

LG.Philips LCD Co., Ltd.  
Form 6-K  
March 30, 2007  
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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 2007

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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, 2006 to December 31, 2006)

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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**(All information is presented on a non-consolidated Korean GAAP basis)**

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Attachment: 1. Korean GAAP Consolidated Financial Statements

2. Korean GAAP Non-consolidated Financial Statements

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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 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 Computers & Monitors has been closely related to the IT industry cycle. The demand for LCD panels for TVs is growing with the start of HDTV broadcasting and as LCD TV became to play a key role in the digital display market. There is a competition between TFT-LCD and PDP technologies 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, foreign exchange rate and general economic and industry conditions.
  
- 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.

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- 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.
- The shortage of raw materials may arise temporarily due to the rapid increase in demand for raw materials resulting 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, etc.
  - c. Japan: Sharp, IPS-Alpha, etc.
  - d. China: SVA-NEC, BOE-OT, etc.

B. Company

(1) Business overview

- The commercial production of our TFT-LCD business began in September 1995 at P1, which was then the first fabrication facility of LG Electronics. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD related business to LG

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Soft Co., Ltd (currently LG.Philips LCD Co., Ltd.). LG.Philips LCD became a J/V between LG Electronics and Philips Electronics in August 1999. In July 2004, we completed initial public offering and listed our common stock on the Korea Exchange and our ADSs on the New York Stock Exchange. As of December 31, 2006 we operate seven fabrication facilities located in Gumi and Paju, Korea and five module facilities located in Gumi & Paju of Korea, Nanjing (3 factories) of China. We plant to start mass production at module facility in Wroclaw, Poland in the first quarter of 2007.



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- We became the first LCD maker in the world which commenced 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.
  
- As demand for LCD TV continued to grow, our non-consolidated sales revenue in 2006 increased by 14.7% year-on-year to KRW 10,201 billion. Due to the difficult business environment like imbalance between supply and demand, a steeper-than-anticipated fall in average selling price of LCD panels, a drastic appreciation of the KRW, continued high oil prices, etc., we incurred a non-consolidated operating loss of KRW 945 billion and a non-consolidated net loss of KRW 769 billion in 2006. (Our consolidated sales revenue in 2006 increased by 5.4% year-on-year to KRW 10,624 billion. And we incurred a consolidated operating loss of KRW 879 billion and a consolidated net loss of KRW 769 billion in 2006.)
  
- We reinforced our position as a leader in LCD technology with the world's largest 100-inch TFT-LCD panel and the development of a super-slim panel for mobile phones.
  
- Moreover, LPL made strategic alliances or long-term sales contracts with major global firms such as Kodak and Syntax-Brilliant of the United States and Japan's Toshiba among others to secure customers and expand partnerships for technology development.
  
- 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

|                             | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|-----------------------------|-------------|-------------|-------------|
| Panel for Notebook Computer | 26.2%       | 22.5%       | 19.6%       |
| Panel for Monitor           | 15.6%       | 22.5%       | 22.6%       |
| Panel for TV                | 23.6%       | 23.9%       | 19.8%       |
| Total                       | 20.5%       | 22.2%       | 20.9%       |

\* Source: DisplaySearch Q1 2007

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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 in our Paju display cluster is expected to reach a production capacity of 90,000 input sheets of glass substrate per month in the first half of 2007 and of 110,000 input sheets of glass substrate per month in the third quarter of 2007. And we are currently constructing P8 in our Paju display cluster in Korea in anticipation of growth in the 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 a production facility in Europe. We broke ground on the plant in June 2006 and plan to start mass production in the first quarter of 2007.
- In October 2006, we formed a strategic alliance with Toshiba Corporation whereby Toshiba would take a 19.9% equity participation in our subsidiary, a LCD module plant, in Poland currently under construction in Wroclaw, Poland and LG.Philips LCD Poland Sp. z o.o. would supply Toshiba with a quantity of LCD TV panels produced at the plant in Poland.
- In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, China, and in June 2006, we established LG.Philips LCD Guangzhou Co., Ltd.

(5) Organization chart as of December 31, 2006

- JRD : Joint Representative Director
- CEO : Chief Executive Officer
- CFO : Chief Financial Officer
- CPO : Chief Production Office
- CTO : Chief Technology Officer

**Table of Contents****2. Information Regarding Shares**

## A. Change in Capital Stock

(Unit : KRW , Share)

| Date              | Descriptions             | Change of Number of | Face amount |
|-------------------|--------------------------|---------------------|-------------|
|                   |                          | Common Shares       | per share   |
| July 23, 2004     | Initial Public Offering* | 33,600,000          | 5,000       |
| September 8, 2004 | Over-allotment Option**  | 1,715,700           | 5,000       |
| July 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 (KRW34,500 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)

## B. Convertible Bonds

(Unit : USD, Share)

| Item  | Contents  |
|---|---|
| Issuing Date                                | April 19, 2005  |
| Maturity                                    | April 19, 2010  |
| (Redemption Date after Put Option Exercise) | (October 19, 2007)  |
| Face Amount                                 | 475,000,000   |
| Offering method                             | Public Offering   |
| Conversion period                           | Convertible into shares of common stock in the period from June 27, 2005 to April 4, 2010 |
| Conversion price                            | KRW 58,251 per share*   |
| Conversion status                           |   |
| Number of shares already converted          | None  |
| Number of convertible shares                | 8,276,681 shares if all convertible bonds are converted*                                  |
| Remarks                                     | - Registered form   |
|   | - Listed on Singapore Exchange  |

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

## C. Shareholder List

(1) Total shares issued : 357,815,700 shares as of December 31, 2006

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(2) Largest shareholder and related parties as of December 31, 2006

(Unit: share)

| Name           | January 1, 2006      | Increase/Decrease | December 31, 2006    |
|----------------|----------------------|-------------------|----------------------|
| LG Electronics | 135,625,000 (37.90%) |                   | 135,625,000 (37.90%) |
| Total          | 135,625,000 (37.90%) |                   | 135,625,000 (37.90%) |

(3) Shareholders who own 5% or more of our shares as of December 31, 2006

(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  | 27,868,438       | 7.79%  |
| Total               |               | 281,118,438      | 78.56% |

\* ADSs Depository

D. Voting rights as of December 31, 2006

(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

Dividends during the recent 3 fiscal years

| <b>Description</b>                           | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|--|-------------|-------------|-------------|
| Par value (Won)                              | 5,000       | 5,000       | 5,000       |
| Net income (Million Won)                     | (-)769,313  | 517,012     | 1,655,445   |
| Earnings per share (Won)                     | (-)2,150    | 1,523       | 5,420       |
| Retained earning for dividends (Million Won) | 2,711,036   | 3,480,349   | 2,963,337   |
| 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 earning for dividends is the amount before dividends are paid.

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

**Table of Contents****3. Major Products and Materials**

## A. Major products in 2006

(Unit: In billions of Won)

| Business area | Sales types                 | Items (Market)     | Specific use  | Major trademark | Sales (%)     |
|---------------|-----------------------------|--------------------|---|-----------------|---------------|
| TFT-LCD       | Product/Service/Other Sales | TFT-LCD (Overseas) | Notebook Computer, Monitor, TV, Applications Panels, etc. | LG.Philips LCD  | 9,355 (91.7%) |
|               |                             | TFT-LCD (Korea*)   | Notebook Computer, Monitor, TV, Applications Panels, etc. | LG.Philips LCD  | 846 (8.3%)    |
| Total         |                             |                    |   |                 | 10,201(100%)  |

\* Local export was included.

## B. Average selling price trend of major products

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

| Description   | 2006 Q4 | 2006 Q3 | 2006 Q2 | 2006 Q1 |
|---------------|---------|---------|---------|---------|
| TFT-LCD panel | 1,414   | 1,430   | 1,598   | 1,953   |

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

\*\* Quarterly average selling price per square meter of net display area shipped

\*\*\* Consolidated basis

## C. Major materials

(Unit: In billions of Won)

| Business area     | Purchase types | Items         | Specific use | Purchase amount (%) | Remarks                        |                            |
|-------------------|----------------|---------------|--------------|---------------------|--------------------------------|----------------------------|
| TFT-LCD Materials |                | Back-Light    |              | 1,899 (28.9%)       | Heesung Electronics Ltd., etc. |                            |
|                   |                | Glass         | LCD Panel    | 1,322 (20.1%)       | Samsung Corning Precision      |                            |
|                   | Polarizer      | Manufacturing |              |                     | 670 (10.2%)                    | Glass Co., Ltd., NEG, etc. |
|                   |                |               | Others       |                     | 2,676 (40.8%)                  | LG Chem., etc.             |
|                   |                |               | Total        |                     | 6,567 (100.0%)                 | -                          |

## D. Price trend of major materials

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Prices of major materials depend on fluctuations in supply and demand in the market as well as on change in size and quantity of raw materials according to the increased production of larger-size panels.

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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 | 2006  | 2005  | 2004  |
|---------------|---------|----------------|-------|-------|-------|
| TFT-LCD       | TFT-LCD | Gumi, Paju     | 9,942 | 8,128 | 6,644 |

(2) Calculation of Capacity

a. Method

Assumptions for calculation

- Based on input glass

Calculation method

- Average monthly input capacity for 4th quarter x given periods (12 months) in case of 2006, 2005 and 2004.

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 | 2006  | 2005  | 2004  |
|---------------|---------|----------------|-------|-------|-------|
| TFT-LCD       | TFT-LCD | Gumi, Paju     | 9,052 | 7,544 | 6,033 |

\* Based on input glass

(2) Working Ratio \*

(Unit: Hours)

| Business place (area) | Available working hours of 2006 | Real working hours of 2006     | Average working ratio |
|-----------------------|---------------------------------|--------------------------------|-----------------------|
| Gumi, Paju (TFT-LCD)  | 8,760<br>(24 hours X 365 Days)  | 8,760<br>(24 hours X 365 Days) | 100%                  |



\* Working hours for R&D and maintenance activities were included.

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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 | Remarks |
|---------------|-----------------------|-------------------|---------------------------|--------------------|------------------|------------------|----------------|---------|
| TFT-LCD       | New / Expansion, etc. | Q3 04~            | Building/ Machinery, etc. | Capacity expansion | 7,050            | 5,470            | 1,580          |         |

(2) Investment Plan (Consolidated basis)

(Unit: In billions of Won)

| Business area | Project               | Expected yearly investment |         |         | Investment effects       | Remarks |
|---------------|-----------------------|----------------------------|---------|---------|--------------------------|---------|
|               |                       | 2007 *                     | 2008 ** | 2009 ** |                          |         |
| TFT-LCD       | New / Expansion, etc. | 1,000                      |         |         | Capacity Expansion, etc. |         |

\* Expected investments in 2007 are subject to change depending on market environment.

\*\* Expected investments in 2008 and in 2009 cannot be projected due to industry characteristics.

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**5. Sales**

A. Sales performance

(Unit: In billions of Won)

| Business area | Sales types    | Items (Market) | 2006   | 2005  | 2004  |     |
|---------------|----------------|----------------|--------|-------|-------|-----|
| TFT-LCD       | Products, etc. | Overseas       | 9,355  | 8,114 | 7,298 |     |
|               |                | TFT-LCD        | Korea* | 846   | 776   | 782 |
|               |                | Total          | 10,201 | 8,890 | 8,080 |     |

\* Local export was included.

B. Sales route and sales method

(1) Sales organization

- As of December 31, 2006, each of IT business unit, TV business unit, and Small & Medium Displays business unit has individual sales and customer support function.
- Sales subsidiaries in America, Germany, Japan, Taiwan and China (Hong Kong and Shanghai) perform sales activities in overseas countries and provide technical support to customers.

(2) Sales route

- LG.Philips LCD HQ → Overseas subsidiaries (USA/Germany/Japan/Taiwan /Hong Kong/Shanghai), etc.

→ System integrators, Branded customers → End users

- LG.Philips LCD HQ → 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

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- To increase sales of premium Notebook Computer 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 application segment, including products such as mobile phone, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment, etc.

**6. Directors & Employees**

## A. Members of Board of Directors as of December 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.<br>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<br>LG Electronics  |
| Rudy Provoost           | October 16, 1959     | Director  | Chief Executive Officer of Philips Consumer<br>Electronics and Member of Philips Group<br>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<br>Traffic Control in the Netherlands  |
| Ingoo Han               | October 15, 1956     | Outside Director  | Professor, Graduate School of Management, Korea<br>Advanced Institute of Science and Technology  |
| Doug J. Dunn            | May 5, 1944          | Outside Director  | Member of Boards of Directors of ARM Holdings plc,<br>STMicroelectronics N.V., Soitec Group, Optical<br>Metrology<br>Innovations and TomTom International BV |
| Dongwoo Chun            | January 15, 1945     | Outside Director  | Outside Director, Pixelplus  |

\* As Mr. Bon Joon Koo resigned from his position as Joint Representative Director and CEO (Chief Executive Officer) of LG.Philips LCD, Mr. Young Soo Kwon newly took office as Joint Representative Director and CEO of LG.Philips LCD on February 28, 2007.

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B. Committees of the Board of Directors

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

C. Director & Officer Liability Insurance

(1) Overview of Director & Officer Liability Insurance (as of December 31, 2006)

(Unit: USD)

| <b>Name of insurance</b>                 | <b>Premium paid in 2006</b> | <b>Limit of liability</b> | <b>Remarks</b> |
|--|-----------------------------|---------------------------|----------------|
| Directors & Officers Liability Insurance | 1,500,000                   | 100,000,000               |                |

\* In July 2006, LPL renewed director & officer liability insurance with coverage until July 2007.

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

- Joint Representative Directors approved the limit for liability, coverage and premiums.

(3) The insured

1. LG.Philips LCD Co., Ltd. and its subsidiaries and their respective 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 incompetence, 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 and 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 December 31, 2006)

(Unit: person, in millions of Won)

| Sex          | Details of employees |               |        | Total Salary  |                | Per Capita Salary | Average Service Year |
|--------------|----------------------|---------------|--------|---------------|----------------|-------------------|----------------------|
|              | Office Worker        | Line Worker   | Others | Total         | in 2006        |                   |                      |
| Male         | 5,595                | 5,538         |        | 11,133        | 437,399        | 39                | 4.3                  |
| Female       | 455                  | 4,932         |        | 5,387         | 154,780        | 27                | 2.4                  |
| <b>Total</b> | <b>6,050</b>         | <b>10,470</b> |        | <b>16,520</b> | <b>592,179</b> | <b>35</b>         | <b>3.7</b>           |



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\* Directors and executive officers are excluded.

E. Stock Option

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

| Executive            | Exercise Period |               |               | Exercise Price | Number of | Number of | Number of   |
|----------------------|-----------------|---------------|---------------|----------------|-----------|-----------|-------------|
|                      | Grant Date      | From          | To            |                | Granted   | Exercised | Exercisable |
| <b>Officers</b>      |                 |               |               |                |           |           |             |
| 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      |
| 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                |                 |               |               |                | 370,000   |           | 370,000     |

\* Stock options will be canceled due to their retirement as of March 31, 2007.

