     | (3,892,758)     | (4,197,874)   | (4,156,311) |
| <b>Cash flows from financing activities:</b>                                      |                 |                 |               |             |
| Proceeds from (repayment on) short-term borrowings                                | (114,878)       | 324,032         | (173,005)     | (171,292)   |
| Proceeds from issuance of long-term debt  | 832,573         | 968,802         | 1,292,264     | 1,279,469   |
| Repayment on long-term debt   | (496,072)       | (467,202)       | (212,930)     | (210,822)   |
| Payment of debt issuance cost   | (6,846)         | (5,716)         |               |             |
| Proceeds from issuance of common stock  |                 | 1,229,133       | 1,421,970     | 1,407,891   |
| Payment of stock issuance cost  |                 | (40,283)        | (20,628)      | (20,424)    |
| Net cash provided by financing activities   | 214,777         | 2,008,766       | 2,307,671     | 2,284,822   |

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|  |               |                 |                 |              |
|--|---------------|-----------------|-----------------|--------------|
| Effect of exchange rate changes on cash and cash equivalents | (209)         | (1,724)         | (290)           | (287)        |
| Net increase in cash and cash equivalents                    | 433,708       | 857,225         | 218,213         | 216,053      |
| <b>Cash and cash equivalents:</b>                            |               |                 |                 |              |
| Beginning of year  | 70,306        | 504,014         | 1,361,239       | 1,347,761    |
| End of year  | (Won) 504,014 | (Won) 1,361,239 | (Won) 1,579,452 | \$ 1,563,814 |

The accompanying notes are an integral part of these consolidated financial statements.

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**LG. Philips LCD Co., Ltd.**

**Notes to Consolidated Financial Statements**

**December 31, 2003, 2004 and 2005**

**1. Organization and Nature of Business**

LG.Philips LCD Co., Ltd. is a manufacturer and supplier of Thin Film Transistor Liquid Crystal Displays ( TFT-LCD ) to Original Equipment Manufacturers ( OEMs ) and multinational corporations.

The accompanying consolidated financial statements include the accounts of LG.Philips LCD Co., Ltd. ( LPL ) and its consolidated subsidiaries (hereinafter collectively referred to as the Company ).

**Formation**

LG. Philips LCD Co., Ltd. was incorporated in 1985 in the Republic of Korea under the original name of LG Soft, Ltd. and until December 31, 1998 was entirely devoted to the development and marketing of software.

As part of a restructuring of the LG Group of companies, LG Soft, Ltd. changed its name to LG LCD Co., Ltd. in November 1998 and subsequently in December 1998, LG LCD Co., Ltd. acquired the assets and liabilities of the TFT-LCD businesses of LG Electronics Inc. ( LGE ) and LG Semicon Inc. ( LGS ). The transfer of assets and liabilities from LGE to LG LCD Co., Ltd. was recorded at historical book values as LG LCD Co. Ltd. was a 100% owned subsidiary of LGE. The assets and liabilities of LGS were transferred to LG LCD Co. Ltd. at fair value based on an independent valuation.

On July 26, 1999, Koninklijke Philips Electronics N.V. ( Philips ) and LGE entered into a joint venture agreement. Effective August 27, 1999 LG LCD Co., Ltd. changed its name to LG. Philips LCD Co., Ltd. and on August 31, 1999 LG.Philips LCD Co., Ltd. issued a total of 145,000,000 previously unissued shares of common stock to Philips in exchange for a contribution of approximately (Won)1,127,000 million to LGE and (Won)725,000 million directly to the Company.

As of December 31, 2005, the Company's shareholders are as follows:

|                                       | <b>Number of</b> | <b>Percentage of</b> |
|---------------------------------------|------------------|----------------------|
|                                       | <b>Shares</b>    | <b>Ownership (%)</b> |
| LG Electronics Inc.                   | 135,625,000      | 37.90                |
| Koninklijke Philips Electronics N. V. | 117,625,000      | 32.87                |
| Others                                | 104,565,700      | 29.23                |
|                                       | 357,815,700      | 100.00               |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005**

The Company's subsidiaries are as follow:

| Subsidiaries                       | Country of Incorporation | Percentage of Ownership (%) |      |      |
|------------------------------------|--------------------------|-----------------------------|------|------|
|                                    |                          | 2003                        | 2004 | 2005 |
| LG.Philips LCD America, Inc.       | US                       | 100                         | 100  | 100  |
| LG.Philips LCD Japan Co., Ltd.     | Japan                    | 100                         | 100  | 100  |
| LG.Philips LCD Germany GmbH        | Germany                  | 100                         | 100  | 100  |
| LG.Philips LCD Taiwan Co., Ltd.    | Taiwan                   | 100                         | 100  | 100  |
| LG.Philips LCD Nanjing Co., Ltd.   | China                    | 100                         | 100  | 100  |
| LG.Philips LCD Hong Kong Co., Ltd. | China                    | 100                         | 100  | 100  |
| LG.Philips LCD Shanghai Co., Ltd.  | China                    | 100                         | 100  | 100  |
| LG.Philips LCD Poland Sp. z o.o.   | Poland                   |                             |      | 100  |

**2. Summary of Significant Accounting Policies**

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

**Principles of Consolidation**

The consolidated financial statements include the accounts of LG.Philips LCD Co., Ltd. and its majority-owned subsidiaries. All intercompany transactions and balances with the consolidated subsidiaries have been eliminated upon consolidation.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. The most significant estimates and assumptions relate to the allowance for uncollectable accounts receivables, warranty accrual and deferred tax valuation allowance. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

**Translation of Foreign Currencies**

The financial position and results of operations of the Company's subsidiary in Nanjing, China are measured using the Chinese Renminbi as its functional currency, the other overseas subsidiaries use the US dollar, and the Korean parent company uses the Korean Won as its functional currency. The financial statements of these subsidiaries are translated to Korean Won using the current exchange rate method. All the assets and liabilities are translated to Korean Won at the end-of-period exchange rates. Capital accounts are translated using historical exchange rates. Revenues and expenses are translated using average exchange rates. Translation adjustments

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**LG. Philips LCD Co., Ltd.**

**Notes to Consolidated Financial Statements**

**December 31, 2003, 2004 and 2005**

arising from differences in exchange rates from period to period are included in the cumulative translation adjustment account in other comprehensive income of stockholders' equity. Foreign currency transaction gains and losses are included as a component of other income (expense).

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments, including time deposits and short-term bonds which are readily convertible into known amounts of cash and have an original maturity of three months or less.

**Accounts Receivable Securitization**

The Company has an accounts receivable securitization program whereby the Company sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. The Company accounts for the program under the FASB's Statement of Financial Accounting Standards No.140 ( SFAS 140 ), *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* . The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates.

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts based on the aggregate estimated collectibility of its accounts receivable.

**Inventories**

Inventories are valued at the lower of cost or market value, with cost being determined on an average-cost basis, except for the cost of finished products carried by certain subsidiary companies, which is determined on a moving-average cost basis.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives.

|                                   |               |
|-----------------------------------|---------------|
| Buildings                         | 20 ~ 40 years |
| Machinery, equipment and vehicles | 4 ~ 8 years   |
| Tools, furniture and fixtures     | 3 ~ 5 years   |

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to expense as incurred.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. Total interest expense incurred amounted to (Won)91,524 million, (Won)95,553 million and (Won)154,453 million for the years ended December 31, 2003, 2004 and 2005, respectively, of which, approximately (Won)7,905 million, (Won)37,504 million and (Won)46,913 million, respectively, was capitalized.