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

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

(Unit: In millions of Won)

| Description               | 2006         | 2005       | 2004      | 2003      | 2002      |
|---------------------------|--------------|------------|-----------|-----------|-----------|
| Current Assets            | 2,731,656    | 3,196,934  | 2,638,616 | 1,918,329 | 806,156   |
| Quick Assets              | 1,996,280    | 2,725,169  | 2,170,617 | 1,644,838 | 463,539   |
| Inventories               | 735,376      | 471,765    | 467,999   | 273,491   | 342,617   |
| Fixed Assets              | 10,084,191   | 9,798,981  | 6,960,077 | 4,295,753 | 3,613,748 |
| Investments               | 1,109,933    | 660,628    | 409,955   | 203,343   | 147,832   |
| Tangible Assets           | 8,860,076    | 8,988,459  | 6,366,651 | 3,874,428 | 3,210,884 |
| Intangible Assets         | 114,182      | 149,894    | 183,471   | 217,982   | 255,032   |
| Total Assets              | 12,815,847   | 12,995,915 | 9,598,693 | 6,214,082 | 4,419,904 |
| Current Liabilities       | 2,694,389    | 2,594,282  | 1,900,765 | 2,044,005 | 1,117,066 |
| Non-current Liabilities   | 3,231,782    | 2,726,036  | 1,925,286 | 1,276,045 | 1,436,775 |
| Total Liabilities         | 5,926,171    | 5,320,318  | 3,826,051 | 3,320,050 | 2,553,841 |
| Capital Stock             | 1,789,079    | 1,789,079  | 1,626,579 | 1,450,000 | 1,450,000 |
| Capital Surplus           | 2,275,172    | 2,279,250  | 1,012,271 |           |           |
| Retained Earnings         | 2,839,373    | 3,608,686  | 3,091,674 | 1,436,229 | 417,129   |
| Capital Adjustment        | (-)13,948    | (-)1,418   | 42,118    | 7,803     | (-)1,066  |
| Total Shareholders Equity | 6,689,676    | 7,675,597  | 5,772,642 | 2,894,032 | 1,866,063 |
| Sales Revenues            | 10,200,660   | 8,890,155  | 8,079,891 | 6,031,261 | 3,518,289 |
| Operating Income          | (-)945,208   | 447,637    | 1,640,708 | 1,086,517 | 215,724   |
| Ordinary Income           | (-)1,024,369 | 367,281    | 1,683,067 | 1,009,731 | 293,249   |
| Net Income                | (-)769,313   | 517,012    | 1,655,445 | 1,019,100 | 288,792   |

\* For the purpose of comparison, Financial Statements for FY 2003 & 2002 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                                      | 2006    | 2005    | 2004    | Remarks |
|--|---------|---------|---------|---------|
| Direct Material Cost                         | 291,714 | 253,930 | 170,051 |         |
| Direct Labor Cost                            | 87,078  | 72,142  | 58,202  |         |
| Depreciation Expense                         | 20,671  | 11,710  | 11,078  |         |
| Others                                       | 36,649  | 23,979  | 13,874  |         |
| R&D Expense Total                            | 436,112 | 361,761 | 253,205 |         |
| Accounting Treatment                         |         |         |         |         |
| Selling & Administrative Expenses            | 82,635  | 55,057  | 43,095  |         |
| Manufacturing Cost                           | 353,477 | 306,704 | 210,110 |         |
| R&D Expense / Sales Ratio                    |         |         |         |         |
| [Total R&D Expense/Sales for the period×100] | 4.28%   | 4.07%   | 3.13%   |         |

\* Capex for R&D, Manufacturing Cost for R&D test run 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) Development and mass production of world's largest TFT-LCD panel for Full-HD TV (55-inch) in October 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
- Application of innovative panel technology to solve the weak point (gravity/touch stains) of large size

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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-inch Wide LCD TV Model

- Development of the world's lowest power consumption, under 90W model (EEFL applied)
- High Contrast Ratio, Fast Response Time (DCR + ODC applied)

[Achievement in 2005]

6) Development of High Luminance and High Color Gamut 17-inch wide LCD Panel for Notebook Computer

- World's 1st 500nit luminance and 72% color gamut in 17-inch wide for Notebook Computer
- 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)

- High Contrast Ratio, Fast Response Time with DCR, ODC Technology.

[Achievement in 2006]

10) Development of High Brightness/Color gamut 17-inch wide slim LCD for Notebook Computer

- Slim model (10t→7t), featuring 500nit, NTSC 72%

- Development of Slim and High Brightness Backlight

11) World's largest size 100-inch TFT-LCD development

- High quality image without noise or signal distortion, applying low resistance copper bus line

- High dignity picture for Full HDTV

12) 32-inch/42-inch HCFL Scanning Backlight applied LCD TV Model Development

- Realization of MBR (Motion Blur Reduction) by application of Backlight Scanning Technology

- Lamp Quantity Reduction by HCFL (Hot Cathode Fluorescent Lamp) Application

13) World's largest 20.1-inch TFT-LCD for Notebook Computer Development

- S-IPS Mode, sRGB, Realization of DCR 3000:1 by Backlight Control, Brightness 300nit

14) Ultra-slim TFT-LCD development for mobile phones

- Realization of 1.3t by reducing light guide plate & glass thickness

15) The fast response 2.0 TFT-LCD development for mobile phones

- Realization of high quality image by new liquid crystal development (25ms→16ms)

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16) Wide Color Gamut 30 Wide TFT-LCD Monitor Development

- Realization of 92% high color gamut by Application of WCG CCFL

17) LGE Chassis integration model (Tornado) development (32 /37 /42 )

- Maximized cost reduction by co-design with LGE & LPL

- Improved product competitiveness by thin & light design

18) 32 120Hz new-mode panel development

- Cost reduction & spec. upgrade by new-mode panel

- MBR (Motion Blur Reduction) by 120Hz driving

19) CI model development (new concept BL)

- Cost reduction and productivity improvement by new concept backlight

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C. Domestic Credit Rating

|                |                        | <b>Credit</b> | <b>Rating Agency</b>                           |
|----------------|------------------------|---------------|--|
| <b>Subject</b> | <b>Month of Rating</b> | <b>Rating</b> | <b>(Rating range)</b>                          |
|                | April 2004             | AA-           |  |
|                | October 2004           | AA-           | National Information & Credit Evaluation, Inc. |
|                | March 2005             | AA-           |  |
|                | June 2005              | AA-           |  |
|                | June 2006              | AA-           | (AAA ~ D)                                      |
| Corporate      | December 2006          | A+            |  |
| Debenture      | May 2004               | AA-           |  |
|                | October 2004           | AA-           | Korea Investors Service, Inc.                  |
|                | March 2005             | AA-           |  |
|                | June 2005              | AA-           |  |
|                | June 2006              | AA-           | (AAA ~ D)                                      |
|                | January 2007           | A+            |  |
|                | April 2004             | A1            |  |
|                | December 2004          | A1            | National Information & Credit Evaluation, Inc. |
|                | June 2005              | A1            |  |
|                | January 2006           | A1            |  |
| Commercial     | June 2006              | A1            | (A1 ~ D)                                       |
| Paper          | December 2006          | A1            |  |
|                | May 2004               | A1            |  |
|                | October 2004           | A1            | Korea Investors Service, Inc.                  |
|                | June 2006              | A1            |  |
|                | January 2007           | A1            | (A1 ~ D)                                       |

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## D. Remuneration for directors in 2006

(Unit: In millions of Won)

| Classification    | Salary Paid | Approved Salary at Shareholders Meeting | Per Capita Average Salary Paid | Remarks                              |
|-------------------|-------------|---|--------------------------------|--------------------------------------|
| Inside Directors  |             |   |                                |                                      |
| (4 persons)       | 1,352       |   | 338                            |                                      |
| Outside Directors |             | 13,400                                  |                                | Audit committee                      |
| (5 persons)       | 279         |   | 56                             | consists of three outside directors. |

\* National pension fee and health insurance fee are included.

## E. Derivative contracts

## (1) Foreign currency forward contracts

(Unit: In millions)

| Contracting party       | Selling position |         | Buying position |           | Contract foreign exchange rate            | Maturity date                        |
|-------------------------|------------------|---------|-----------------|-----------|---|--------------------------------------|
|                         |                  |         |                 |           |   |                                      |
| BNP and others          | US\$             | 2,064   | (Won)           | 1,951,067 | (Won) 916.40:US\$1 ~ (Won) 974.30:US\$1   | January 3, 2007 ~ December 11, 2007  |
| KOOKMIN BANK and others | EUR              | 180     | (Won)           | 217,757   | (Won) 1,164.28:EUR1 ~ (Won) 1,229.17:EUR1 | January 9, 2007 ~ November 19, 2007  |
| HSBC and others         | (Won)            | 334,571 | JP¥             | 40,500    | (Won) 7.9790:JP¥1 ~ (Won) 8.7140:JP¥1     | January 12, 2007 ~ December 14, 2007 |
| KOOKMIN BANK and others | US\$             | 78      | JP¥             | 9,000     | JP¥114.42:US\$1 ~ JP¥116.10:US\$1         | January 12, 2007 ~ April 16, 2007    |



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## (2) Cross Currency Swap

(Unit: In millions )

| Contracting party | Contract Amount  | Contract interest |               | Maturity date   |
|-------------------|------------------|-------------------|---------------|-----------------|
|                   |                  | rate              |               |                 |
| KOOKMIN BANK      | Buying position  | US\$ 100          | 3 Month Libor | August 29, 2011 |
|                   | Selling position | (Won) 96,170      | 4.54%         |                 |

## (3) Interest Rate Swap

(Unit: In millions )

| Contracting party                   | Contract Amount | Contract interest rate |                 | Maturity date  |
|-------------------------------------|-----------------|------------------------|-----------------|----------------|
|                                     |                 |                        |                 |                |
| Standard Chartered First Bank Korea | US\$ 150        | Floating Rate Receipt  | 6 Month Libor   | May 21, 2009 ~ |
|                                     |                 | Fixed Rate Payment     | 5.375% ~ 5.644% | May 24, 2010   |

## (4) Currency Option

(Unit: In millions )

| Contracting party                 | USD Put Option | USD Call Option | Strike Price         | Maturity date  |
|-----------------------------------|----------------|-----------------|----------------------|----------------|
|                                   |                |                 |                      |                |
| Korea Development Bank and others | US\$ 50        | US\$ 100        | (Won) 957.30:US\$1 ~ | May 21, 2007 ~ |
|                                   |                |                 | (Won) 966.50:US\$1   |                |

## F. Status of Equity Investment as of December 31, 2006

| Company                            | Total issued and   | Number of shares | Ownership ratio |
|------------------------------------|--------------------|------------------|-----------------|
|                                    | outstanding shares | owned by us      |                 |
| 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.   | 2,385,900          | 2,385,900        | 100%            |
| LG.Philips LCD Guangzhou Co., Ltd. | *                  | *                | 100%            |
| Paju Electric Glass Co., Ltd.      | 3,600,000          | 1,440,000        | 40%             |

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- \* No shares have been issued in accordance with the local laws and regulations.
- \*\* On January 22, 2007 and February 9, 2007, we injected the paid-in capital of US\$ 30,000,000 and US\$ 29,000,000 into LG.Philips LCD Poland Sp. z o.o. respectively and our ownership ratio thereafter remained 100%.

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

**Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2006 and 2005**

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

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**Samil PricewaterhouseCoopers**

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(Yongsan P.O. Box 266, 140-600)

**Report of Independent Auditors**

To the Shareholders and Board of Directors of LG.Philips LCD Co., Ltd. and its Subsidiaries

We have audited the accompanying consolidated balance sheets of LG.Philips LCD Co., Ltd. and its subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG.Philips LCD Co., Ltd. and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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Accounting principles and auditing standards and their application in practice vary among countries. The accompanying 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

February 13, 2007

This report is effective as of February 13, 2007, 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 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.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Balance Sheets****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i>  | <b>2006</b>             | <b>2005</b>             |
|---|-------------------------|-------------------------|
| <b>Assets</b>   |                         |                         |
| Current assets  |                         |                         |
| Cash and cash equivalents (Note 3)  | (Won) 954,362           | (Won) 1,579,452         |
| Available-for-sale securities   | 23                      | 354                     |
| Trade accounts and notes receivable, net (Notes 4, 5 and 21)                | 859,300                 | 1,266,899               |
| Inventories, net (Note 6)   | 1,052,705               | 690,785                 |
| Other accounts receivable, net (Notes 4, 5 and 21)                          | 112,182                 | 66,203                  |
| Accrued income, net (Note 4)  | 850                     | 1,369                   |
| Advance payments, net (Note 4)  | 7,050                   | 5,994                   |
| Prepaid expenses  | 23,536                  | 21,603                  |
| Prepaid value added tax   | 93,058                  | 131,230                 |
| Deferred income tax assets (Note 19)  | 677                     | 5,373                   |
| Other current assets (Note 15)  | 50,884                  | 76,806                  |
| <b>Total current assets</b>   | <b>3,154,627</b>        | <b>3,846,068</b>        |
| Property, plant and equipment, net (Note 8)                                 | 9,428,046               | 9,199,599               |
| Long-term financial instruments (Note 3)                                    | 13                      | 16                      |
| Available-for-sale securities   | 1                       | 1                       |
| Equity method investment (Note 7)   | 19,284                  | 14,156                  |
| Non-current guarantee deposits  | 22,454                  | 28,070                  |
| Long-term prepaid expenses  | 138,051                 | 83,112                  |
| Deferred income tax assets (Note 19)  | 601,485                 | 343,754                 |
| Intangible assets, net (Note 9)   | 123,826                 | 159,306                 |
| <b>Total assets</b>   | <b>(Won) 13,487,787</b> | <b>(Won) 13,674,082</b> |
| <b>Liabilities and Shareholders Equity</b>                                  |                         |                         |
| Current liabilities   |                         |                         |
| Short-term borrowings (Note 10)   | (Won) 250,105           | (Won) 308,969           |
| Trade accounts and notes payable (Notes 5 and 21)                           | 949,436                 | 693,588                 |
| Other accounts payable (Notes 5 and 21)                                     | 1,249,405               | 1,474,556               |
| Advances received (Note 5)  | 45,785                  | 58,431                  |
| Withholdings  | 25,376                  | 12,055                  |
| Accrued expenses (Note 5)   | 55,867                  | 69,968                  |
| Income tax payable (Note 19)  | 4,658                   | 21,788                  |
| Current maturities of long-term debts (Note 10)                             | 563,630                 | 440,840                 |
| Warranty reserve  | 31,261                  | 24,947                  |
| Other current liabilities (Note 15)   | 33,266                  | 33,693                  |
| <b>Total current liabilities</b>  | <b>3,208,789</b>        | <b>3,138,835</b>        |
| Debentures, net of current maturities and discounts on debentures (Note 11) | 2,319,391               | 2,385,272               |
| Long-term debts, net of current maturities (Note 11)                        | 987,597                 | 430,697                 |
| Accrued severance benefits, net (Note 13)                                   | 81,885                  | 43,206                  |
| Long-term accrued expenses  | 430                     |                         |

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|   |                  |                  |
|---|------------------|------------------|
| Deferred income tax liabilities (Note 19)   | 19               | 475              |
| Total liabilities   | 6,598,111        | 5,998,485        |
| Commitments and contingencies (Note 15)   |                  |                  |
| Shareholders' equity  |                  |                  |
| Capital stock (Note 16)   |                  |                  |
| Common stock, (Won)5,000 par value per share; 400 million shares authorized ; 358 million shares issued and outstanding | 1,789,079        | 1,789,079        |
| Capital surplus (Note 17)   | 2,275,172        | 2,279,250        |
| Retained earnings (Note 17)   | 2,839,373        | 3,608,686        |
| Capital adjustments (Note 18)   | (13,948)         | (1,418)          |
| Total shareholders' equity  | 6,889,676        | 7,675,597        |
| Total liabilities and shareholders' equity  | (Won) 13,487,787 | (Won) 13,674,082 |