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005****Intangible Assets**

Intangible assets, comprising intellectual property rights (including patents and technology related to the TFT production process and the like), privileges for an industrial water facility, and purchased software, are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives.

|   |             |
|---|-------------|
| Intellectual property rights              | 5 ~10 years |
| Privilege for industrial water facilities | 10 years    |
| Purchased software                        | 4 years     |
| Others                                    | 10 years    |

**Accounting for the Impairment of Long-Lived Assets**

Long-lived assets and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the aggregate undiscounted future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized, based on the fair value of the asset.

**Stock Appreciation Plan**

Effective January 1, 2005, the company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ( SFAS 123(R) ). SFAS 123(R) establishes accounting for share-based awards exchanged for employee services. Accordingly, share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The option price is determined by Black-Scholes Option Pricing Model.

**Accrued Severance Benefits**

Employees and directors with one year or more of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits are estimated assuming all eligible employees were to terminate their employment at the balance sheet date. The annual severance benefits expense charged to operations is calculated based on the net change in the accrued severance benefits payable at the balance sheet date, plus the actual payments made during the year.

The contributions to the national pension fund made under the National Pension Plan and the severance insurance deposit are deducted from accrued severance benefit liabilities. Contributed amounts are refunded from the National Pension Plan and the insurance company to employees on their retirement.

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### **LG. Philips LCD Co., Ltd.**

#### **Notes to Consolidated Financial Statements**

##### **December 31, 2003, 2004 and 2005**

#### **Revenue Recognition**

Revenues from the sale of the Company's products are recognized when : i) persuasive evidence of an arrangement exists, ii) delivery has occurred to the customers, iii) the sales price to the customer is fixed or determinable and iv) collectibility is reasonably assured.

The Company generally enters into long term formal master sales agreements with its significant customers. Under the terms of these agreements, the Company does not offer any form of price protection or a returns policy, however, the Company provides basic limited warranties with its products.

The title transfer of the Company's product and risk of loss generally occurs on delivery and acceptance at the customers' premises, at which point revenue is recognized.

#### **Research and Development Costs**

Certain costs incurred in connection with the purchase of equipment and facilities used in the Company's research and development activities are capitalized into property, plant and equipment, to the extent that they have alternative future uses. All other research and development costs are expensed as incurred. The Company has expensed (Won)171,387 million, (Won)255,327 million and (Won)365,437 million during the years ended December 31, 2003, 2004 and 2005, respectively, for research and development costs which are included in cost of sales and selling, general and administrative expenses. These research and development expenses included depreciation cost of equipment and facilities used specifically for research and development activities amounting to (Won)8,987 million, (Won)11,078 million and (Won)11,710 million for the years ended December 31, 2003, 2004 and 2005, respectively.

#### **Shipping and Handling Costs**

The Company includes shipping and handling costs in selling, general and administrative costs. Shipping and handling costs for the years ended December 31, 2003, 2004 and 2005, amounted to (Won)66,900 million, (Won)94,559 million and (Won)187,633 million, respectively.

#### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2003, 2004 and 2005 amounted to (Won)1,697 million, (Won)5,524 million and (Won)21,907 million, respectively.

#### **Income Taxes**

The Company recognizes deferred tax assets and liabilities created by temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are computed on such temporary differences, including available net operating loss carryforwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. A valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that such deferred tax assets will not be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred tax assets and liabilities.

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### **LG. Philips LCD Co., Ltd.**

#### **Notes to Consolidated Financial Statements**

##### **December 31, 2003, 2004 and 2005**

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized, deferred tax assets, subject to considerations regarding the need for a valuation allowance, are recognized for the amount carried forward.

#### **Derivative Financial Instruments**

All derivative financial instruments are recognized as either assets or liabilities in the balance sheet at their fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders' equity (as a component of accumulated other comprehensive income), depending on whether the derivative financial instrument qualifies as a cash flow hedge.

At the time the Company designates a hedging relationship, it defines the method it will use to assess the hedge's effectiveness in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged.

The Company formally documents all hedging relationships between the derivatives designated as hedges and hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. The Company links all hedges that are designated as cash flow hedges to the specific forecasted transaction. The Company also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives designated as hedges are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting.

The derivatives designated as cash flow hedges include foreign exchange forward contracts, which are used for reducing the risk arising from the changes in anticipated cash flow from expected transactions in foreign currency.

Changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

The derivatives designated for trading comprise cross-currency swap contracts and foreign exchange forward contracts. Such contracts are marked-to-market with changes in value, including premiums paid or received, recognized in other income (expense) as foreign exchange gain (loss).

#### **Deferred Bond Issuance Costs**

Costs that are directly related to the issuance of bonds are capitalized and amortized over the term of the debt using the effective interest rate method.

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### **LG. Philips LCD Co., Ltd.**

### **Notes to Consolidated Financial Statements**

### **December 31, 2003, 2004 and 2005**

#### **Warranty Reserve**

The Company records warranty liabilities for the estimated costs that may be incurred under its basic limited warranty. This warranty covers defective products and is normally applicable for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect the Company's warranty liability include historical and anticipated rate of warranty claims on those repairs and cost per claim to satisfy the Company's warranty obligation. As these factors are impacted by actual experience and future expectations, the Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

#### **Fair Value of Financial Instruments**

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The carrying values of cash and cash equivalents, time deposits, trade and notes receivable, short-term borrowings, notes and accounts payable and accrued and other liabilities, approximate fair value, due to their short term maturities. The Company estimates the fair values of its long-term debt, including the current portion, based on either the market value or the discounted amounts of future cash flows using the Company's current incremental debt rates for similar liabilities. The fair values of derivative instruments are estimated based on market quotations.

#### **Recent Accounting Pronouncements**

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

In December 2004, the FASB issued FAS No. 123 (revised 2004), *Share-Based Payment* ( FAS No. 123(R) ). This statement requires the use of the fair value based method of accounting for employee share-based compensation and eliminates the alternative use of the intrinsic value method prescribed by APB No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. This statement shall be effective for fiscal years beginning after June 15, 2005, with early adoption during the fiscal years beginning after the date this statement is issued encouraged. The Company has adopted FAS No. 123(R) and accounts for its Stock Appreciation Plan using Black-Scholes Option Pricing Model.



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005**

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

In May 2005, the FASB issued FAS No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The Company does not believe adoption of FAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments* ( FAS No. 155 ), which amends FAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities* and FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. FAS No.155 amends FAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. FAS No. 155 also amends FAS No.140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. The Company is currently evaluating the impact this new Standard but believes that it will not have a material impact on the Company's financial position, results of operations or cash flows.

**3. United States Dollar Amounts**

The Company operates primarily in Korea and its financial accounting records are maintained in Korean Won. These translations should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollars at this or any other rate. The US dollar amounts are provided herein as supplemental information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of (Won)1,010 : US \$1, the

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005**

US Federal Reserve Bank of New York noon buying exchange rate in effect on December 30, 2005. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America.

**4. Accounts Receivable**

The following table presents accounts receivable at December 31:

| <i>(in millions of Korean won)</i>                 | <b>2004</b>   | <b>2005</b>     |
|--|---------------|-----------------|
| Trade  | (Won) 465,066 | (Won) 809,648   |
| Due from LG group companies and Philips affiliates | 427,914       | 461,133         |
| Others   | 64,755        | 66,660          |
|  | 957,735       | 1,337,441       |
| Allowance for doubtful accounts                    | (3,418)       | (4,340)         |
|  | (Won) 954,317 | (Won) 1,333,101 |

Trade bills to overseas subsidiaries negotiated through banks but not yet matured, which were recorded as short-term borrowings as of December 31, 2004 and 2005 amounted to approximately (Won)410,824 million (US \$369,339 thousand and JPY2,808,387 thousand) and (Won)303,904 million (US \$300,004 thousand), respectively.

In September 2004, the Company entered into a five-year accounts receivable securitization program (the Program) with a financial institution. The Program allows the Company to sell, on a revolving basis, an undivided interest in up to US \$300 million in eligible accounts receivables of four subsidiaries, including LG.Philips LCD America ( LPLA ), LG.Philips LCD Germany ( LPLG ), LG.Philips LCD Taiwan ( LPLT ) and LG.Philips LCD Japan ( LPLJ ), while retaining a subordinated interest in a portion of the receivables. The eligible receivables of LPLA and LPLG are sold without legal recourse to third party conduits through LG. Philips LCD America Finance Corporation, a qualifying bankruptcy-remote special purpose entity, which is wholly owned by LPLA but is not consolidated for financial reporting purposes. The eligible receivables of LPLT and LPLJ are sold without legal recourse to third party conduits through ABN AMRO Taipei Branch and ABN AMRO Tokyo Branch, respectively, which are consolidated by ABN AMRO Bank. The Company continues servicing the sold receivables and charges the third party conduits a monthly servicing fee at market rates. Accordingly, no servicing asset or liability has been recorded.

The Program qualifies for sale treatment under SFAS 140. As of December 31, 2004 and 2005, the outstanding balance of securitized accounts receivable held by the third party conduits totaled (Won)305,203 million and (Won)272,571 million, respectively, of which the Company's subordinated retained interest was (Won)59,324 million and (Won)52,532 million, respectively. Accordingly, (Won)245,879 million and (Won)220,039 million, respectively, of accounts receivable balances, net of applicable allowances, were removed from the consolidated balance sheets at December 31, 2004 and 2005. Losses recognized on the sale of accounts receivable totaled approximately (Won)3,906

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million and (Won)8,737 million, respectively, in the year ended December 31, 2004 and 2005. This cost is primarily related to the loss on sale of receivables and discount on retained interests, net of the related servicing revenues and various program and facility fees associated with the Program. This cost is included in the accompanying consolidated statement of income under the caption selling, general and administrative expenses.

The Company measures the fair value of its retained interests at the time of a securitization and throughout the term of the Program using a present value model incorporating two key assumptions: (1) a weighted average life of 65 days and (2) a discount rate of 4.04 % per annum. At December 31, 2005, this retained interest is included in the accounts receivables balance reflected in the consolidated balance sheet, at fair value of the Company's retained interest, which approximates book value due to a short average collection cycle for such accounts receivables and the Company's collection history.

**5. Inventories**

Inventories comprise the following at December 31:

| <i>(in millions of Korean won)</i> | <b>2004</b>   | <b>2005</b>   |
|------------------------------------|---------------|---------------|
| Finished products                  | (Won) 511,008 | (Won) 328,823 |
| Work in process                    | 124,356       | 166,839       |
| Raw materials                      | 168,753       | 193,915       |
|                                    | (Won) 804,117 | (Won) 689,577 |

**6. Derivative Instruments and Hedging Activities****Derivatives for cash flow hedge**

During the years ended December 31, 2003, 2004 and 2005, 5, 13 and 301 foreign currency forward contracts were designated as cash flow hedges, respectively. During the years ended December 31, 2003, 2004 and 2005, these cash flow hedges were fully effective and changes in the fair value of the derivatives of (Won)4,352 million, (Won)55,287 million and (Won)13,334 million, were recorded in other comprehensive income. The deferred gains of (Won)13,334 million for derivatives designated as cash flow hedges are expected to be reclassified into earnings within the next twelve months.

**Derivatives for trading**

For the years ended December 31, 2003, 2004, and 2005, the Company recorded realized exchange gains of (Won)40,978 million, (Won)80,306 million and (Won)32,189 million and realized exchange losses of (Won)16,648 million, (Won)51,597 million and (Won)78,025 million, respectively, on derivative contracts designated for trading upon settlement.

In addition, for the years ended December 31, 2003, 2004 and 2005, the Company recorded



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unrealized gains of (Won)9,314 million, (Won)68,298 million and (Won)27,359 million and unrealized losses of (Won)10,662 million, (Won)54,142 million and (Won)9,131 million respectively, relating to these derivative contracts designated for trading.

**7. Property, Plant and Equipment**

Property, plant and equipment comprise the following at December 31 :

| <i>(in millions of Korean won)</i> | <b>2004</b>     | <b>2005</b>     |
|------------------------------------|-----------------|-----------------|
| Land                               | (Won) 313,053   | (Won) 319,219   |
| Buildings                          | 1,216,471       | 2,110,711       |
| Machinery, equipment and vehicles  | 7,822,364       | 11,139,638      |
| Tools, furniture and fixtures      | 335,180         | 507,094         |
| Machinery-in-transit               | 705,906         | 505,842         |
| Construction-in-progress           | 956,642         | 1,131,054       |
|                                    | 11,349,616      | 15,713,558      |
| Accumulated depreciation           | (4,785,639)     | (6,479,454)     |
| Property, plant and equipment, net | (Won) 6,563,977 | (Won) 9,234,104 |

**Operating Leases**

Rental expenses of certain machinery and equipment held under operating leases for the years ended December 31, 2003, 2004 and 2005 were (Won)673 million, (Won)1,304 million and (Won)1,406 million, respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2005 are as follows:

| <i>(in millions of Korean won)</i> |             |
|------------------------------------|-------------|
| For the years ended December 31,   |             |
| 2006                               | (Won) 1,564 |
| 2007                               | 516         |
| 2008                               | 195         |
| 2009                               | 45          |
| Thereafter                         | 17          |
| Total minimum future rentals       | (Won) 2,337 |