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



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Statements of Operations****Years ended December 31, 2006 and 2005**

| <i>(in millions of Korean won, except per share amounts)</i> | <b>2006</b>      | <b>2005</b>      |
|--|------------------|------------------|
| <b>Sales (Notes 21 and 23)</b>                               | (Won) 10,624,200 | (Won) 10,075,580 |
| <b>Cost of sales (Note 21)</b>                               | 10,932,316       | 9,094,711        |
| Gross profit (loss)  | (308,116)        | 980,869          |
| <b>Selling and administrative expenses</b>                   | 570,922          | 511,172          |
| Operating income (loss)                                      | (879,038)        | 469,697          |
| <b>Non-operating income</b>                                  |                  |                  |
| Interest income  | 29,309           | 50,622           |
| Rental income  | 7,811            | 207              |
| Foreign exchange gains (Note 15)                             | 306,132          | 273,790          |
| Gain on foreign currency translation (Note 15)               | 62,576           | 68,520           |
| Gain on disposal of property, plant and equipment            | 488              | 128              |
| Gain on valuation of equity method investment (Note 7)       | 5,128            |                  |
| Others   | 32,799           | 22,786           |
|  | 444,243          | 416,053          |
| <b>Non-operating expenses</b>                                |                  |                  |
| Interest expenses  | 179,199          | 104,928          |
| Foreign exchange losses (Note 15)                            | 344,941          | 334,330          |
| Loss on foreign currency translation (Note 15)               | 20,341           | 38,481           |
| Loss on disposal of accounts receivable                      | 20,778           | 16,858           |
| Loss on valuation of equity method investment (Note 7)       |                  | 244              |
| Loss on disposal of property, plant and equipment            | 1,062            | 572              |
| Loss on disposal of available-for-sale securities            | 35               |                  |
| Loss on disposal of investments                              | 118              |                  |
| Donations  | 1,837            | 2,319            |
| Ramp up cost (Note 6)  | 18,043           | 18,928           |
| Others   | 327              | 395              |
|  | 586,681          | 517,055          |
| Income (loss) before income taxes                            | (1,021,476)      | 368,695          |
| Income tax benefit (Note 19)                                 | 252,163          | 148,317          |
| Net income (loss)  | (Won) (769,313)  | (Won) 517,012    |
| Ordinary income (loss) per share (Note 20)                   | (Won) (2,150)    | (Won) 1,523      |
| Earnings (loss) per share (Note 20)                          | (Won) (2,150)    | (Won) 1,523      |
| Diluted ordinary income (loss) per share (Note 20)           | (Won) (2,150)    | (Won) 1,523      |

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|   |       |         |       |       |
|---|-------|---------|-------|-------|
| Diluted earnings (loss) per share (Note 20) | (Won) | (2,150) | (Won) | 1,523 |
|---|-------|---------|-------|-------|

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

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Statements of Shareholders' Equity****Years ended December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i> | <b>Common Stock</b> | <b>Capital Surplus</b> | <b>Retained Earnings</b> | <b>Capital Adjustments</b> | <b>Total</b>    |
|------------------------------------|---------------------|------------------------|--------------------------|----------------------------|-----------------|
| Balance as of January 1, 2005      | (Won) 1,626,579     | (Won) 1,012,271        | (Won) 3,091,674          | (Won) 42,117               | (Won) 5,772,641 |
| Issuance of common stock           | 162,500             | 1,266,979              |                          |                            | 1,429,479       |
| Net income                         |                     |                        | 517,012                  |                            | 517,012         |
| Changes in capital adjustments     |                     |                        |                          | (43,535)                   | (43,535)        |
| Balance as of December 31, 2005    | 1,789,079           | 2,279,250              | 3,608,686                | (1,418)                    | 7,675,597       |
| Net loss                           |                     |                        | (769,313)                |                            | (769,313)       |
| Changes in capital surplus         |                     | (4,078)                |                          |                            | (4,078)         |
| Changes in capital adjustments     |                     |                        |                          | (12,530)                   | (12,530)        |
| Balance as of December 31, 2006    | (Won) 1,789,079     | (Won) 2,275,172        | (Won) 2,839,373          | (Won) (13,948)             | (Won) 6,889,676 |

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

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Statements of Cash Flows****Years ended December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i>  | <b>2006</b>     | <b>2005</b>   |
|---|-----------------|---------------|
| <b>Cash flows from operating activities</b>   |                 |               |
| Net income (loss)   | (Won) (769,313) | (Won) 517,012 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities |                 |               |
| Depreciation  | 2,593,439       | 1,746,901     |
| Amortization of intangible assets   | 45,410          | 45,421        |
| Provision for severance benefits  | 55,183          | 43,851        |
| Gain on foreign currency translation, net   | (52,233)        | (34,462)      |
| Loss on disposal of available-for-sale securities                                       | 35              |               |
| Loss on disposal of investments   | 118             |               |
| Gain on disposal of property, plant and equipment, net                                  | 574             | 444           |
| Amortization of discount on debentures  | 35,615          | 29,891        |
| Loss (gain) on valuation of equity method investments                                   | (5,128)         | 244           |
| Others  | 46,013          | 28,909        |
|   | 2,719,026       | 1,861,199     |
| Changes in operating assets and liabilities   |                 |               |
| Decrease (increase) in trade accounts and notes receivable                              | 409,123         | (398,445)     |
| Decrease (increase) in inventories  | (361,919)       | 114,503       |
| Decrease (increase) in other accounts receivable  | (46,148)        | (2,415)       |
| Decrease in accrued income  | 519             | 101           |
| Decrease (increase) in advance payments   | (1,056)         | 3,832         |
| Decrease (increase) in prepaid expenses   | 23,549          | 16,566        |
| Decrease (increase) in prepaid value added tax  | 38,172          | (35,634)      |
| Decrease in other current assets  | 25,793          | 67,891        |
| Decrease in long-term other accounts receivable   |                 | 1             |
| Increase in long-term prepaid expenses  | (80,420)        | (43,016)      |
| Increase in current deferred income tax assets  | 50              | (8,011)       |
| Increase in non-current deferred income tax assets                                      | (259,346)       | (172,265)     |
| Increase in trade accounts and notes payable  | 256,642         | 122,926       |
| Increase in other accounts payable  | 22,767          | 218,698       |
| Increase (decrease) in advances received  | (12,777)        | 56,179        |
| Increase in unearned revenues   | 7,055           |               |
| Increase in withholdings  | 13,322          | 5,927         |
| Decrease in accrued expenses  | (14,101)        | (49,896)      |
| Decrease in income taxes payable  | (17,131)        | (54,815)      |
| Decrease in warranty reserve  | (39,699)        | (23,179)      |
| Decrease in other current liabilities   | (8,293)         | (54,133)      |
| Decrease in deferred income tax liabilities   | (456)           |               |
| Increase in long-term accrued expenses  | 430             |               |
| Accrued severance benefits transferred from affiliated company, net                     | 3,531           | 2,484         |
| Payment of severance benefits   | (33,932)        | (16,306)      |
| Decrease (increase) in severance insurance deposits                                     | 13,829          | (18,817)      |
| Decrease in contributions to the National Pension Fund                                  | 68              | 29            |

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|  |           |           |
|--|-----------|-----------|
| Increase in consolidation adjustments, net | (23,785)  | (2,000)   |
|  | (84,213)  | (269,795) |
| Net cash provided by operating activities  | 1,865,500 | 2,108,416 |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Statement of Cash Flows****Years ended December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i>                        | <b>2006</b>    | <b>2005</b>     |
|---|----------------|-----------------|
| <b>Cash flows from investing activities</b>               |                |                 |
| Acquisition of equity-method investments                  | (Won) (14,400) | (Won) (14,400)  |
| Acquisition of available-for-sale securities              | (53)           | (339)           |
| Proceeds from disposal of long-term financial instruments | 3              |                 |
| Proceeds from disposal of available-for-sale securities   | 349            |                 |
| Proceeds from non-current guarantee deposits              | 10,138         | 2               |
| Payments of non-current guarantee deposits                | (4,640)        | (4,732)         |
| Acquisition of property, plant and equipment              | (3,075,985)    | (4,166,151)     |
| Proceeds from disposal of property, plant and equipment   | 11,252         | 461             |
| Acquisition of intangible assets                          | (8,251)        | (12,704)        |
| Increase in other current assets                          | (8)            | (11)            |
| Net cash used in investing activities                     | (3,067,195)    | (4,197,874)     |
| <b>Cash flows from financing activities</b>               |                |                 |
| Repayment of short-term borrowings                        | (58,307)       | (173,004)       |
| Repayment of current maturities of long-term debts        | (442,848)      | (212,931)       |
| Proceeds from issuance of debentures                      | 399,600        | 1,073,684       |
| Proceeds from issuance of long-term debts                 | 678,160        | 218,580         |
| Proceeds from issuance of common stock                    |                | 1,401,342       |
| Net cash provided by financing activities                 | 576,605        | 2,307,671       |
| Net increase (decrease) in cash and cash equivalents      | (625,090)      | 218,213         |
| <b>Cash and cash equivalents (Note 24)</b>                |                |                 |
| Beginning of the year                                     | 1,579,452      | 1,361,239       |
| End of the year   | (Won) 954,362  | (Won) 1,579,452 |

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

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****1. The Companies**

The accompanying consolidated financial statements include the accounts of LG. Philips LCD Co., Ltd. (the Company or the Controlling Company ) and its consolidated subsidiaries. The general information on the Controlling Company and its consolidated subsidiaries is described below.

**The Controlling Company**

LG.Philips LCD Co., Ltd. was incorporated in 1985 as the original name of LG Soft, Ltd., under the Commercial Code of the Republic of Korea and commenced the manufacturing and sale of Thin Film Transistor Liquid Crystal Display ( TFT LCD ) from 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 and Philips acquired a 50% interest in LG LCD Co., Ltd.

The Controlling Company listed its shares with the Korea Stock Exchange and with the US Securities and Exchange Commission in July, 2004. In July 2005, pursuant to a Form F-1 Registration statement filed on July 22, 2005, with the US 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, 2006, the Company s shareholders are as follows:

|                                       | Number of<br>Shares | Percentage of<br>Ownership (%) |
|---------------------------------------|---------------------|--------------------------------|
| LG Electronics Inc.                   | 135,625,000         | 37.9                           |
| Koninklijke Philips Electronics N. V. | 117,625,000         | 32.9                           |
| Others                                | 104,565,700         | 29.2                           |
|                                       | 357,815,700         | 100.0                          |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****Consolidated Subsidiaries**

Consolidated subsidiaries as of December 31, 2006, are as follows:

|                                    | Total issued and<br>outstanding shares | No. of shares owned by<br>the Controlling Company | Percentage of<br>Ownership (%) |
|------------------------------------|--|---|--------------------------------|
| <b>Overseas Subsidiaries</b>       |  |   |                                |
| 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.    | 11,550,000                             | 11,549,994  | 100                            |
| LG.Philips LCD Nanjing Co., Ltd.   | 1                                      | 1   | 100                            |
| LG.Philips LCD Hong Kong Co., Ltd. | 115,000                                | 115,000   | 100                            |
| LG.Philips LCD Shanghai Co., Ltd.  | 1                                      | 1   | 100                            |
| LG.Philips LCD Poland Sp.z o.o.    | 2,385,900                              | 2,385,900   | 100                            |
| LG.Philips LCD Guangzhou Co., Ltd. | 1                                      | 1   | 100                            |

<sup>1</sup> No shares have been issued in accordance with the local laws and regulations.  
The primary business activities of the consolidated subsidiaries are as follows:

## (1) LG.Philips LCD America, Inc. (LPLA)

LPLA was incorporated in California, U.S.A., in September 1999, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of December 31, 2006 and 2005, its capital stock amounted to US\$5 million and is wholly owned by LG.Philips LCD Co., Ltd.

## (2) LG.Philips LCD Japan Co., Ltd. (LPLJ)

LPLJ was incorporated in Tokyo, Japan, in October 1999, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of December 31, 2006 and 2005, its capital stock amounted to JP ¥ 95 million and is wholly owned by LG.Philips LCD Co., Ltd.

## (3) LG.Philips LCD Germany GmbH (LPLG)

LPLG was incorporated in Düsseldorf, Germany, in November 1999, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of December 31, 2006 and 2005, its capital stock amounted to EUR 1 million and is wholly owned by LG.Philips LCD Co., Ltd.



**Table of Contents**

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

**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

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(4) LG.Philips LCD Taiwan Co., Ltd. (LPLT)

LPLT was incorporated in Taipei, Taiwan, in April 1999, to sell TFT-LCD products and its shares were acquired by the Company in May 2000. As of December 31, 2006 and 2005, its capital stock amounted to NTD116 million.

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

**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

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(5) LG.Philips LCD Nanjing Co., Ltd. (LPLCN)

LPLCN was incorporated in Nanjing, China, in July 2002, to manufacture and sell TFT-LCD products. As of December 31, 2006, its capital stock amounted to CNY 1,380 million (2005: CNY 1,069 million), and is wholly owned by LG. Philips LCD Co., Ltd.

(6) LG.Philips LCD Hong Kong Co., Ltd. (LPLHK)

LPLHK was incorporated in Hong Kong in January 2003, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of December 31, 2006 and 2005, its capital stock amounted to HK\$ 12 million and is wholly owned by LG.Philips LCD Co., Ltd.

(7) LG.Philips LCD Shanghai Co., Ltd. (LPLSH)

LPLSH was incorporated in Shanghai, China, in January 2003, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of December 31, 2006 and 2005, its capital stock amounted to CNY 4 million and is wholly owned by LG.Philips LCD Co., Ltd.

(8) LG.Philips LCD Poland Sp. z o.o.(LPL Poland)

LPL Poland was incorporated in Poland on September 6, 2005, to manufacture and sell the TFT-LCD products of LG. Philips LCD Co., Ltd. As of December 31, 2006, its capital stock amounted to PLN 238,590,000 (2005: PLN 50,000), and is wholly owned by LG. Philips LCD Co., Ltd.

(9) LG.Philips LCD Guangzhou Co., Ltd. (LPLGZ)

LPLGZ was incorporated in Guangzhou, China, on June 30, 2006, to manufacture and sell the TFT LCD products of LG. Philips LCD Co., Ltd. As of December 31, 2006, its capital stock amounted to CNY 318 million and is wholly owned by LG. Philips LCD Co., Ltd.