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**8. Intangible Assets**

Intangible assets comprised the following at December 31:

| <i>(In millions of Korean won)</i> | Intellectual<br>property rights | Purchased<br>Software | 2004<br>Privileges for<br>industrial water<br>facilities | Others           | Total               |
|------------------------------------|---------------------------------|-----------------------|--|------------------|---------------------|
| Acquisition cost                   | (Won) 27,909                    | (Won) 19,080          | (Won) 12,305   | (Won) 838        | (Won) 60,132        |
| Accumulated amortization           | (10,412)                        | (9,295)               | (2,412)  | (578)            | (22,697)            |
| <b>Intangible assets, net</b>      | <b>(Won) 17,497</b>             | <b>(Won) 9,785</b>    | <b>(Won) 9,893</b>                                       | <b>(Won) 260</b> | <b>(Won) 37,435</b> |

| <i>(In millions of Korean won)</i> | Intellectual<br>property rights | Purchased<br>Software | 2005<br>Privileges for<br>industrial water<br>facilities | Others     | Total         |
|------------------------------------|---------------------------------|-----------------------|--|------------|---------------|
| Acquisition cost                   | 38,234                          | 20,974                | 12,299   | 1,342      | 72,849        |
| Accumulated amortization           | (13,153)                        | (11,561)              | (3,646)  | (1,115)    | (29,475)      |
| <b>Intangible assets, net</b>      | <b>25,081</b>                   | <b>9,413</b>          | <b>8,653</b>   | <b>227</b> | <b>43,374</b> |

Amortization expense for the years ended December 31, 2003, 2004 and 2005 amounted to (Won)5,406 million, (Won)6,405 million and (Won)6,778 million, respectively.

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

| <i>(in millions of Korean won)</i> |             |
|------------------------------------|-------------|
| For the years ended December 31,   |             |
| 2006                               | (Won) 5,134 |
| 2007                               | 5,134       |
| 2008                               | 5,134       |
| 2009                               | 5,134       |
| 2010                               | 5,134       |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005****9. Short-Term Borrowings**

Short-term borrowings comprise the following at December 31:

| <i>(in millions of Korean won)</i>          | 2004          | 2005          |
|---|---------------|---------------|
| Loans, principally from banks:              |               |               |
| with weighted-average interest rate of 3.4% | (Won) 483,220 |               |
| with weighted-average interest rate of 5.2% |               | (Won) 308,969 |
|   | (Won) 483,220 | (Won) 308,969 |

**10. Long-Term Debt**

Long-term debt comprise the following at December 31:

| <i>(in millions of Korean won)</i>  | 2004         | 2005         |
|---|--------------|--------------|
| <b>Won denominated Loans :</b>  |              |              |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2006 to 2008 with interest rate of 5.9% per annum   | (Won) 58,700 | (Won) 58,700 |
| Unsecured loans, representing obligation principally to banks:  |              |              |
| Due 2006 to 2009 with interest rate of 6.1% per annum   | 59,100       | 59,100       |
| Unsecured loans, representing obligation principally to banks:  |              |              |
| Due 2010 to 2015 with interest rate of 3 year Korean Treasury Bond -1.25% per annum                         |              | 8,620        |
| Unsecured bond with interest rate ranging from 3.5 % to 6.0%, due 2006 to 2009, net of unamortized discount | 1,320,317    |              |
| Unsecured bond with interest rate ranging from 3.5 % to 6.0%, due 2006 to 2010, net of unamortized discount |              | 1,924,512    |
|   | 1,438,117    | 2,050,932    |
| <b>U.S. Dollar denominated Loans :</b>  |              |              |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2005 to 2009 with interest ranging from 3.2% to 3.3% per annum  | 78,706       |              |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2006 to 2010 with interest ranging from 6M Libor + 0.5% to 6M Libor + 0.6% per annum                    |              | 111,761      |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2005 to 2006 with interest rate of 3M Libor+1.0% per annum  | 36,246       |              |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2006 with interest rate of 3M Libor+1.1% per annum  |              | 17,728       |
| Unsecured loans, representing obligations principally to banks:   |              |              |
| Due 2007 to 2010 with interest rate of 6M Libor+1.2% per annum  | 49,709       | 48,624       |

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Unsecured loans, representing obligations principally to banks:

Due 2007 to 2012 with interest rate of 3M Libor+ ranging from 0.99% to

1.35% per annum

151,950

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| <i>(in millions of Korean won)</i>   | <b>2004</b>     | <b>2005</b>     |
|--|-----------------|-----------------|
| Unsecured bond with interest rate of 3M Libor+1.0%, due 2005 to 2006       | 209,191         |                 |
| Unsecured bond with interest rate of 3M Libor+1.1%, due 2006               |                 | 102,313         |
| Unsecured Term Notes with interest rate of 3M Libor+1.0%, due 2005 to 2006 | 168,803         |                 |
| Unsecured Term Notes with interest rate of 3M Libor+1.1%, due 2006         |                 | 82,560          |
| Unsecured bond with interest rate of 3M Libor+0.6%, due 2007               | 207,120         | 202,600         |
| Zero Coupon Convertible Bonds due 2010 <sup>1</sup>                        |                 | 492,179         |
|  | 749,775         | 1,209,715       |
| <b>Chinese Renminbi denominated Loans :</b>                                |                 |                 |
| Unsecured loans, representing obligations principally to banks:            |                 |                 |
| Due 2008 with interest rate ranging from 5.0% to 5.5% per annum            | 18,251          |                 |
| Unsecured loans, representing obligations principally to banks:            |                 |                 |
| Due 2008 with interest rate ranging from 5.3% to 5.5% per annum            |                 | 32,846          |
| Less : Current portion   | (212,992)       | (442,140)       |
|  | (Won) 1,993,151 | (Won) 2,851,353 |

Unsecured long-term debts are subject to various restrictive covenants. Typically, these covenants include restrictions on the debt to equity ratio, debt coverage ratio, interest coverage ratio, total debt limits, earnings before interest, tax and depreciation requirements and other similar financial ratios. The Company was in compliance with these financial covenants during all periods presented.

<sup>1</sup> The bonds are convertible at (Won)58,251 for one common share from July 27, 2005 to April 4, 2010, redeemable at the option of issuer on or at any time after April 19, 2008. The Company may, having given not less than 30 nor more than 60 days notice to the bondholders, redeem in Dollars all or from time to time any portion of the bonds at their Early Redemption Amount, provided that the aggregate Market Price of a Common Share on the Korea Exchange on at least 20 Trading Days in 30 consecutive Trading Days ending on the Trading Day immediately prior to the date upon which notice of such redemption notice, is at least 130% of the Conversion Price. The bondholders can exercise put options to put the debt back to the Company on October 19, 2007, at 108.39% of the bond's principal amount.