**Equity-method investments**

The primary business activities of the equity-method investments are as follows:

(1) Paju Electric Glass Co., Ltd. (PEG)

PEG was incorporated in Paju, Korea, in January 2005, to produce electric glass. As of December 31, 2006, its capital stock amounted to (Won)36,000 million and 40% shares of PEG are owned by LG.Philips LCD Co., Ltd.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****Consolidated Subsidiaries**

A summary of financial data of the consolidated subsidiaries, prior to the elimination of intercompany transactions, is as follows:

**Condensed Balance Sheets**

| <i>(in millions of Korean won)</i>               | <b>LG.Philips LCD</b>                   |  |   |  |                          |  |
|--|---|--|---|--|--------------------------|--|
|  | <b>LG.Philips LCD<br/>America, Inc.</b> | <b>LG.Philips LCD<br/>Germany GmbH</b> | <b>LG.Philips LCD<br/>Japan.Co., Ltd.</b> | <b>LG.Philips LCD<br/>Taiwan Co., Ltd.</b> | <b>Nanjing Co., Ltd.</b> |  |
| Current assets                                   | (Won) 85,901                            | (Won) 361,469                          | (Won) 90,473                              | (Won) 328,203                              | (Won) 76,262             |  |
| Non-current assets                               | 5,366                                   | 1,797                                  | 1,045                                     | 3,731                                      | 369,940                  |  |
| <b>Total assets</b>                              | <b>(Won) 91,267</b>                     | <b>(Won) 363,266</b>                   | <b>(Won) 91,518</b>                       | <b>(Won) 331,934</b>                       | <b>(Won) 446,202</b>     |  |
| Current liabilities                              | (Won) 81,858                            | (Won) 359,202                          | (Won) 86,925                              | (Won) 319,534                              | (Won) 80,490             |  |
| Non-current liabilities                          |   |  | 34  |  | 157,057                  |  |
| <b>Total liabilities</b>                         | <b>81,858</b>                           | <b>359,202</b>                         | <b>86,959</b>                             | <b>319,534</b>                             | <b>237,547</b>           |  |
| Capital stock                                    | 6,082                                   | 1,252                                  | 1,088                                     | 4,189                                      | 177,854                  |  |
| Retained earnings                                | 5,672                                   | 3,057                                  | 4,812                                     | 10,906                                     | 51,571                   |  |
| Capital adjustments                              | (2,345)                                 | (245)                                  | (1,341)                                   | (2,695)                                    | (20,770)                 |  |
| <b>Total shareholders equity</b>                 | <b>9,409</b>                            | <b>4,064</b>                           | <b>4,559</b>                              | <b>12,400</b>                              | <b>208,655</b>           |  |
| <b>Total liabilities and shareholders equity</b> | <b>(Won) 91,267</b>                     | <b>(Won) 363,266</b>                   | <b>(Won) 91,518</b>                       | <b>(Won) 331,934</b>                       | <b>(Won) 446,202</b>     |  |

| <i>(in millions of Korean won)</i> | <b>LG. Philips LCD<br/>HongKong Co., Ltd.</b> | <b>LG. Philips LCD<br/>Shanghai Co., Ltd.</b> | <b>LG. Philips LCD<br/>Poland Sp z o.o.</b> | <b>LG. Philips LCD<br/>Guangzhou Co., Ltd.</b> | <b>Total</b>           |
|------------------------------------|---|---|---|--|------------------------|
|                                    | Current assets                                | (Won) 174,257                                 | (Won) 248,379                               | (Won) 32,110                                   | (Won) 25,941           |
| Non-current assets                 | 356   | 216   | 200,616                                     | 11,670   | 594,737                |
| <b>Total assets</b>                | <b>(Won) 174,613</b>                          | <b>(Won) 248,595</b>                          | <b>(Won) 232,726</b>                        | <b>(Won) 37,611</b>                            | <b>(Won) 2,017,732</b> |
| Current liabilities                | (Won) 168,580                                 | (Won) 244,628                                 | (Won) 166,489                               | (Won) 720                                      | (Won) 1,508,426        |
| Non-current liabilities            | 19  |   | 431   |  | 157,541                |
| <b>Total liabilities</b>           | <b>168,599</b>                                | <b>244,628</b>                                | <b>166,920</b>                              | <b>720</b>                                     | <b>1,665,967</b>       |
| Capital stock                      | 1,736   | 596   | 76,590                                      | 38,264   | 307,651                |
| Retained earnings                  | 5,040   | 3,936   | (10,360)                                    | (957)  | 73,677                 |
| Capital adjustments                | (762)   | (565)   | (424)                                       | (416)  | (29,563)               |

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|   |               |               |               |              |                 |
|---|---------------|---------------|---------------|--------------|-----------------|
| Total shareholders equity                 | 6,014         | 3,967         | 65,806        | 36,891       | 351,765         |
| Total liabilities and shareholders equity | (Won) 174,613 | (Won) 248,595 | (Won) 232,726 | (Won) 37,611 | (Won) 2,017,732 |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****Condensed Statements of Income**

| <i>(in millions of Korean won)</i>  | LG.Philips LCD, America, Inc. |  | LG.Philips LCD, Germany GmbH |  | LG.Philips LCD, Japan Co., Ltd. |  | LG.Philips LCD, Taiwan Co., Ltd. |  | LG.Philips LCD, Nanjing Co., Ltd. |  |
|-------------------------------------|-------------------------------|--|------------------------------|--|---------------------------------|--|----------------------------------|--|-----------------------------------|--|
|                                     | (Won)                         |  | (Won)                        |  | (Won)                           |  | (Won)                            |  | (Won)                             |  |
| Sales                               | 1,035,463                     |  | 1,653,550                    |  | 1,190,264                       |  | 2,749,688                        |  | 1,688,227                         |  |
| Cost of sales                       | 1,019,704                     |  | 1,636,554                    |  | 1,180,483                       |  | 2,727,103                        |  | 1,615,202                         |  |
| Gross profit                        | 15,759                        |  | 16,996                       |  | 9,781                           |  | 22,585                           |  | 73,025                            |  |
| Selling and administrative expenses | 11,054                        |  | 11,074                       |  | 8,120                           |  | 9,937                            |  | 57,928                            |  |
| Operating income                    | 4,705                         |  | 5,922                        |  | 1,661                           |  | 12,648                           |  | 15,097                            |  |
| Non-operating income (expense)      | (2,707)                       |  | (4,572)                      |  | 305                             |  | (10,834)                         |  |                                   |  |
| Ordinary income                     | 1,998                         |  | 1,350                        |  | 1,966                           |  | 1,814                            |  | 15,097                            |  |
| Income tax expense (benefit)        | 771                           |  | 647                          |  | 1,095                           |  | 667                              |  | (1,113)                           |  |
| Net income                          | (Won) 1,227                   |  | (Won) 703                    |  | (Won) 871                       |  | (Won) 1,147                      |  | (Won) 16,210                      |  |

| <i>(in millions of Korean won)</i>  | LG. Philips LCD HongKong Co., Ltd. |  | LG. Philips LCD Shanghai Co., Ltd. |  | LG. Philips LCD Poland Sp z o.o. |  | LG. Philips LCD Guangzhou Co., Ltd. |  | Total        |  |
|-------------------------------------|------------------------------------|--|------------------------------------|--|----------------------------------|--|-------------------------------------|--|--------------|--|
|                                     | (Won)                              |  | (Won)                              |  | (Won)                            |  | (Won)                               |  | (Won)        |  |
| Sales                               | 1,097,365                          |  | 1,163,364                          |  | 9                                |  |                                     |  | 10,577,930   |  |
| Cost of sales                       | 1,087,564                          |  | 1,154,570                          |  |                                  |  |                                     |  | 10,421,180   |  |
| Gross profit                        | 9,801                              |  | 8,794                              |  | 9                                |  |                                     |  | 156,750      |  |
| Selling and administrative expenses | 7,106                              |  | 7,532                              |  | 12,056                           |  | 800                                 |  | 125,607      |  |
| Operating income (loss)             | 2,695                              |  | 1,262                              |  | (12,047)                         |  | (800)                               |  | 31,143       |  |
| Non-operating income (expense)      | 443                                |  | 601                                |  | 1,693                            |  | (157)                               |  | (15,228)     |  |
| Ordinary income (loss)              | 3,138                              |  | 1,863                              |  | (10,354)                         |  | (957)                               |  | 15,915       |  |
| Income tax expense                  | 365                                |  | 462                                |  |                                  |  |                                     |  | 2,894        |  |
| Net income (loss)                   | (Won) 2,773                        |  | (Won) 1,401                        |  | (Won) (10,354)                   |  | (Won) (957)                         |  | (Won) 13,021 |  |

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

**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

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**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements, are summarized below.

**Basis of Consolidated 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 consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements.

**Accounting Estimates**

The preparation of the financial statements requires management to make certain 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. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

**Principles of Consolidation**

The fiscal year end of the consolidated subsidiaries is the same as that of the Controlling Company. Differences in accounting policy, between the Controlling Company and consolidated subsidiaries, are adjusted during consolidation.

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries.

All intercompany transactions and balances with consolidated subsidiaries have been eliminated during consolidation (Note 21).

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

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

### **December 31, 2006 and 2005**

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To eliminate the investment account of the Controlling Company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied, depending on the nature of the transaction. In using the purchase method, when the Company has control over a subsidiary, the Company records the differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, which is amortized over less than 20 years, using the straight-line method.

Unrealized gains or losses included in inventories and other assets as a result of intercompany transactions are eliminated based on the average gross profit ratio of the corresponding company. Unrealized gains or losses, arising from sales by the Controlling Company to the consolidated subsidiaries, is fully eliminated and charged to the equity of the Controlling Company. Unrealized gains or losses, arising from sales by the consolidated subsidiaries to the Controlling Company, or sales between consolidated subsidiaries, are fully eliminated, and charged to the equity of the Controlling Company and the minority interests, based on the percentage of ownership.

### **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.

### **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**

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.





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Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as capital adjustments, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment losses on the securities are 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 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.

Difference between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee is 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.

**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 their intended 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 life</b> |
|-------------------------------|------------------------------|
| Buildings                     | 20 ~ 40 years                |
| Structures                    | 20 ~ 40 years                |
| Machinery and equipment       | 4 years                      |
| Vehicles                      | 4 years                      |
| Tools, furniture and fixtures | 3 ~ 05 years                 |

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

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

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Property, plant and equipment, which were acquired by the Company through government subsidies, are recorded at their fair values if the cost is lower than the market value. The government subsidies are presented as a deduction from the acquisition cost. The current year's subsidies are offset against depreciation expense over the useful life of the property, plant and equipment, and the remaining amount is recognized as a loss on sale upon disposal of the property, plant and equipment.

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 is 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.

#### **Lease Transactions**

The Company accounts for lease transactions as either operating lease or capital lease, depending on the terms of the lease agreement. As of December 31, 2006, current lease transactions are classified only as operating leases and the related lease rentals are charged to expense when incurred.

#### **Intangible Assets**

Intangible assets, consisting of industrial property rights, rights to use electronics and gas supply facilities, rights to use the industrial water facility, goodwill 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 its 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 is 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 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)929.6: US\$1 as of December 31, 2006;(Won)1.013.0: US\$1 as of December 31, 2005), and the resulting translation gains and losses are recognized in current operations.

#### **Translation of Foreign Currency Statements**

Foreign currency financial statements of consolidated subsidiaries are translated into Korean won using the exchange rates in effect at 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 shareholders' equity.



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**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, 2006, is (Won)31,261 million (2005: (Won)24,947 million), and provision for warranty reserve for the year ended in December 31, 2006, is (Won)46,013 million (2005: (Won)28,909 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 these deposits is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of such deposit.

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

**Sale 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 sale 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 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 hedges.

**Convertible bonds**

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

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**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 year.

**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 based on estimates when there are reasonable assumptions 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 year.

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 placed in service. To the extent such credits are not currently utilized, deferred income tax assets, subject to considerations on their probability of utilization, are recognized for the carryforward amount.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****3. Cash and Cash Equivalents, and Financial Instruments**

Cash and cash equivalents, and financial instruments as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>   | Annual interest   |               |                 |
|--|-------------------|---------------|-----------------|
|  | rate (%) as of    |               |                 |
|  | December 31, 2006 | 2006          | 2005            |
| <b>Cash and cash equivalents</b>   |                   |               |                 |
| Cash on hand   |                   | (Won) 6       | (Won) 6         |
| Checking accounts  |                   | 34            | 51              |
| Time deposits  | 4.16              | 663,480       | 942,359         |
| Passbook accounts in millions of foreign currencies of<br>US\$ 130, JP ¥ 391,<br>EUR 16, NTD 52,<br>CNY 998, HKD 103, PLN 46<br>(2005 : US\$, 517, JP ¥ 268,<br>EUR 6 , NTD 93,<br>CNY 706, HKD, 96) | 5.63              | 290,842       | 637,036         |
|  |                   | 954,362       | 1,579,452       |
| <b>Long-term financial instruments</b>   |                   |               |                 |
| Guarantee deposit for checking accounts  |                   | 13            | 16              |
|  |                   | (Won) 954,375 | (Won) 1,579,468 |

As of December 31, 2006 and 2005, long-term financial instruments represent key money deposits required to maintain checking accounts and, accordingly, the withdrawal of such deposits is restricted.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****4. Receivables**

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>  | <b>Gross amount</b> | <b>2006<br/>Allowance for<br/>doubtful accounts</b> | <b>Carrying value</b> |
|-------------------------------------|---------------------|---|-----------------------|
| Trade accounts and notes receivable | (Won) 862,553       | (Won) 3,253   | (Won) 859,300         |
| Other accounts receivable           | 112,561             | 379   | 112,182               |
| Accrued income                      | 858                 | 8   | 850                   |
| Advance payments                    | 7,105               | 55  | 7,050                 |
|                                     | (Won) 983,077       | (Won) 3,695   | (Won) 979,382         |

| <i>(in millions of Korean won)</i>  | <b>Gross amount</b> | <b>2005<br/>Allowance for<br/>doubtful<br/>accounts</b> | <b>Carrying value</b> |
|-------------------------------------|---------------------|---|-----------------------|
| Trade accounts and notes receivable | (Won) 1,270,781     | (Won) 3,882   | (Won) 1,266,899       |
| Other accounts receivable           | 66,660              | 457   | 66,203                |
| Accrued income                      | 1,383               | 14  | 1,369                 |
| Advance payments                    | 6,054               | 60  | 5,994                 |
|                                     | (Won) 1,344,878     | (Won) 4,413   | (Won) 1,340,465       |

There were no negotiated foreign currency receivables outstanding as of December 31, 2006, and 2005. As of December 31, 2006, trade bills to overseas subsidiaries negotiated through banks but not yet matured, which was recorded as short-term borrowing, amounted to (Won)204,528 million (2005: (Won)303,904 million).

LG. Philips LCD Shanghai ( LPLSH ) sells accounts receivables for up to US\$200 million through Standard Chartered Bank and LG. Philips LCD Taiwan ( LPLT ) sells accounts receivables for up to US\$250 million through China Trust Bank and other banks. As of December 31, 2006, accounts receivables sold, which are not yet matured for LPLSH and LPLT are (Won)41,914 million and (Won)112,715 million, respectively.

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In September 2004, the Company entered into a five-year accounts receivable securitization program (the Program) with a financial institution. The Program allows the Company to sell, on a revolving basis, an undivided interest up to US\$300 million in eligible accounts receivables of four subsidiaries, namely, 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.

As of December 31, 2006, the outstanding balance of securitized accounts receivable held by the third party conduits totaled (Won)364,785 million (2005: (Won)272,571 million), of which the Company's subordinated retained interest was (Won)70,643 million (2005 : (Won)52,532 million). Accordingly, (Won)294,122 million (2005: (Won)220,039 million) of accounts receivable balances, net of applicable allowances, was removed from the consolidated balance sheets as of December 31, 2006. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately (Won)15,509 million for the year ended December 31, 2006.

In October 2006, the Company entered into a five-year accounts receivable selling program with Standard Chartered Bank. The Company sells accounts receivables of four subsidiaries, namely, LPLA, LPLG, LPLSH and LG.Philips LCD Hongkong ( LPLHK ), on a revolving basis, up to US\$ 469 million. As of December 31, 2006, the amount of accounts receivable recorded as sales is (Won)185,633 million.



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****5. Assets and Liabilities Denominated in Foreign Currencies**

As of December 31, 2006 and 2005, monetary assets and liabilities denominated in foreign currencies, excluding those disclosed elsewhere in the accompanying notes, are as follows:

| <i>(in millions)</i>                | 2006                     |                     |        | 2005                     |                     |        |
|-------------------------------------|--------------------------|---------------------|--------|--------------------------|---------------------|--------|
|                                     | Korean Won<br>equivalent | Foreign<br>currency |        | Korean Won<br>equivalent | Foreign<br>currency |        |
| Trade accounts and notes receivable | (Won) 908,888            | US\$                | 917    | (Won) 1,258,328          | US\$                | 480    |
|                                     |                          | JP¥                 | 675    |                          | JP¥                 | 16,914 |
|                                     |                          | EUR                 | 41     |                          | EUR                 | 142    |
|                                     |                          |                     |        |                          | NTD                 | 10,773 |
|                                     |                          |                     |        |                          | HKD                 | 938    |
| Other accounts receivable           | 11,031                   | US\$                | 2      | 63,535                   | US\$                | 7      |
|                                     |                          | JP¥                 | 98     |                          | JP¥                 | 705    |
|                                     |                          | EUR                 | 6      |                          | EUR                 | 15     |
|                                     |                          |                     |        |                          | NTD                 | 1,006  |
|                                     |                          |                     |        |                          | CNY                 | 8      |
| Trade accounts and notes payable    | 392,405                  | US\$                | 288    | 291,505                  | US\$                | 63     |
|                                     |                          | JP¥                 | 14,697 |                          | JP¥                 | 11,150 |
|                                     |                          | EUR                 |        |                          | EUR                 | 1      |
|                                     |                          | CNY                 | 80     |                          | CNY                 | 1,041  |
| Other accounts payable              | 277,965                  | US\$                | 16,814 | 197,188                  | US\$                | 14     |
|                                     |                          | JP¥                 | 5,379  |                          | JP¥                 | 16,170 |
|                                     |                          | EUR                 | 21,027 |                          | EUR                 | 17     |
|                                     |                          | NTD                 | 8      |                          | NTD                 | 24     |
|                                     |                          | CNY                 | 1,773  |                          | CNY                 | 179    |
|                                     |                          | HKD                 |        |                          | HKD                 | 3      |
|                                     |                          | PLN                 | 14,310 |                          |                     |        |
| Accrued expenses                    | 11,418                   | US\$                | 1      | 10,886                   | US\$                | 7      |
|                                     |                          | JP¥                 | 11     |                          | JP¥                 | 8      |
|                                     |                          | EUR                 | 1      |                          | EUR                 | 1      |
|                                     |                          | NTD                 | 101    |                          | NTD                 | 46     |
|                                     |                          | CNY                 | 24     |                          | CNY                 | 12     |
|                                     |                          | HKD                 | 2      |                          | HKD                 | 1      |
|                                     |                          | PLN                 | 9      |                          |                     |        |
| Advanced received                   |                          |                     |        | 51,991                   | US\$                | 51     |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****6. Inventories**

Inventories as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> | <b>2006</b>     | <b>2005</b>   |
|------------------------------------|-----------------|---------------|
| Finished products                  | (Won) 641,913   | (Won) 355,532 |
| Work-in-process                    | 312,231         | 170,775       |
| Raw materials                      | 129,981         | 142,717       |
| Supplies                           | 101,581         | 66,142        |
|                                    | 1,185,706       | 735,166       |
| Less : Valuation loss              | (133,001)       | (44,381)      |
|                                    | (Won) 1,052,705 | (Won) 690,785 |

For the year ended December 31, 2006, the Company recorded ramp-up cost of (Won) 18,043 million (2005: (Won) 18,928 million) to counter the unusual low volume of production.

As of December 31, 2006, inventories and property, plant and equipment are insured against fire and other casualty losses for up to (Won)24,679,994 million, CNY 6,220 million, US\$ 40 million, NTD 7 million (2005: (Won)30,088,637 million, CNY 5,451 million, US\$ 19 million, NTD 5 million and EUR 11 million). Also, as of December 31, 2006, the Company insured directors and officers liabilities for up to US\$ 100 million (2005: (Won)100 million).

**7. Equity-method Investment**

Equity-method investment as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> | <b>No. of shares<br/>owned by the<br/>Company</b> | <b>Percentage of<br/>Ownership<br/>(%)</b> | <b>2006</b>                 |                                      | <b>Carrying</b> |
|------------------------------------|---|--|-----------------------------|--------------------------------------|-----------------|
|                                    |   |  | <b>Acquisition<br/>cost</b> | <b>Market or<br/>net asset value</b> | <b>value</b>    |
| Paju Electric Glass                | 1,440,000   | 40   | (Won) 14,400                | (Won) 20,631                         | (Won) 19,284    |

  

| <i>(in millions of Korean won)</i> | <b>No. of shares<br/>owned by the<br/>Company</b> | <b>Percentage of<br/>Ownership<br/>(%)</b> | <b>2005</b>                 |                                      | <b>Carrying</b> |
|------------------------------------|---|--|-----------------------------|--------------------------------------|-----------------|
|                                    |   |  | <b>Acquisition<br/>cost</b> | <b>Market or net<br/>asset value</b> | <b>value</b>    |
| Paju Electric Glass                | 1,440,000   | 40   | (Won) 14,400                | (Won) 14,083                         | (Won) 14,156    |



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

As of and for the year ended December 31, 2006, condensed financial statements of the investees, prior to the elimination of intercompany transactions, are as follows:

**Condensed Balance Sheets**

| <i>(in millions of Korean won)</i>                | <b>Paju Electric Glass</b> |               |
|---|----------------------------|---------------|
| Current assets                                    | (Won)                      | 65,070        |
| Non-current assets                                |                            | 26,192        |
| <b>Total assets</b>                               | (Won)                      | <b>91,262</b> |
| Current liabilities                               | (Won)                      | 46,713        |
| Non-current liabilities                           |                            | 167           |
| <b>Total liabilities</b>                          |                            | <b>46,880</b> |
| Capital stock                                     |                            | 36,000        |
| Retained earnings                                 |                            | 8,382         |
| Capital adjustments                               |                            |               |
| <b>Total shareholders' equity</b>                 |                            | <b>44,382</b> |
| <b>Total liabilities and shareholders' equity</b> | (Won)                      | <b>91,262</b> |

**Condensed Income Statement**

| <i>(in millions of Korean won)</i>  | <b>Paju Electric Glass</b> |               |
|-------------------------------------|----------------------------|---------------|
| Sales                               | (Won)                      | 164,379       |
| Cost of sales                       |                            | 153,782       |
| <b>Gross profit</b>                 |                            | <b>10,597</b> |
| Selling and administrative expenses |                            | 2,373         |
| <b>Operating income</b>             |                            | <b>8,224</b>  |
| Non-operating expense               |                            | (23)          |
| <b>Ordinary income</b>              |                            | <b>8,201</b>  |
| Income tax benefit                  |                            | (790)         |
| <b>Net income</b>                   | (Won)                      | <b>8,991</b>  |

The financial statements of the investee were adjusted due to a change in an accounting policy. Details of said adjustment are as follows :

| Company name        | Reason for adjustment              | 2006                              |                   | Net asset value after adjustment |
|---------------------|------------------------------------|-----------------------------------|-------------------|----------------------------------|
|                     |                                    | Net asset value before adjustment | Adjustment amount |                                  |
| Paju Electric Glass | Unification of depreciation method | (Won) 44,382                      | (Won) 7,195       | (Won) 51,577                     |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

The details of the equity method valuation for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | 2006                                |                                    |   |                                    |                       | Balance as of<br>December 31,<br>2006 |
|------------------------------------|-------------------------------------|------------------------------------|---|------------------------------------|-----------------------|---------------------------------------|
|                                    | Balance as of<br>January 1,<br>2006 | Acquisitions<br>during the<br>year | Gain on valuation<br>of equity<br>method<br>investments | Retained<br>earnings<br>adjustment | Capital<br>adjustment |                                       |
| Paju Electric Glass                | (Won) 14,156                        | (Won) -                            | (Won) 5,128   | (Won) -                            | (Won) -               | (Won) 19,284                          |

| <i>(in millions of Korean won)</i> | 2005                                   |                                    |   |                                    |                       | Balance as of<br>December 31,<br>2005 |
|------------------------------------|--|------------------------------------|---|------------------------------------|-----------------------|---------------------------------------|
|                                    | Balance as of<br>January<br>1,<br>2005 | Acquisitions<br>during the<br>year | Loss on valuation<br>of equity<br>method<br>investments | Retained<br>earnings<br>adjustment | Capital<br>adjustment |                                       |
| Paju Electric Glass                | (Won) -                                | (Won) 14,400                       | (Won) (244)   | (Won) -                            | (Won) -               | (Won) 14,156                          |

As of December 31, 2006 and 2005, the eliminated unrealized losses in the valuation of equity method investments are as follows:

|                     | 2006          |                                     |               | 2005        |                                     |       |
|---------------------|---------------|-------------------------------------|---------------|-------------|-------------------------------------|-------|
|                     | Inventories   | Property, plant<br>and<br>equipment | Total         | Inventories | Property, plant<br>and<br>equipment | Total |
| Paju Electric Glass | (Won) (1,347) | (Won)                               | (Won) (1,347) | (Won)       | (Won)                               | (Won) |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****8. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | 2006          |                 |               |                            |              |               | Furniture and<br>fixtures |
|------------------------------------|---------------|-----------------|---------------|----------------------------|--------------|---------------|---------------------------|
|                                    | Land          | Buildings       | Structures    | Machinery and<br>equipment | Tools        |               |                           |
| Balance as of January 1,<br>2006   | (Won) 316,236 | (Won) 1,711,762 | (Won) 122,827 | (Won) 5,178,056            | (Won) 66,107 | (Won) 155,393 |                           |
| Acquisition                        | 18,402        | 94,215          | 1,952         | 174,801                    | 4,088        | 40,350        |                           |
| Capitalized interest               |               | 1               | 2             | 19,723                     |              |               |                           |
| Depreciation                       |               | (86,247)        | (7,666)       | (2,399,770)                | (22,496)     | (75,536)      |                           |
| Disposal                           |               | (1,168)         |               | (1,213)                    | (1)          | 314           |                           |
| Transfer                           | 925           | 40,442          | 20,499        | 2,880,013                  | 33,317       | 45,079        |                           |
| Subsidy<br>(increase)decrease      | (18,402)      | (1,161)         | (1,970)       | (76)                       |              |               |                           |
| Balance as of<br>December 31, 2006 | (Won) 317,161 | (Won) 1,757,844 | (Won) 135,644 | (Won) 5,851,534            | (Won) 81,015 | (Won) 165,600 |                           |
| Accumulated depreciation           | (Won)         | (Won) 267,524   | (Won) 34,240  | (Won) 8,183,774            | (Won) 86,275 | (Won) 269,866 |                           |

|                                    | Machinery-  |             |               |                              |                 | Total |
|------------------------------------|-------------|-------------|---------------|------------------------------|-----------------|-------|
|                                    | Vehicles    | Other       | in-transit    | Construction-<br>in-progress |                 |       |
| Balance as of January 1,<br>2006   | (Won) 6,465 | (Won) 6,052 | (Won) 505,787 | (Won) 1,130,914              | (Won) 9,199,599 |       |
| Acquisition                        | 957         |             | 672,451       | 1,821,866                    | 2,829,082       |       |
| Capitalized interest               |             |             |               | 6,401                        | 26,127          |       |
| Depreciation                       | (2,526)     |             |               |                              | (2,594,241)     |       |
| Disposal                           |             |             | (9,759)       |                              | (11,827)        |       |
| Transfer                           | 2,164       | 2,408       | (1,050,106)   | (1,975,009)                  | (268)           |       |
| Subsidy<br>(increase)decrease      |             |             |               | 1,183                        | (20,426)        |       |
| Balance as of<br>December 31, 2006 | (Won) 7,060 | (Won) 8,460 | (Won) 118,373 | (Won) 985,355                | (Won) 9,428,046 |       |
| Accumulated depreciation           | (Won) 7,815 | (Won)       | (Won)         | (Won)                        | (Won) 8,849,494 |       |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i> | <b>2005</b>   |                  |                   |                                |              |               | <b>Furniture and fixtures</b> |
|------------------------------------|---------------|------------------|-------------------|--------------------------------|--------------|---------------|-------------------------------|
|                                    | <b>Land</b>   | <b>Buildings</b> | <b>Structures</b> | <b>Machinery and equipment</b> | <b>Tools</b> |               |                               |
| Balance as of January 1, 2005      | (Won) 313,620 | (Won) 884,154    | (Won) 114,875     | (Won) 3,433,928                | (Won) 25,932 | (Won) 90,478  |                               |
| Acquisition                        |               | 33,270           | 616               | 106,669                        | 11,828       | 58,429        |                               |
| Capitalized interest               |               | 7,300            |                   | 33,009                         |              |               |                               |
| Depreciation                       |               | (49,491)         | (6,617)           | (1,622,375)                    | (12,036)     | (58,199)      |                               |
| Disposal                           |               |                  |                   | (581)                          | (12)         | (83)          |                               |
| Transfer                           | 2,616         | 836,529          | 13,953            | 3,227,406                      | 40,395       | 64,768        |                               |
| Balance as of December 31, 2005    | (Won) 316,236 | (Won) 1,711,762  | (Won) 122,827     | (Won) 5,178,056                | (Won) 66,107 | (Won) 155,393 |                               |
| Accumulated depreciation           | (Won)         | (Won) 178,817    | (Won) 26,448      | (Won) 5,838,978                | (Won) 59,440 | (Won) 194,476 |                               |

  

|                                 | <b>Vehicles</b> |         | <b>Other</b> |       | <b>Machinery-in-transit</b> | <b>Construction-in-progress</b> | <b>Total</b>    |
|---------------------------------|-----------------|---------|--------------|-------|-----------------------------|---------------------------------|-----------------|
|                                 |                 |         |              |       |                             |                                 |                 |
| Balance as of January 1, 2005   | (Won)           | 4,961   | (Won)        | 2,501 | (Won) 704,588               | (Won) 953,145                   | (Won) 6,528,182 |
| Acquisition                     |                 | 1,175   |              | 604   | 945,207                     | 3,218,320                       | 4,376,118       |
| Capitalized interest            |                 |         |              |       | 1,663                       | 4,747                           | 46,719          |
| Depreciation                    |                 | (1,784) |              |       |                             |                                 | (1,750,502)     |
| Disposal                        |                 | (229)   |              |       |                             |                                 | (905)           |
| Transfer                        |                 | 2,342   |              | 2,947 | (1,145,671)                 | (3,045,298)                     | (13)            |
| Balance as of December 31, 2005 | (Won)           | 6,465   | (Won)        | 6,052 | (Won) 505,787               | (Won) 1,130,914                 | (Won) 9,199,599 |
| Accumulated depreciation        | (Won)           | 5,352   | (Won)        |       | (Won)                       | (Won)                           | (Won) 6,303,511 |

As of December 31, 2006, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately (Won)403,198 million (2005 : (Won)366,820 million).

The Company capitalizes the loss 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 expense for the year ended December 31, 2006, amount (Won)26,127 million (2005: (Won)46,719 million).

For the year ended December 31, 2006, net loss on foreign currency translation, arising from foreign currency borrowings, which was deducted from capitalized interest expenses, is (Won)9,628 million (2005: (Won) 4,133 million).