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The aggregate annual maturities of long-term debt outstanding as of December 31, 2005 were as follows:

| <i>(in millions of Korean won)</i> | Won<br>denominated<br>Loans | US Dollar<br>denominated<br>Loans | Chinese<br>Renminbi<br>denominated<br>Loans | Zero Coupon<br>Convertible<br>Bonds | Total           |
|------------------------------------|-----------------------------|-----------------------------------|---|-------------------------------------|-----------------|
| For the years ending December 31,  |                             |                                   |   |                                     |                 |
| 2007                               | (Won) 339,267               | (Won) 249,246                     | (Won) 19,370                                | (Won) 492,179                       | (Won) 588,513   |
| 2008                               | 289,266                     | 83,934                            | 6,737                                       |                                     | 392,570         |
| 2009                               | 609,850                     | 66,136                            | 6,739                                       |                                     | 682,723         |
| 2010                               | 600,862                     | 66,145                            |   | 492,179                             | 1,165,925       |
| 2011                               | 1,724                       | 30,390                            |   |                                     | 32,114          |
| Thereafter                         | 6,034                       | 7,598                             |   |                                     | 13,632          |
|                                    | (Won) 1,847,003             | (Won) 503,449                     | (Won) 32,846                                | (Won) 492,179                       | (Won) 2,875,477 |

**11. Accrued Severance Benefits**

Accrued severance benefits were as follows as of December 31:

| <i>(in millions of Korean won)</i>           | 2004         | 2005         |
|--|--------------|--------------|
| Balance at beginning of year                 | (Won) 56,558 | (Won) 81,981 |
| Provisions for severance benefits            | 32,584       | 43,851       |
| Transferred from affiliated companies        | 1,130        | 2,484        |
| Actual severance payments                    | (8,291)      | (16,305)     |
|  | 81,981       | 112,011      |
| Cumulative Deposits to National Pension Fund | (737)        | (708)        |
| Balance of the severance insurance deposits  | (49,280)     | (68,096)     |
| Balance at end of year                       | (Won) 31,964 | (Won) 43,207 |

The severance benefits are funded approximately 60% and 61% as of December 31, 2004 and 2005, respectively, through severance insurance deposits for the payment of severance benefits, and the account is deducted from accrued severance benefit liabilities. The beneficiaries of the severance insurance deposit are the Company's employees.

Severance insurance deposits comprise cash deposits placed with Kyobo Life Insurance Co., Ltd., Lucky Life Insurance Co., Ltd. and Korea Life Insurance Co., Ltd. for the years ended December 31, 2004 and 2005 and these deposits accumulated interest at an average rate of 4.3% and 3.6%, for Kyobo Life Insurance Co., Ltd., 4.3% and 3.6%, for Lucky Life Insurance Co., Ltd. and 4.3% and 3.6%, for Korea Life Insurance

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Co., Ltd. for the years ended December 31, 2004 and 2005, respectively.

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The Company expects to pay the following future benefits to its employees upon their normal retirement age:

*(in millions of Korean won)*

| For the years ended December 31, | (Won) |
|----------------------------------|-------|
| 2006                             |       |
| 2007                             | 116   |
| 2008                             | 93    |
| 2009                             | 49    |
| 2010                             | 217   |
| 2011                             | 611   |
| 2012                             | 1,428 |
| 2013                             | 1,831 |
| 2014                             | 2,757 |
| 2015                             | 4,026 |

The above amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

**12. Income Taxes**

Income before income taxes and tax provision comprises the following :

| <i>(in millions of Korean won)</i> | 2003            | 2004            | 2005          |
|------------------------------------|-----------------|-----------------|---------------|
| Income before income taxes :       |                 |                 |               |
| Domestic                           | (Won) 1,051,579 | (Won) 1,693,182 | (Won) 361,806 |
| Foreign subsidiaries               | 9,498           | 48,636          | 43,123        |
|                                    | (Won) 1,061,077 | (Won) 1,741,818 | 404,930       |
| Income taxes-Current :             |                 |                 |               |
| Domestic                           | (Won) 40,238    | (Won) 85,838    | (Won) 25,989  |
| Foreign subsidiaries               | 3,196           | 3,997           | 5,956         |
|                                    | 43,434          | 89,835          | 31,945        |
| Income taxes-Deferred :            |                 |                 |               |
| Domestic                           | 12,022          | (52,583)        | (167,749)     |
| Foreign subsidiaries               | (882)           | 879             | (915)         |
|                                    | 11,140          | (51,704)        | (168,664)     |

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|                    |              |              |                 |
|--------------------|--------------|--------------|-----------------|
| Total income taxes | (Won) 54,574 | (Won) 38,131 | (Won) (136,719) |
|--------------------|--------------|--------------|-----------------|

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2005 are as follows:

| <i>(in millions of Korean won)</i>   | <b>2004</b>   | <b>2005</b>   |
|--|---------------|---------------|
| Current deferred tax asset (liability)   |               |               |
| Inventories  | (Won) 6,976   | (Won) 8,288   |
| Accounts receivable  | 2,170         | (423)         |
| Others   | 7,024         | (2,034)       |
| Net deferred tax assets, including other comprehensive income related deferred tax asset | 16,170        | 5,831         |
| Less : Other comprehensive income related deferred tax assets                            | (8,427)       | (417)         |
| Current deferred tax asset   | (Won) 7,743   | (Won) 5,414   |
| Non-Current deferred tax asset (liability)   |               |               |
| Intangible asset   | (Won) 30,179  | (Won) 26,194  |
| Tax credit carryforward  | 137,828       | 292,976       |
| Property, plant and equipment  | 11,857        | 24,618        |
| Long term debt   | (706)         | (3,269)       |
| Others   | (708)         | 16,934        |
| Non-Current deferred tax asset   | (Won) 178,450 | (Won) 357,453 |

As of December 31, 2005, the Company has available unused investment tax credits of (Won)292,976 million, which may be applied against future income tax amounts through 2010.

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion, and has determined that no valuation allowance was required as of December 31, 2004 and 2005.

Under the Foreign Investment Promotion Act of Korea, from September 1999, the Company is entitled to an exemption from income taxes in proportion to the percentage of foreign equity for seven years following the registration of each foreign equity investment, and at one-half of that percentage for the subsequent three years through 2008.

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Aggregate tax benefits and tax effect per share from tax exemption for the years ended December 31, 2003, 2004 and 2005 are as follows:

| <i>(in millions of Korean Won, except for per share amount)</i> | <b>2003</b>   | <b>2004</b>   | <b>2005</b>  |
|---|---------------|---------------|--------------|
| Benefit from tax exemption                                      | (Won) 153,587 | (Won) 239,605 | (Won) 46,026 |
| Weighted-average number of common shares Outstanding            | 290           | 305           | 358          |
| Effect per share (Korean Won)                                   | (Won) 529     | (Won) 785     | (Won) 128    |

The statutory income tax rate, including tax surcharges, applicable to the Company was approximately 29.7% in 2002. The statutory income tax rate was amended to 27.5% effective for fiscal years beginning January 1, 2005 in accordance with the Corporate Income Tax Law enacted in December 2003. Accordingly, deferred income taxes as of December 31, 2004 and 2005 were calculated based on the enacted rate of 27.5%.

Taxes are calculated for each individual entity in the group. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the parent company. Taxes on the operating profit differ from the theoretical amount that would arise at the statutory tax rate of the home country of the parent for the years ended December 31, 2003, 2004 and 2005 as follows:

| <i>(in millions of Korean won)</i>    | <b>2003</b>   | <b>2004</b>   | <b>2005</b>     |
|---------------------------------------|---------------|---------------|-----------------|
| Taxes at Korean statutory tax rate    | (Won) 315,140 | (Won) 517,320 | (Won) 111,356   |
| Income tax exemption                  | (153,587)     | (239,605)     | (39,110)        |
| Income tax credits                    | (109,706)     | (224,687)     | (200,470)       |
| Change in foreigner's equity interest |               | (17,957)      | (4,084)         |
| Foreign tax differential              | 376           | 1,815         | 6,301           |
| Nondeductible items                   | 277           | 523           | (6,738)         |
| Change in statutory tax rate          | 1,610         |               |                 |
| Others                                | 464           | 722           | (3,974)         |
| Total income tax provision            | (Won) 54,574  | (Won) 38,131  | (Won) (136,719) |

At December 31, 2005, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future was 96,166 million won. The unrecognized deferred tax liabilities as of December 31, 2005 for such temporary differences amounted to 21,802 million won.