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

For the year ended December 31, 2006, the effects of capitalized expenses on significant accounts in the balance sheet and statement of operations 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 cost                     | Accumulated depreciation | Acquisition cost                              | Accumulated depreciation | Acquisition cost | Accumulated depreciation |
| Property, plant and equipment      | (Won) 18,277,542                     | (Won) 8,849,494          | (Won) 18,162,681                              | (Won) 8,820,557          | (Won) 114,861    | (Won) 28,937             |

**Statement of operations**

| <i>(in millions of Korean won)</i> | If interest expenses are capitalized |         | If interest expenses are expensed as incurred |         | Difference   |
|------------------------------------|--------------------------------------|---------|---|---------|--------------|
| Depreciation                       | (Won) 2,594,241                      |         | (Won) 2,579,074                               |         | (Won) 15,167 |
| Interest expense                   |                                      | 179,199 |   | 214,954 | (35,755)     |
| Foreign currency translation gain  |                                      | 62,576  |   | 72,204  | 9,628        |
| Net income                         |                                      | 769,313 |   | 780,273 | (10,960)     |





**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

For the years ended December 31, 2006 and 2005, the significant expenses, which are expected to have probable future economic benefits but expensed in the period incurred, consist of the following:

| <i>(in millions of Korean won)</i>    | 2006         | 2005         |
|---------------------------------------|--------------|--------------|
| Training expenses                     | (Won) 16,533 | (Won) 15,042 |
| Advertising expenses                  | 24,143       | 21,907       |
| Expenses for foreign market expansion | 5,255        | 8,835        |
|                                       | (Won) 45,931 | (Won) 45,784 |

**10. Short-Term Borrowings**

Short-term borrowings as of December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>   | Creditor               | Annual interest    |               |               |
|--|------------------------|--------------------|---------------|---------------|
|  |                        | rates (%) as of    |               |               |
|  |                        | December 31, 2006  | 2006          | 2005          |
| Documents against acceptance of US\$ 220 million (2005 : US\$ 300 million)                                     | Woori Bank and others  | 3M Libor + 0.7 0.9 | (Won) 204,528 | (Won) 303,904 |
| General loans of US\$ 13 million, JPY 1,520 million, EUR 8 million, and PLN 39 million (2005 : US\$ 5 million) | Mizuho Bank and others | 3M Libor + 0.5 0.8 | 45,577        | 5,065         |
|  |                        |                    | (Won) 250,105 | (Won) 308,969 |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****11. Long-Term Debts and Debentures**

Long-term debts and debentures as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>               | Annual interest rates (%) as of |      | 2006            | 2005            |
|--|---------------------------------|------|-----------------|-----------------|
|  | December 31, 2006               |      |                 |                 |
| <b>Won currency debentures</b>                   |                                 |      |                 |                 |
| Non-guaranteed, payable through 2010             | 3.5                             | 5.0  | (Won) 1,550,000 | (Won) 1,750,000 |
| Private debentures, payable in 2011              | 5.3                             | 5.89 | 600,000         | 200,000         |
| Less: Current maturities                         |                                 |      | (300,000)       | (200,000)       |
| Discounts on debentures                          |                                 |      | (16,036)        | (28,120)        |
|  |                                 |      | 1,833,964       | 1,721,880       |
| <b>Foreign currency debentures</b>               |                                 |      |                 |                 |
| Floating rate notes, payable through 2007        | 3ML+0.6                         |      | 185,920         | 304,913         |
| Term notes, payable through 2006                 |                                 |      |                 | 82,559          |
|  |                                 |      |                 | 387,472         |
| Less: Current maturities                         |                                 |      | (185,920)       | (184,872)       |
| Discount on debentures                           |                                 |      |                 | (1,960)         |
|  |                                 |      |                 | 200,640         |
| <b>Convertible bonds<sup>1</sup></b>             |                                 |      |                 |                 |
| US dollar-denominated bond, payable through 2010 |                                 |      | 483,780         | 483,780         |
| Add : Call premium                               |                                 |      | 84,613          | 84,613          |
| Less : Discount on debentures                    |                                 |      | (2,139)         | (2,724)         |
| Conversion adjustment                            |                                 |      | (80,827)        | (102,917)       |
|  |                                 |      | 485,427         | 462,752         |
|  |                                 |      | (Won) 2,319,391 | (Won) 2,385,272 |
| <b>Won currency loans</b>                        |                                 |      |                 |                 |
| General loans                                    | 5.53                            | 6.1  | (Won) 238,383   | (Won) 117,800   |
|  | 3.25                            |      | 14,634          | 8,620           |
| Less : Current maturities                        |                                 |      | (39,267)        | (29,417)        |
|  |                                 |      | 213,750         | 97,003          |

**Foreign currency loans**

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|                           |          |         |               |               |
|---------------------------|----------|---------|---------------|---------------|
| General loans             | 5.26     | 6.15    | 167,599       | 144,607       |
|                           |          | 3ML+1.0 |               | 17,727        |
|                           |          | 6ML+1.2 | 44,621        | 48,624        |
|                           | 3ML+0.99 | 1.35    | 139,440       | 151,950       |
|                           | 3ML+0.35 | 0.47    | 464,800       |               |
| Less : Current maturities |          |         | (42,613)      | (29,214)      |
|                           |          |         | 773,847       | 333,694       |
|                           |          |         | (Won) 987,597 | (Won) 430,697 |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

<sup>1</sup>On April 19, 2005, the Company issued US dollar-denominated convertible bonds totalling 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, 2006, the number of non-converted common shares is 8,276,681.

As of December 31, 2006, the foreign currency debentures denominated in U.S. dollars amount to US\$ 200 million (2005 : US\$ 383 million), while the foreign currency loans denominated in U.S. dollars and Chinese yuan renminbi amounted to US\$ 845 million and CNY 260 million (2005 : US\$ 326 million and CNY 263 million), respectively.

Current maturities of long-term debts and debentures as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>   | Type of borrowing | Annual interest rate (%) as of December 31, |      |               |               |
|--|-------------------|---|------|---------------|---------------|
|  |                   | 2006  | 2006 | 2005          |               |
| Long -tem debt in won currency loans   |                   | 5.9   | 6.1  | (Won) 39,266  | (Won) 29,417  |
| Long-term debt in won currency debt  |                   |   | 6.0  | 300,000       | 200,000       |
| Long-term debt in foreign currency debentures of US\$ 200 million (2005: US\$ 183 million) |                   | 3ML+0.6                                     |      | 185,920       | 184,872       |
| Long-term debt in foreign currency loans of US\$ 45 million (2005: US\$ 28 million)        |                   | 6ML+1.2                                     |      | 42,613        | 29,215        |
|  |                   | 5.97  |      |               |               |
|  |                   |   |      | 567,799       | 443,504       |
| Less: Discount on debentures   |                   |   |      | (4,169)       | (2,664)       |
|  |                   |   |      | (Won) 563,630 | (Won) 440,840 |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

The aggregate annual maturities of long-term debts outstanding as of December 31, 2006, exclusive of adjustments relating to discounts, are as follows:

*(in millions of Korean won)*

| <b>For the year ending December 31,</b> | <b>Won currency debentures</b> | <b>Won currency loans</b> | <b>Convertible bonds</b> | <b>Foreign currency loans</b> | <b>Total</b>    |
|---|--------------------------------|---------------------------|--------------------------|-------------------------------|-----------------|
| 2008                                    | (Won) 250,000                  | (Won) 61,766              | (Won)                    | (Won) 102,830                 | (Won) 414,596   |
| 2009                                    | 600,000                        | 40,451                    |                          | 85,673                        | 726,124         |
| 2010                                    | 600,000                        | 32,065                    | 483,780                  | 85,683                        | 1,201,528       |
| 2011                                    | 400,000                        | 32,927                    |                          | 492,688                       | 925,615         |
| 2012                                    |                                | 32,927                    |                          | 6,973                         | 39,900          |
| Thereafter                              |                                | 13,614                    |                          |                               | 13,614          |
|   | (Won) 1,850,000                | (Won) 213,750             | (Won) 483,780            | (Won) 773,847                 | (Won) 3,321,377 |

**12. Leases**

The Company entered into various lease agreements for the rental of certain machinery and equipment. The Company accounts for these leases as operating leases, under which lease payments are charged to expense as incurred.

As of December 31, 2006, future lease payments under these operating lease agreements are as follows:

*(in millions of Korean won)*

| <b>For the period ending December 31,</b> | <b>Annual payment</b> |
|---|-----------------------|
| 2007                                      | (Won) 1,549           |
| 2008                                      | 1,085                 |
| 2009                                      | 605                   |
| 2010                                      | 345                   |
| 2011                                      | 86                    |
| Total                                     | (Won) 3,670           |



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****13. Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>              | <b>2006</b>   | <b>2005</b>  |
|---|---------------|--------------|
| Balance at the beginning of the year            | (Won) 112,010 | (Won) 81,981 |
| Actual severance payments                       | (33,932)      | (16,306)     |
| Transferred from / to affiliated companies, net | 3,531         | 2,484        |
| Provision for severance benefits                | 55,183        | 43,851       |
|   | 136,792       | 112,010      |
| Cumulative deposits to National Pension Fund    | (640)         | (708)        |
| Severance insurance deposit                     | (54,267)      | (68,096)     |
| Balance at the end of the year                  | (Won) 81,885  | (Won) 43,206 |

The severance benefits are funded approximately 39.7% (2005 : 60.8%) as of December 31, 2006, 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.

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

**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

**14. Stock Appreciation Plan**

On April 7, 2005, the Company granted 450,000 shares of stock appreciations rights ( SARs ) to 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 starting 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, 2006 and 2005, is as follows:

|  | 2006    | 2005    |
|--|---------|---------|
| Beginning, number of shares under SARs | 410,000 |         |
| Options granted                        |         | 450,000 |
| Options canceled/expired <sup>1</sup>  | 150,000 | 40,000  |
| Ending, number of shares under SARs    | 260,000 | 410,000 |

<sup>1</sup> Options canceled due to the retirement of several executive officers.

The Company did not recognize any compensation costs in 2006 as market price is below than exercise price as of December 31, 2006.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****15. Commitments and Contingencies**

As of December 31, 2006, the Controlling Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of December 31, 2006, the Controlling Company has a revolving credit facility agreement with several banks totaling (Won)200,000 million and US\$ 100 million.

As of December 31, 2006, the Controlling Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities for up to US\$ 1,186.5 million. The Controlling Company has made agreements with several banks in relation to the opening of letters of credit amounting to (Won)90,000 million and US\$ 123.5 million.

The Controlling Company receives repayment guarantees from ABN AMRO Bank amounting to US\$ 8.5 million relating to tax payments in Poland.

LPLA has entered into a line of credit agreement for up to US\$10 million with Comerica Bank. LPLJ and LPLT are provided with repayment guarantees from UFJ Bank and ABN AMRO Bank amounting to JP¥1,300 million and NTD68 million, respectively, relating to their local tax payments.

As of December 31, 2006, in relation to its TFT-LCD business, the Controlling Company has patent license agreements with Hitachi and others. As of December 31, 2006, the Controlling Company has trademark license agreements with LG Corporation and Philips Electronics.

The Controlling 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)

| Contracting party       | Selling position | Buying position | Contract foreign exchange rate             | Maturity date                         |
|-------------------------|------------------|-----------------|--|---------------------------------------|
| BNP and others          | US\$ 2,064       | (Won)1,951,067  | (Won)916.40:US\$1 - (Won)974.30:US\$1      | January 3, 2007<br>December 11, 2007  |
| Kookmin Bank and others | EUR 180          | (Won)217,757    | (Won)1,164.28:EUR 1 - (Won)1,229.17:EUR1   | January 9, 2007<br>November 19, 2007  |
| HSBC and others         | (Won) 334,571    | JP¥ 40,500      | (Won) 7.9790: JP(Won)1 - (Won)8.7140: JP¥1 | January 12, 2007<br>December 14, 2007 |
| Kookmin Bank and others | US\$ 78          | JP¥ 9,000       | JP¥114.42: US\$1 - JP¥116.10:US\$1         | January 12, 2007<br>April 16, 2007    |



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

As of December 31, 2006, the Controlling Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of (Won)35,560 million and (Won)19,996 million, respectively. Total unrealized gains and losses of (Won)2,496 million and (Won)5,843 million, respectively, were charged to operations for the year ended December 31, 2006, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, 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 14, 2007. The aggregate amount of all deferred gains and losses of (Won)33,064 million and (Won)14,153 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, 2006.

For the year ended December 31, 2006, the Company recorded realized exchange gains of (Won)246,904 million (2005: (Won)107,825 million) on foreign currency forward contracts upon settlement, and realized exchange losses of (Won)78,768 million (2005: (Won)112,618 million).

The Controlling 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.

A summary of these contracts is as follows:

*(in millions)*

| Contracting party | Buying position | Selling position | Contract foreign exchange rate | Maturity date   |
|-------------------|-----------------|------------------|--------------------------------|-----------------|
| Kookmin Bank      | US\$ 100        |                  | 3M Libor                       | August 29, 2011 |
| and others        |                 | (Won) 96,170     | 4.54%                          |                 |

As of December 31, 2006, unrealized gains and losses of (Won)623 million and (Won)3,210 million, respectively, were charged to loss on valuation.

For the year ended December 31, 2006, the Controlling Company recorded realized gains of (Won)361 million (2005: (Won)903 million) and realized losses of (Won)26,174 million (2005: (Won)7,734 million) on cross-currency swap contracts upon settlement.

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

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A summary of these contracts is as follows:

| (in millions) Contracting party | USD           |                 | Strike Price                               | Maturity date                 |
|---------------------------------|---------------|-----------------|--|-------------------------------|
|                                 | Put<br>Buying | Call<br>Selling |  |                               |
| KDB and others                  | US\$50        | US\$ 100        | (Won) 957.30:US\$1 -<br>(Won) 966.50:US\$1 | May 21, 2007<br>June 21, 2007 |

As of December 31, 2006, unrealized gains of (Won)1,557 million were charged to current operations, as these contracts do not fulfill the requirement for hedge accounting for financial statement purposes.

The Controlling Company entered into interest rate swap contracts to manage the exposure to changes in interest rates related to floating rate notes.

A summary of these contracts follows:

(in millions)

| Contracting party | Contract Amount | Contract Foreign Exchange Rate |  | Maturity date               |
|-------------------|-----------------|--------------------------------|--|-----------------------------|
| SC First Bank     | US\$ 150        | Accept floating rate           | Pay fixed rate 6 M Libor 5.375% - 5.644% | May 21, 2009 - May 24, 2010 |

As of December 31, 2006, unrealized losses of (Won)2,152 million was charged to capital adjustments, as these contracts fulfill the requirements for hedge accounting for financial statement purposes.

For the year ended December 31, 2006, the Controlling Company recorded realized gains of (Won) 6 million and realized losses of (Won) 27 million on interest rate swap contracts upon settlement.

The Controlling Company is involved in several legal proceedings and claims arising in the ordinary course of business. In August 29, 2002, the Controlling 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 of TFT-LCDs. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Controlling Company in the United States District Court under the Central District of California for alleged ownership for certain patents and violation of U.S. antitrust laws. In October 2006, the court of the Central District of California dismissed the counter-claim for alleged ownership for certain patents. In November 2006, the Jury in California issued a verdict that Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America had willfully infringed a patent owned by the Company, and awarded the Company US\$53.5 million in damages. The Controlling Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In June 20, 2006, the American Arbitration Association decided in favor of the Controlling Company.

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

**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

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In May 27, 2004, the Controlling Company filed a complaint in the United States District of Delaware and the Patent County Court in the United Kingdom 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. On November 28, 2005, the Controlling Company lost its patent infringement case against Tatung Company and ViewSonic Corp. in the Patent County Court in United Kingdom. The Controlling Company appealed this judgment. On December 20, 2006, the Court of Appeals dismissed the appeal.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against LG Electronics Inc.( LGE ) and the Controlling Company in the United States District Court for the Central District of California. However, Chungwha Picture Tubes and the Controlling Company have proposed to stay the case until June 2007. Chungwha Picture Tubes later withdrew the case against LGE.

On May 13, 2005, the Controlling 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 of TFT-LCDs in the United States District of Delaware. On July 27, 2006, the Jury in Delaware issued a verdict that Chunghwa Picture Tubes had willfully infringed a patent owned by the Company, and awarded the Company \$52.4 million in damages.

On January 9, 2006, New Medium Technology LLC, AV Technologies LLC, IP Innovation LLC, and Technology Licensing Corporation filed a complaint for patent infringement against the Controlling Company in the United States District Court for the Northern District of Illinois.

On December 1, 2006, the Controlling Company filed a complaint against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others alleging patent infringement related to liquid crystal display and manufacturing process for TFT-LCDs in the United States District Court for the District of Delaware.

The Controlling Company's management does not expect that the outcome in any of these legal proceedings and claims, individually or collectively, will have any material adverse effect on the Controlling Company's financial condition, results of operations or cash flows.

The Controlling Company is currently under investigation by the fair trade or antitrust authorities in Korea, Japan, US and other markets with respect to possible anti-competitive activities in the LCD industry. As of December 31, 2006, the Controlling Company, along with a number of other companies in the LCD industry, have been named as defendants in a number of purported federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the sale of LCD panels. Each of these matters remains in the very early stages and the Controlling Company is not in a position to predict their outcome. However, the Controlling Company intends to defend itself vigorously in these matters.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****16. Capital Stock**

On March 19, 2005, at their Annual General Meeting, the stockholders approved the increase in the authorized shares from 200 million to 400 million, and a stock split on a 2:1 basis effective May 25, 2005. The number of issued common shares as of December 31, 2006 and 2005, is 357,815,700.

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 issued 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.

Issuances and other movements in common stock from January 1, 2005 to December 31, 2006, 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, 2005, balance   |                          | (Won) 1,626,579  | (Won) 1,012,271                   |
| 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                   |
| December 31, 2006, balance |                          | (Won) 1,789,079  | (Won) 2,251,113                   |



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****17. Capital Surplus and Retained Earnings**

Capital surplus as of December 31, 2006 and 2005, consists of:

| <i>(in millions of Korean won)</i> | <b>2006</b>     | <b>2005</b>     |
|------------------------------------|-----------------|-----------------|
| Additional paid in capital         | (Won) 2,251,113 | (Won) 2,251,113 |
| Conversion right <sup>1</sup>      | 24,059          | 28,137          |
|                                    | (Won) 2,275,172 | (Won) 2,279,250 |

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

Retained earnings as of December 31, 2006 and 2005, consists of:

| <i>(in millions of Korean won)</i>   | <b>2006</b>     | <b>2005</b>     |
|--------------------------------------|-----------------|-----------------|
| Legal reserve                        | (Won) 60,086    | (Won) 60,086    |
| Reserve for business rationalization | 68,251          | 68,251          |
| Unappropriated retained earnings     | 2,711,036       | 3,480,349       |
|                                      | (Won) 2,839,373 | (Won) 3,608,686 |

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 or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

**18. Capital Adjustments**

Capital adjustments as of December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                       | <b>2006</b>    | <b>2005</b>    |
|--|----------------|----------------|
| Overseas subsidiary translation adjustment <sup>1</sup>  | (Won) (26,550) | (Won) (11,729) |
| Gain on valuation of derivative instruments <sup>1</sup> | 24,423         | 29,293         |
| Loss on valuation of derivative instruments <sup>1</sup> | (11,821)       | (18,982)       |
|  | (Won) (13,948) | (Won) (1,418)  |

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



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****19. Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                          | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
| Current income taxes  | (Won) 7,589     | (Won) 31,981    |
| Deferred income taxes from temporary differences            | (21,015)        | (20,519)        |
| Deferred income taxes from accumulated deficit carryforward | (248,493)       |                 |
| Deferred income taxes from tax credit                       | 16,017          | (155,148)       |
| Deferred income taxes added to shareholders' equity         | (6,261)         | (4,631)         |
| Income tax benefit  | (Won) (252,163) | (Won) (148,317) |

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, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                   | <b>2006</b>   | <b>2005</b>   |
|--|---------------|---------------|
| Inventories  | (Won) 21,267  | (Won) 8,570   |
| Other current assets                                 | 492           | (4,133)       |
| Property, plant and equipment                        | 59,974        | 34,762        |
| Warranty liabilities                                 | 8,840         | 4,320         |
| Tax credit carryforward                              | 436,486       | 292,976       |
| Deferred income taxes from net losses carryforward   | 248,493       |               |
| Deferred income taxes added to shareholders' equity  | (10,892)      | (4,631)       |
| Others   | (2,990)       | 16,788        |
| Deduction of unrealizable deferred income tax assets | (159,527)     |               |
|  | (Won) 602,143 | (Won) 348,652 |

Available tax credits as of December 31, 2006, amounted to (Won)481,414 million. Tax credits can be carried forward up to four or five years under the Corporate Income Tax Law in Korea.

The Company estimates the realizability of deferred tax assets based on the estimated taxable income. The Company did not recognize (Won)159,527 million of deferred tax assets as they were determined to be unrealizable.

As of December 31, 2006, as the possibility of sale of investments or payment of dividends from subsidiaries in the near future is minimal, the Company did not recognize (Won)25,102 million of temporary differences related to the valuation of equity method investments.

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

The reconciliation between income before income taxes and taxable income for the years ended December 31, 2006 and 2005, follows:

| <i>(in millions of Korean won)</i> | <b>2006</b>            | <b>2005</b>          |
|------------------------------------|------------------------|----------------------|
| Income (Loss) before income taxes  | (Won) (1,021,476)      | (Won) 368,695        |
| Add (deduct) :                     |                        |                      |
| Temporary differences              | 127,585                | 61,467               |
| Permanent differences              | 12,419                 | 1,578                |
| <b>Taxable income</b>              | <b>(Won) (881,472)</b> | <b>(Won) 431,740</b> |

The statutory income tax rate, including resident tax surcharges, applicable to the Company is 27.5% for the year end December 31, 2006 and 2005. The statutory income tax rates applicable to overseas subsidiaries are approximately 7.5%~40.0%.

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, 2006, is 24.69% (2005: negative 40.23%).

Changes in accumulated temporary differences for the year ended December 31, 2006, are as follows:

| <i>(in millions of Korean won)</i> | <b>January 1,<br/>2006</b> | <b>Increase<br/>(decrease)</b> | <b>December 31,<br/>2006</b> |
|------------------------------------|----------------------------|--------------------------------|------------------------------|
| Inventories                        | (Won) 40,943               | (Won) 36,019                   | (Won) 76,962                 |
| Derivatives                        | (18,229)                   | 20,019                         | 1,790                        |
| Property, plant and equipment      | 140,485                    | 56,246                         | 196,731                      |
| Warranty reserve                   | 20,601                     | 10,660                         | 31,261                       |
| Others                             | 48,734                     | (3,689)                        | 45,045                       |
| <b>Total</b>                       | <b>(Won) 232,534</b>       | <b>(Won) 119,255</b>           | <b>(Won) 351,789</b>         |
| Deduction from capital             | (Won) (31,250)             | (Won) (8,357)                  | (Won) (39,607)               |
| Net loss carryforward              | (Won)                      | (Won) 903,610                  | (Won) 903,610                |
| Tax credit carryforward            | (Won) 292,976              | (Won) 143,510                  | (Won) 436,486                |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****20. Earnings Per Share**

Earnings(Loss) per share is computed by dividing net income(loss) by the weighted-average number of common shares outstanding during the year. Ordinary income(loss) per share is computed by dividing ordinary income(loss) 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 year.

Earnings(Loss) per share for the three-month periods and years ended December 31, 2006 and 2005, is calculated as follows:

| <i>(in millions, except for per share amount)</i>            | For the three-month        |               | For the years      |               |
|--|----------------------------|---------------|--------------------|---------------|
|  | periods ended December 31, |               | ended December 31, |               |
|  | 2006                       | 2005          | 2006               | 2005          |
| Net income(loss) as reported on the statements of operations | (Won) (174,345)            | (Won) 327,848 | (Won) (769,313)    | (Won) 517,012 |
| Weighted-average number of common shares outstanding         | 358                        | 358           | 358                | 339           |
| Earnings(Loss) per share                                     | (Won) (487)                | (Won) 916     | (Won) (2,150)      | (Won) 1,523   |
| Diluted earnings(loss) per share                             | (Won) (487)                | (Won) 908     | (Won) (2,150)      | (Won) 1,523   |

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, 2006.

The diluted ordinary earnings per share and the diluted net earnings per share were (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, was calculated as follows:

| <i>(in millions, except for per share amount)</i>   |               |
|---|---------------|
| 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 year | 366           |
| Diluted earnings per share  | (Won) 908     |

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

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

Earnings(Loss) per share for the three-month period ended September 30, 2006, follows:

|                        | <b>September 30, 2006</b> |       |
|------------------------|---------------------------|-------|
| Basic loss per share   | (Won)                     | (897) |
| Diluted loss per share | (Won)                     | (897) |

**21. Related Party Transactions**

The ultimate parent company is LG Corporation and the parent company of the Company is LG Electronics Inc., which is responsible for the consolidated financial statements.

Significant transactions which occurred in the normal course of business with related companies during the years ended December 31, 2006 and 2005, and the related account balances outstanding as of December 31, 2006 and 2005, are summarized as follows:

**Between LG.Philips LCD and consolidated subsidiaries**

| <i>(in millions of Korean won)</i> | <b>2006</b>     | <b>2005</b>     |
|------------------------------------|-----------------|-----------------|
| Sales <sup>1</sup>                 | (Won) 8,632,419 | (Won) 7,870,776 |
| Purchases                          | 149,502         | 10,701          |
| Accounts receivable                | 1,167,626       | 1,237,187       |
| Accounts payable                   | 27,449          | 12,004          |

<sup>1</sup> Includes sale of property, plant and equipment amounting to (Won)33 million.

**Between consolidated subsidiaries**

| <i>(in millions of Korean won)</i> | <b>2006</b> | <b>2005</b>   |
|------------------------------------|-------------|---------------|
| Accounts receivable and payable    | (Won) 3,867 | (Won) 571,563 |
| Sales and purchases                | 1,393,359   | 3,411,230     |

**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

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. Such transactions and the related accounts receivable and payable, excluding consolidated subsidiaries, during the year ended December 31, 2006 and 2005, and as of December 31, 2006 and 2005, are summarized as follows:

| <i>(in millions of Korean won)</i>                             | Sales <sup>1</sup>     |                        | Purchases <sup>2</sup> |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | 2006                   | 2005                   | 2006                   | 2005                   |
| <b>Parents companies</b>                                       |                        |                        |                        |                        |
| LG Electronics Inc   | (Won) 1,729,344        | (Won) 1,821,507        | (Won) 134,236          | (Won) 179,577          |
| Philips  | 1,331,407              | 1,323,637              | 74,550                 | 52,229                 |
| <b>Company that has significant influence over the Company</b> |                        |                        |                        |                        |
| LG Corporation   |                        |                        | 13,151                 | 11,218                 |
| <b>Equity-method investee</b>                                  |                        |                        |                        |                        |
| Paju Electric Glass Co., Ltd.                                  | 6                      | 1                      | 162,182                |                        |
| <b>Other related parties</b>                                   |                        |                        |                        |                        |
| LG Chem Ltd.   |                        |                        | 708,770                | 620,930                |
| LG International   | 960,426                | 743,768                | 1,006,078              | 1,338,057              |
| Serveone   | 299                    |                        | 175,665                | 146,109                |
| Micron Ltd.  | 237                    |                        | 113,268                | 125,224                |
| LG CNS   | 5                      |                        | 103,056                | 113,615                |
| Others   | 39,762                 | 75,141                 | 140,730                | 61,959                 |
| <b>Total</b>   | <b>(Won) 4,061,486</b> | <b>(Won) 3,964,054</b> | <b>(Won) 2,631,686</b> | <b>(Won) 2,648,918</b> |

| <i>(in millions of Korean won)</i>                             | Receivables          |                      | Payables             |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | 2006                 | 2005                 | 2006                 | 2005                 |
| <b>Parent companies</b>  |                      |                      |                      |                      |
| LG Electronics Inc.  | (Won) 138,959        | (Won) 219,327        | (Won) 13,574         | (Won) 66,751         |
| Philips  | 112,569              | 176,599              | 5,863                | 4,548                |
| <b>Company that has significant influence over the Company</b> |                      |                      |                      |                      |
| LG Corporation   | 2,340                | 10,970               | 548                  | 1,692                |
| <b>Equity-method investee</b>                                  |                      |                      |                      |                      |
| Paju Electric Glass Co., Ltd.                                  |                      |                      | 22,535               |                      |
| <b>Other related parties</b>                                   |                      |                      |                      |                      |
| LG Chem Ltd.   |                      |                      | 180,425              | 72,319               |
| LG International   | 58,684               | 47,515               | 122,953              | 198,422              |
| Serveone   | 2,373                |                      | 47,169               | 36,792               |
| Micron Ltd.  |                      |                      | 50,568               | 55,234               |
| LG CNS   |                      |                      | 8,528                | 32,370               |
| Others   | 12,428               | 22,320               | 26,971               | 9,790                |
| <b>Total</b>   | <b>(Won) 327,353</b> | <b>(Won) 476,731</b> | <b>(Won) 479,134</b> | <b>(Won) 477,918</b> |

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- <sup>1</sup> Includes sale of property, plant and equipment amounting to (Won)798 million.
- <sup>2</sup> Includes purchases of property, plant and equipment amounting to (Won)797,486 million.



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005**

Significant management<sup>1</sup> compensation costs for the nine-month period ended September 30, 2006, are as follows:

*(in millions for Korean won)*

|                              |             |
|------------------------------|-------------|
| Short-term employee salaries | (Won) 1,506 |
| Post-retirement benefits     | 374         |
|                              | (Won) 1,880 |

<sup>1</sup>Management herein refers to the directors who have significant control and responsibilities on the Controlling Company's operations and business. Total ceiling for compensation for such directors in 2006 is (Won)13.4 billion.