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**13. Stockholder s Equity  
Common Stock**

On March 19, 2004, at the Annual General Meeting, stockholders approved an increase of authorized shares from 200 million to 400 million and a stock split on a 2:1 basis effective on May 25, 2004. The number of issued common shares as of December 31, 2004 and 2005 are 325,315,700 and 357,815,700 respectively. These financial statements retroactively reflect the impact of the stock split.

In July 2004, pursuant to a Securities Registration Statement filed on July 16, 2004 with the Korea Exchange, the Company sold 8,640,000 shares of common stock for gross proceeds of (Won)298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004 with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depository shares ( ADSs ) for gross proceeds of US \$748,800 thousands.

In September 2004, pursuant to the underwriting agreement dated July 15, 2004, the Company sold an additional 1,715,700 shares of common stock in the form of ADSs for gross proceeds of US \$51,471 thousands.

In July 2005, pursuant to a Form F-1 registration statement filed on July 22, 2005 with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of ADSs for gross proceed of US \$1,189,656 thousands ((Won)1,220,706 million).

In July 2005, pursuant to the underwriting agreement dated July 21, 2005, the Company sold 4,600,000 shares of common stock in the form of ADSs for gross proceeds of US \$196,144 thousands ((Won)201,263 million).

On May 21, 2004, employees of the Company formed an employee stock ownership association, ( ESOA ), which has the right to purchase on behalf of its membership up to 20% (1,728,000 shares) of shares offered publicly in Korea, pursuant to the Korean Securities and Exchange Act. Employees purchased the shares through the ESOA with loans provided by the Company at the initial public offering price ((Won)34,500) and put under each individual employee s account. 20% of the 20% of shares (345,600 shares) purchased by employees with loans from the Company is accounted for as a restricted stock award which vests over four years. Unearned compensation, shown as a deduction of Capital Surplus, will be amortized over the 4 year vesting period. During the twelve month period ended December 31, 2005, the Company recorded compensation expense of (Won)5,852 million.



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Retained earnings consist of the following as of December 31:

| <i>(in millions of Korean won)</i> | <b>2004</b>     | <b>2005</b>     |
|------------------------------------|-----------------|-----------------|
| Appropriated retained earnings:    |                 |                 |
| Legal reserve                      | (Won) 60,086    | (Won) 60,086    |
| Unappropriated retained earnings : | 2,940,956       | 3,482,605       |
|                                    | (Won) 3,001,042 | (Won) 3,542,691 |

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve an amount equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's stockholders.

**14. Stock Appreciation Plan**

Effective January 1, 2005, the company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123(R),

Share-Based Payment ( SFAS 123(R) ). SFAS 123(R) establishes accounting for share-based awards exchanged for employee services. SFAS No. 123(R) requires that an award that is classified as a liability to be initially measured at its grant date fair value and remeasured at fair value at the end of each reporting period until the award is settled or expires. The measurement is based on the current stock price and other relevant factors. The difference between the fair value amounts is recognized as compensation expense during the requisite service period, based on the percentage of the requisite service that the employee has rendered as of that date. In accordance with SFAS No. 123(R), compensation expense is remeasured at each reporting date, based on the fair value of the award, and is recognized as expense over the employee requisite service period.

On April 7, 2005, the Company granted 450,000 shares of stock appreciations rights ( SARs ) for selected management employees. Under the terms of this plan, management, on exercise, receive cash equal to the amount that the market price of the Company's common stock exceeds the strike price ((Won)44,050) of the SARs. The vesting period is two years starting from the grant date, and exercisable period is April 08, 2008 through April 07, 2012.

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The following table shows total share-based compensation expense included in the consolidated statement of operations:

| <i>(in millions of Korean won)</i>         | <b>December 31,<br/>2005</b> |
|--|------------------------------|
| Cost of goods sold                         | (Won) 1,196                  |
| Selling general and administrative         | 1,637                        |
| Income tax benefits                        | (642)                        |
| <br>Total share-based compensation expense | <br>(Won) 2,191              |

There were no capitalized share-based compensation costs at December 31, 2005.

The following tables summarize option activity under the SARs for the year ended December 31, 2005:

| <i>(in Korean won)</i>               | <b>Weighted-average<br/>exercise price</b> | <b>Number of shares<br/>under option</b> | <b>Weighted average<br/>remaining<br/>contractual life<br/><br/>(in years)</b> |
|--------------------------------------|--|--|--|
| Balance at December 31, 2004         | (Won)                                      |  |  |
| Options granted                      | (Won) 44,260                               | 450,000                                  |  |
| Options exercised                    |  |  |  |
| Options canceled/expired             |  | 40,000                                   |  |
| <br>Balance at December 31, 2005     | <br>(Won) 44,260                           | <br>410,000                              | <br>6  |
| <br>Exercisable at December 31, 2005 | <br>(Won)                                  |  |  |

In connection with the adoption of SFAS 123(R), the company assessed its valuation technique and related assumptions. The company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS 123(R) and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107. Key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the company's stock, the risk-free rate and the company's dividend

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yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by selected managements who receive SARs, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS 123(R).

The fair value of SARs was estimated using a Black-Scholes valuation model with the following assumptions:

|  | <b>December 31,<br/>2005</b> |
|--|------------------------------|
| Option term (years) <sup>1</sup>                 | 5                            |
| Volatility <sup>2</sup>                          | 41.04%                       |
| Risk-free interest rate (Korean government bond) | 5.08%                        |
| Dividend yield                                   | 0%                           |
| Weighted average fair value per option granted   | (Won) 18,428                 |

<sup>1</sup> The option term is the number of years that the company estimates that options will be outstanding prior to settlement.

<sup>2</sup> Measured using historical weekly price changes of the Company's stock over the respective term of the option.

**15. Earnings Per Share**

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year.

Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

Earnings per share for the years ended December 31, 2003, 2004 and 2005 is calculated as follows:

| <i>(In millions, except for per share amount)</i>                 | <b>2003</b>        | <b>2004</b>        | <b>2005</b>        |
|---|--------------------|--------------------|--------------------|
| Net income as reported on the income statements                   | (Won) 1,006,503    | (Won) 1,703,687    | (Won) 541,649      |
| Weighted-average number of common shares outstanding <sup>1</sup> | 290                | 305                | 339                |
| <b>Earnings per share</b>   | <b>(Won) 3,471</b> | <b>(Won) 5,586</b> | <b>(Won) 1,596</b> |

Convertible bonds, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since they did not have a dilutive effect.

<sup>1</sup> For the year ended December 31, 2005, issuance of 32,500 thousand shares of common stock (American Depositary Shares) in July 2005, were included in the computation of weighted-average number of common shares outstanding.

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**LG. Philips LCD Co., Ltd.**

**Notes to Consolidated Financial Statements**

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**16. Commitments and Contingencies**

The Company is subject to several legal proceedings and claims arising in the ordinary course of business. In August 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process for TFT-LCDs. Subsequently the Company filed a complaint against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jeans Co, Lite-On Technology Corp., Lite-On Technology International, Inc., TpV Technology and Invision Peripheral Inc. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged infringement of certain patents and violation of U.S. antitrust laws. In May 2004, the Company filed a complaint against Tatung Co., the parent company of Chunghwa Picture Tubes and ViewSonic Corp. and others, claiming patent infringement of rear mountable liquid crystal display devices in the United States District of Delaware and the Patent Country Court in the United Kingdom. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. On November 28, 2005, the Company lost its patent infringement case against Tatung Company and ViewSonic Corp. at first instance in Patent Country Court in United Kingdom, and the Company is preparing the appeal against the decision of U.K. Court. In January 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against the Company.

On May 13, 2005, the Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process for TFT-LCDs in the United States District of Delaware. On September 20, 2005 the United States District Court for the Central District of California dismissed the patent case against Tatung Company and other defendants regarding the patent infringement by Chunghwa Picture Tubes. Thereafter, the Company has revised its claim and has refiled the above complaint including the side mounting patent. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have any material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company sells a significant portion of products based on non-binding long-term supply agreements to LGE and Philips, who are currently the largest shareholders of the Company. These agreements are for three-year terms, with automatic renewals. These agreements expired in 2004. The Company is in the process of entering into a formal master agreement with Philips.

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**LG. Philips LCD Co., Ltd.**

**Notes to Consolidated Financial Statements**

**December 31, 2003, 2004 and 2005**

As of December 31, 2004, the Company has a trademark license agreement with LG Corporation and Philips Electronics. Under this agreement, the Company has to pay some portion of revenue as a license fee. This agreement is for three-year terms and shall expire at the end of year 2007.

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The Company has entered into bank overdraft agreements with various banks amounting to (Won)59,000 million and has entered into a Revolving Credit Facility Agreements with Shinhan Bank and others amounting to (Won)450,000 million and \$100 million, at December 31, 2005. The Company has a zero balance with respect to these facilities at December 31, 2005.

LG. Philips LCD America Co., Ltd. has entered into a line of credit agreement, up to US \$10 million with Comerica Bank. LG. Philips LCD Japan Co., Ltd. and LG. Philips LCD Germany GmbH are provided with repayment guarantees from Mitsubishi UFJ Bank and ABN AMRO Bank amounting to JP¥1,000 million and GBP£4 million, respectively, relating to their local tax payments.

As of December 31, 2004, in relation to its TFT-LCD business, the Company has technical license agreements with Semiconductor Energy Laboratory Co., Ltd. and others. The licensing agreements generally require royalty payments based on a specific percentage of sales. Costs are accrued by the Company as the sales of the specified products are made. Royalty expenses charged to cost of sales under these licensing agreements totaled (Won)38,969 million, (Won)43,726 million and (Won)47,108 million in the year ended December 31, 2003, 2004 and 2005, respectively.

**17. Fair Value of Financial Instruments**

The estimated fair values of the Company's other financial instruments are as follows:

|  | <b>2004</b>            |                        | <b>Estimated</b>  |
|--|------------------------|------------------------|-------------------|
| <i>(in millions of Korean Won)</i>           | <b>Notional amount</b> | <b>Carrying amount</b> | <b>fair value</b> |
| Long-term debt including the current portion | (Won)                  | (Won) 2,206,143        | (Won) 2,191,857   |
| Derivative instruments                       | 72,696                 | 69,443                 | 69,443            |
|  | <b>2005</b>            |                        | <b>Estimated</b>  |
| <i>(in millions of Korean Won)</i>           | <b>Notional amount</b> | <b>Carrying amount</b> | <b>fair value</b> |
| Long-term debt including the current portion | (Won)                  | (Won) 3,293,493        | (Won) 3,311,112   |
| Derivative instruments                       | 32,964                 | 30,160                 | 30,160            |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005****18. Related Party Transactions**

In the normal course of business, the Company purchases raw materials from, and sells its products to, shareholder companies and other companies within the LG Group and Philips Group. Such transactions and the related accounts receivable and payable, excluding consolidated subsidiaries, as of December 31, 2003, 2004 and 2005 are summarized as follows:

| <i>(in millions of Korean won)</i>  | 2003            |                        |
|-------------------------------------|-----------------|------------------------|
|                                     | Sales           | Purchases <sup>1</sup> |
| LG Electronics Inc.                 | (Won) 1,408,956 | (Won) 66,013           |
| Philips affiliates                  | 603,603         | 37,144                 |
| LG Engineering & Construction Corp. |                 | 733,966                |
| LG Chem Ltd.                        |                 | 243,764                |
| LG International Japan Ltd.         | 247,619         | 714,648                |
| LG International HK Ltd.            | 190,602         |                        |
| LG International America, Inc.      |                 | 53,573                 |
| LG International Singapore Ltd.     | 171,391         |                        |
| LG MRO Co., Ltd.                    | 118,689         | 31,595                 |
| LG Micron Ltd.                      |                 | 62,077                 |
| LG CNS Co., Ltd.                    |                 | 51,220                 |
| Others                              | 8,836           | 144,351                |
| 2003 Total                          | (Won) 2,749,696 | (Won) 2,138,351        |

| <i>(in millions of Korean won)</i>  | 2004            |                        |               |                       |
|-------------------------------------|-----------------|------------------------|---------------|-----------------------|
|                                     | Sales           | Purchases <sup>1</sup> | Receivables   | Payables <sup>2</sup> |
| LG Electronics Inc.                 | (Won) 1,607,066 | (Won) 149,466          | (Won) 225,342 | (Won) 29,799          |
| Philips affiliates                  | 1,210,946       | 52,265                 | 163,762       | 4,744                 |
| LG Engineering & Construction Corp. |                 | 828,844                |               | 351,093               |
| LG Chem Ltd.                        |                 | 398,433                |               | 33,393                |
| LG International Japan Ltd.         | 128,718         | 1,431,260              | 10,734        | 144,030               |
| LG International HK Ltd.            | 281,242         | 11                     | 7,196         |                       |
| LG International America, Inc.      |                 | 168,565                |               | 12,328                |
| LG International Singapore Ltd.     | 51,174          | 1                      |               |                       |
| LG International Deutschland GmbH   |                 | 52,569                 |               | 5,337                 |
| LG MRO Co., Ltd.                    |                 | 67,977                 |               | 13,484                |
| LG Micron Ltd.                      |                 | 89,675                 |               | 36,702                |
| LG CNS Co., Ltd.                    |                 | 64,013                 |               | 3,985                 |
| Others                              | 63,456          | 148,810                | 20,880        | 34,406                |
| 2004 Total                          | (Won) 3,342,602 | (Won) 3,451,889        | (Won) 427,914 | (Won) 669,301         |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005**

| <i>(in millions of Korean won)</i> | 2005            |                        |               |                       |
|------------------------------------|-----------------|------------------------|---------------|-----------------------|
|                                    | Sales           | Purchases <sup>1</sup> | Receivables   | Payables <sup>2</sup> |
| LG Electronics Inc.                | (Won) 1,821,507 | (Won) 179,577          | (Won) 219,327 | (Won) 66,751          |
| Philips affiliates                 | 1,323,637       | 52,229                 | 176,599       | 4,548                 |
| LG Chem Ltd.                       |                 | 620,930                |               | 72,319                |
| LG International Japan Ltd.        | 350,127         | 1,074,178              | 44,372        | 162,133               |
| LG International HK Ltd.           | 317,795         |                        | 2,336         | 4,360                 |
| LG International America, Inc.     |                 | 115,697                |               | 12,202                |
| LG International Singapore Ltd.    | 66,013          |                        | 796           | 262                   |
| LG International Deutschland GmbH  |                 | 81,859                 |               | 16,917                |
| LG International Corp. (Korea)     | 9,832           | 66,323                 | 11            | 2,548                 |
| LG MRO Co., Ltd.                   |                 | 146,109                |               | 36,792                |
| LG Micron Ltd.                     |                 | 125,224                |               | 55,234                |
| LG CNS Co., Ltd.                   |                 | 113,615                |               | 32,370                |
| Others                             | 75,142          | 73,177                 | 33,290        | 11,482                |
| 2005 Total                         | (Won) 3,964,053 | (Won) 2,648,918        | (Won) 476,731 | (Won) 477,918         |

<sup>1</sup> Includes purchases of property, plant and equipment.

<sup>2</sup> Includes advances received.

**19. Segment Information**

The Company operates in one business segment, the manufacture and sale of TFT-LCDs.

The following is a summary of operations by country based on the location of the customer as of and for the years ended December 31, 2003, 2004 and 2005. Property, plant and equipment is based on the location of the equipment.

**By Geography**

| <i>(in millions of Korean won)</i> | 2003            | 2004            | 2005             |
|------------------------------------|-----------------|-----------------|------------------|
| Revenue from external customers:   |                 |                 |                  |
| Republic of Korea                  | (Won) 977,916   | (Won) 890,194   | (Won) 990,900    |
| Asia                               | 3,769,626       | 5,672,782       | 6,688,993        |
| America                            | 576,846         | 752,971         | 1,062,374        |
| Europe                             | 751,889         | 1,008,645       | 1,329,989        |
| Others                             | 22,077          | 202             | 3,324            |
| Total                              | (Won) 6,098,354 | (Won) 8,324,794 | (Won) 10,075,580 |
| Property, Plant, and Equipment:    |                 |                 |                  |
| Republic of Korea                  |                 | (Won) 6,402,446 | (Won) 9,017,587  |
| Asia                               |                 | 160,761         | 216,157          |
| Others                             |                 | 770             | 360              |



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Total

(Won) 6,563,977

(Won) 9,234,104

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**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Consolidated Financial Statements****December 31, 2003, 2004 and 2005**

During the years ended December 31, 2003, 2004 and 2005, the Company's revenue from its three largest customers accounted for 41.1%, 42.9% and 40.1% of total revenue respectively. Sales to A Company constituted 13.4%, 12.5% and 9.8% of total revenue, for the years ended December 31, 2003, 2004 and 2005, respectively. Sales to B Company constituted 18.1%, 16.8% and 14.5% of total revenue, for the years ended December 31, 2003, 2004 and 2005, respectively. The Company purchases a number of components from various sources. In some cases, alternative sources of supply are not available. In other cases, the Company may establish a working relationship with a single source, even when multiple suppliers are available, if the Company believes it is advantageous to do so due to performance, quality, support, delivery, capacity or price considerations. If the supply of a critical material or component were delayed or curtailed, the Company's ability to ship the related product in desired quantities and in a timely manner could be adversely affected. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could adversely affect operating results.

The following is a summary of revenue by product for the years ended December 31, 2003, 2004 and 2005.

**By Product**

| <i>(in millions of Korean won)</i> | 2003            | 2004            | 2005             |
|------------------------------------|-----------------|-----------------|------------------|
| Panels for:                        |                 |                 |                  |
| Notebook computers                 | (Won) 1,738,994 | (Won) 2,119,116 | (Won) 2,113,452  |
| Desktop monitors                   | 3,517,491       | 4,662,079       | 4,740,440        |
| TFT-LCD televisions                | 685,925         | 1,162,762       | 2,805,013        |
| Others                             | 155,944         | 380,837         | 416,675          |
| Total                              | (Won) 6,098,354 | (Won) 8,324,794 | (Won) 10,075,580 |

**20. Supplemental Cash Flows Information**

Supplemental cash flows information for the years ended December 31, 2003, 2004 and 2005 is as follows:

| <i>(in millions of Korean won)</i>  | 2003         | 2004         | 2005          |
|---|--------------|--------------|---------------|
| Cash paid during the year for:  |              |              |               |
| Interest  | (Won) 75,970 | (Won) 93,621 | (Won) 151,646 |
| Income taxes  | 2,827        | 41,406       | 99,400        |
| Non-cash investing and financing activities:                                      |              |              |               |
| Other accounts payable arising from the purchase of property, plant and equipment | 882,839      | 822,288      | 1,077,932     |

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LG. Philips LCD Co., Ltd.

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****VALUATION AND QUALIFYING ACCOUNTS**

| <i>(in millions of Korean Won)</i> | <b>Balance at beginning of period</b> |                                       | <b>Charged to bad debt expenses</b> |                  | <b>Write-offs charged to allowance</b> |                   | <b>Balance at end of period</b> |
|------------------------------------|---------------------------------------|---------------------------------------|-------------------------------------|------------------|--|-------------------|---------------------------------|
| Year ended December 31, 2003:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Allowance for doubtful accounts    | (Won)                                 | 11,120                                | (Won)                               | 974              | (Won)                                  | (62)              | (Won) 12,032                    |
| Year ended December 31, 2004:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Allowance for doubtful accounts    | (Won)                                 | 12,032                                | (Won)                               | (8,614)          | (Won)                                  | ( )               | (Won) 3,418                     |
| Year ended December 31, 2005:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Allowance for doubtful accounts    | (Won)                                 | 3,418                                 | (Won)                               | 1,071            | (Won)                                  | (149)             | (Won) 4,340                     |
|                                    |                                       | <b>Balance at beginning of period</b> |                                     | <b>Additions</b> |  | <b>Deductions</b> | <b>Balance at end of period</b> |
| Year ended December 31, 2003:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Reserve for warranty liabilities   | (Won)                                 | 13,285                                | (Won)                               | 18,694           | (Won)                                  | (12,199)          | (Won) 19,780                    |
| Year ended December 31, 2004:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Reserve for warranty liabilities   | (Won)                                 | 19,780                                | (Won)                               | 13,909           | (Won)                                  | (14,472)          | (Won) 19,217                    |
| Year ended December 31, 2005:      |                                       |                                       |                                     |                  |  |                   |                                 |
| Reserve for warranty liabilities   | (Won)                                 | 19,217                                | (Won)                               | 28,909           | (Won)                                  | (23,179)          | (Won) 24,947                    |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG.Philips LCD Co., Ltd.  
(Registrant)

Date: March 31, 2006

By: /s/ Ron H. Wirahadiraksa  
(Signature)  
Name: Ron H. Wirahadiraksa  
Title: Joint Representative Director /  
President & Chief Financial Officer