**22. Value Added Information**

Value added information for the years ended December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> | Cost of Sales  | 2006                               |                                   |                          | Total           |
|------------------------------------|----------------|------------------------------------|-----------------------------------|--------------------------|-----------------|
|                                    |                | Selling and administrative expense | Research and development expenses | Construction-in-progress |                 |
| Salaries and wages                 | (Won)549,710   | (Won) 68,393                       | (Won) 26,065                      | (Won) 10,314             | (Won) 654,482   |
| Severance benefits                 | 45,833         | 5,612                              | 2,698                             | 1,040                    | 55,183          |
| Employee fringe benefits           | 92,087         | 9,274                              | 3,655                             | 1,347                    | 106,363         |
| Rent                               | 2,440          | 13,777                             | 509                               |                          | 16,726          |
| Depreciation                       | 2,618,279      | 7,003                              | 13,567                            | 803                      | 2,639,652       |
| Taxes and dues                     | 7,477          | 4,317                              | 216                               | 20                       | 12,030          |
|                                    | (Won)3,315,826 | (Won) 108,376                      | (Won) 46,710                      | (Won) 13,524             | (Won) 3,484,436 |

| <i>(in millions of Korean won)</i> | Cost of Sales  | 2005                               |                                   |                          | Total           |
|------------------------------------|----------------|------------------------------------|-----------------------------------|--------------------------|-----------------|
|                                    |                | Selling and administrative expense | Research and development expenses | Construction-in-progress |                 |
| Salaries and wages                 | (Won)386,021   | (Won) 60,459                       | (Won) 20,231                      | (Won) 41,748             | (Won) 508,459   |
| Severance benefits                 | 31,624         | 4,455                              | 1,740                             | 6,033                    | 43,852          |
| Employee fringe benefits           | 71,886         | 10,647                             | 2,635                             | 4,060                    | 89,228          |
| Rent                               | 2,124          | 6,958                              | 439                               |                          | 9,521           |
| Depreciation                       | 1,775,328      | 10,523                             | 6,472                             | 3,600                    | 1,795,923       |
| Taxes and dues                     | 5,009          | 4,366                              | 169                               | 200                      | 9,744           |
|                                    | (Won)2,271,992 | (Won) 97,408                       | (Won) 31,686                      | (Won) 55,641             | (Won) 2,456,727 |



**Table of Contents****LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2006 and 2005****23. Segment Information**

The Company operates only one segment, the TFT-LCD division. Export sales represent about 92% of total sales for the year ended December 31, 2006.

The following is a summary of operations by country based on the location of the customers for the years ended December 31, 2006 and 2005 :

*(in millions of Korean won)*

| Sales | Domestic      | Asia            | America         | Europe          | Others        | Total            |
|-------|---------------|-----------------|-----------------|-----------------|---------------|------------------|
| 2006  | (Won) 805,164 | (Won) 6,534,476 | (Won) 1,033,726 | (Won) 1,753,717 | (Won) 497,117 | (Won) 10,624,200 |
| 2005  | (Won) 990,900 | (Won) 6,688,993 | (Won) 1,062,374 | (Won) 1,329,989 | (Won) 3,324   | (Won) 10,075,580 |

**24. Supplemental Cash Flow Information**

Significant transaction not affecting cash flow for the years ended December 31, 2006 and 2005, follows:

*(in millions of Korean won)*

|   | 2006          | 2005            |
|---|---------------|-----------------|
| Other accounts payable arising from the purchase of property, plant and equipment | (Won) 854,019 | (Won) 1,077,932 |

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

Significant operating results for the three-month period ended December 31, 2006, are as follows :

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

|                        |                 |
|------------------------|-----------------|
| Sales                  | (Won) 3,065,294 |
| Cost of sales          | 3,090,235       |
| Operating loss         | 176,588         |
| Net loss               | 174,345         |
| Loss per share         | 487             |
| Diluted loss per share | 487             |

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

The December 31, 2006 non-consolidated financial statements of the Company were approved at the Board of Directors meeting on January 16, 2007.

**27. Subsequent Events**

On January 16, 2007, the Board of Directors appointed Mr. Young Su Kwon to replace Mr. Bon Joon Koo as the Joint Representative Director of the Controlling Company. This appointment will be ratified by the shareholders during the 22nd Shareholders Meeting scheduled to be held on February 28, 2007.

In February 2007, the Controlling Company and certain of its officers and directors have been named as defendants in a federal class action in the United States by the shareholders of the Controlling Company alleging violations of the U.S. Securities Exchange Act of 1934, as amended, by the Controlling Company and certain of its officers and directors in connection with possible anti-competitive activities in the LCD industry. The Controlling Company and the officers and directors intend to defend themselves vigorously in this matter.

In February 2007, Anvik Corporation filed a patent infringement case against the Company, along with other LCD manufacturing companies, in connection with the usage of photo-masking equipments manufactured by Nikon Corporation.

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**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, 2006 and 2005, and the related non-consolidated statements of operations, 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, 2006 and 2005, 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.

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

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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

February 13, 2007

This report is effective as of February 13, 2007, 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.



**Table of Contents****LG. Philips LCD Co., Ltd.****Non-Consolidated Balance Sheets****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i>  | <b>2006</b>             | <b>2005</b>             |
|---|-------------------------|-------------------------|
| <b>Assets</b>   |                         |                         |
| Current assets  |                         |                         |
| Cash and cash equivalents (Note 3)  | (Won) 788,066           | (Won) 1,465,025         |
| Available-for-sale securities   | 23                      | 354                     |
| Trade accounts and notes receivable, net (Notes 4, 5 and 20)                | 1,049,408               | 1,034,196               |
| Inventories, net (Note 6)   | 735,376                 | 471,765                 |
| Other accounts receivable, net (Notes 4, 5 and 20)                          | 27,036                  | 15,751                  |
| Accrued income, net (Note 4)  | 820                     | 1,369                   |
| Advance payments, net (Note 4)  | 5,431                   | 5,959                   |
| Prepaid expenses  | 22,051                  | 20,532                  |
| Prepaid value added tax   | 52,837                  | 102,094                 |
| Deferred income tax assets (Note 18)  |                         | 4,647                   |
| Others (Note 14)  | 50,608                  | 75,242                  |
| <b>Total current assets</b>   | <b>2,731,656</b>        | <b>3,196,934</b>        |
| Property, plant and equipment, net (Note 8)                                 | 8,860,076               | 8,988,459               |
| Long-term financial instruments (Note 3)                                    | 13                      | 16                      |
| Equity-method investments (Note 7)  | 361,545                 | 213,968                 |
| Non-current guarantee deposits  | 17,338                  | 24,000                  |
| Long-term prepaid expenses  | 137,974                 | 83,023                  |
| Deferred income tax assets (Note 18)  | 593,063                 | 339,621                 |
| Intangible assets, net (Note 9)   | 114,182                 | 149,894                 |
| <b>Total assets</b>   | <b>(Won) 12,815,847</b> | <b>(Won) 12,995,915</b> |
| <b>Liabilities and Shareholders Equity</b>                                  |                         |                         |
| Current liabilities   |                         |                         |
| Trade accounts and notes payable (Notes 5 and 20)                           | (Won) 943,924           | (Won) 563,874           |
| Other accounts payable (Notes 5 and 20)                                     | 1,066,642               | 1,445,471               |
| Advances received   | 461                     | 609                     |
| Withholdings  | 9,045                   | 12,004                  |
| Accrued expenses (Note 5)   | 67,814                  | 73,772                  |
| Income tax payable (Note 18)  |                         | 19,499                  |
| Warranty reserve  | 28,015                  | 16,023                  |
| Current maturities of debentures and long-term debts (Note 10)              | 553,089                 | 429,352                 |
| Others (Note 14)  | 25,399                  | 33,678                  |
| <b>Total current liabilities</b>  | <b>2,694,389</b>        | <b>2,594,282</b>        |
| Debentures, net of current maturities and discounts on debentures (Note 11) | 2,319,391               | 2,385,272               |
| Long-term debts, net of current maturities (Note 11)                        | 830,540                 | 297,577                 |
| Accrued severance benefits, net (Note 12)                                   | 81,851                  | 43,187                  |
| <b>Total liabilities</b>  | <b>5,926,171</b>        | <b>5,320,318</b>        |
| Commitments and contingencies (Note 14)                                     |                         |                         |
| Shareholders equity   |                         |                         |

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|  |                  |                  |
|--|------------------|------------------|
| Capital stock (Note 15)  |                  |                  |
| Common stock, (Won)5,000 par value per share; 400 million shares authorized; 358 million shares issued and outstanding | 1,789,079        | 1,789,079        |
| Capital surplus (Note 16)  | 2,275,172        | 2,279,250        |
| Retained earnings (Note 16)  | 2,839,373        | 3,608,686        |
| Capital adjustments (Note 17)  | (13,948)         | (1,418)          |
| Total shareholders' equity   | 6,889,676        | 7,675,597        |
| Total liabilities and shareholders' equity   | (Won) 12,815,847 | (Won) 12,995,915 |

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 Operations**

Years ended December 31, 2006 and 2005

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

|   | <b>2006</b>      | <b>2005</b>     |
|---|------------------|-----------------|
| <b>Sales (Notes 20 and 22)</b>                          | (Won) 10,200,660 | (Won) 8,890,155 |
| <b>Cost of sales (Note 21)</b>                          | 10,688,068       | 8,029,141       |
| Gross profit (loss)                                     | (487,408)        | 861,014         |
| <b>Selling and administrative expenses</b>              | 457,800          | 413,377         |
| Operating income(loss)                                  | (945,208)        | 447,637         |
| <b>Non-operating income</b>                             |                  |                 |
| Interest income   | 26,178           | 48,942          |
| Rental income   | 7,811            | 207             |
| Foreign exchange gains (Note 14)                        | 182,386          | 181,522         |
| Gain on foreign currency translation (Note 14)          | 50,945           | 47,714          |
| Gain on valuation of equity method investments (Note 7) | 58,513           | 946             |
| Gain on disposal of property, plant and equipment       | 518              | 2,090           |
| Others  | 44,480           | 24,642          |
|   | 370,831          | 306,063         |
| <b>Non-operating expenses</b>                           |                  |                 |
| Interest expenses                                       | 159,339          | 97,544          |
| Foreign exchange losses (Note 14)                       | 234,859          | 228,158         |
| Loss on foreign currency translation (Note 14)          | 13,423           | 23,914          |
| Loss on disposal of property, plant and equipment       | 1,046            | 115             |
| Loss on disposal of accounts receivable                 | 9,922            | 7,868           |
| Loss on disposal of available-for-sale securities       | 35               |                 |
| Loss on valuation of equity method investments (Note 7) | 11,379           | 7,574           |
| Loss on valuation of investment assets                  | 118              |                 |
| Ramp up cost (Note 6)                                   | 18,043           | 18,928          |
| Donations   | 1,821            | 2,318           |
| Others  | 7                |                 |
|   | 449,992          | 386,419         |
| Income(loss) before income taxes                        | (1,024,369)      | 367,281         |
| Income tax benefit (Note 18)                            | 255,056          | 149,731         |
| Net income(loss)  | (Won) (769,313)  | (Won) 517,012   |
| Ordinary income(loss) per share (Note 19)               | (Won) (2,150)    | (Won) 1,523     |
| Earnings(loss) per share (Note 19)                      | (Won) (2,150)    | (Won) 1,523     |
| Diluted ordinary income(loss) per share (Note 19)       | (Won) (2,150)    | (Won) 1,523     |

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|  |       |         |       |       |
|--|-------|---------|-------|-------|
| Diluted earnings(loss) per share (Note 19) | (Won) | (2,150) | (Won) | 1,523 |
|--|-------|---------|-------|-------|

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, 2006 and 2005**

**(Date of appropriations : February 28, 2007 and February 28, 2006 for the years ended December 31, 2006 and 2005, respectively)**

*(in millions of Korean won)*

|  | <b>2006</b>     | <b>2005</b>     |
|--|-----------------|-----------------|
| <b>Retained earnings before appropriations</b>                                 |                 |                 |
| Unappropriated retained earnings carried over from prior year                  | (Won) 3,480,349 | (Won) 2,963,337 |
| Net income(loss)   | (769,313)       | 517,012         |
|  | 2,711,036       | 3,480,349       |
| <b>Appropriation of retained earnings</b>                                      |                 |                 |
| <b>Unappropriated retained earnings carried forward to the subsequent year</b> | (Won) 2,711,036 | (Won) 3,480,349 |

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, 2006 and 2005

| <i>(in millions of Korean won)</i>   | 2006            | 2005          |
|--|-----------------|---------------|
| <b>Cash flows from operating activities</b>  |                 |               |
| Net income(loss)   | (Won) (769,313) | (Won) 517,012 |
| Adjustments to reconcile net income(loss) to net cash provided by operating activities |                 |               |
| Depreciation   | 2,521,931       | 1,704,733     |
| Amortization of intangible assets  | 44,231          | 44,400        |
| Provision for severance benefits   | 55,157          | 43,834        |
| Gain on foreign currency translation, net  | (47,145)        | (27,942)      |
| Loss on disposal of available-for-sale securities                                      | 35              |               |
| Loss on disposal of investment assets  | 118             |               |
| Gain on disposal of property, plant and equipment, net                                 | 528             | (1,975)       |
| Amortization of discount on debentures   | 35,615          | 29,891        |
| Loss (gain) on valuation of equity method investments, net                             | (47,134)        | 6,628         |
| Provision for warranty reserve   | 35,641          | 17,215        |
|  | 2,598,977       | 1,816,784     |
| Changes in operating assets and liabilities  |                 |               |
| Increase in trade accounts and notes receivable  | (14,465)        | (410,487)     |
| Increase in inventories  | (263,611)       | (3,766)       |
| Increase in other accounts receivable  | (11,454)        | (11,425)      |
| Decrease in accrued income   | 549             | 100           |
| Decrease in advance payments   | 527             | 3,834         |
| Decrease in prepaid expenses   | 23,964          | 16,930        |
| (Increase) decrease in prepaid value added tax   | 49,257          | (21,178)      |
| Decrease in other current assets   | 24,502          | 67,645        |
| Increase in long-term prepaid expenses   | (80,434)        | (42,927)      |
| Increase in deferred income tax  | (255,057)       | (175,720)     |
| Increase in trade accounts and notes payable   | 381,007         | 113,747       |
| Increase (decrease) in other accounts payable  | (35,028)        | 222,019       |
| Increase (decrease) in advances received   | (148)           | 556           |
| Increase in withholdings   | (2,959)         | 7,144         |
| Decrease in accrued expenses   | (5,958)         | (42,813)      |
| Decrease in income taxes payable   | (19,499)        | (55,081)      |
| Decrease in warranty reserve   | (23,649)        | (16,342)      |
| Decrease in other current liabilities  | (9,089)         | (54,142)      |
| Accrued severance benefits transferred from affiliated company                         | 3,531           | 2,485         |
| Payment of severance benefits  | (33,921)        | (16,282)      |
| Increase (decrease) in severance insurance deposit                                     | 13,829          | (18,817)      |
| Decrease in contribution to National Pension Fund                                      | 68              | 29            |
|  | (258,038)       | (434,491)     |
| Net cash provided by operating activities  | 1,571,626       | 1,899,305     |



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

Years ended December 31, 2006 and 2005

| <i>(in millions of Korean won)</i>                      | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
| <b>Cash flows from investing activities</b>             |                 |                 |
| Acquisition of equity method investments                | (Won) (152,481) | (Won) (54,557)  |
| Proceeds from sale of equity method investments         | 37,643          |                 |
| Acquisition of available-for-sale securities            | (53)            | (339)           |
| Proceeds from disposal of available for sale securities | 349             |                 |
| Proceed from non-current guarantee deposits             | 11,185          | 3               |
| Payment of non-current guarantee deposits               | (4,648)         | (4,933)         |
| Proceeds from disposal of property, plant and equipment | 11,503          | 2,830           |
| Acquisition of property, plant and equipment            | (2,743,732)     | (4,071,762)     |
| Acquisition of intangible assets                        | (8,251)         | (10,811)        |
| Disposal of long-term financial instruments             | 3               |                 |
| Net cash used in investing activities                   | (2,848,482)     | (4,139,569)     |
| <b>Cash flows from financing activities</b>             |                 |                 |
| Repayment of current maturities of long-term debts      | (432,017)       | (207,120)       |
| Issuance of debentures                                  | 399,600         | 1,073,684       |
| Proceeds from long-term debts                           | 632,314         | 162,395         |
| Proceeds from issuance of common stock                  |                 | 1,401,341       |
| Net cash provided by financing activities               | 599,897         | 2,430,300       |
| Net increase (decrease) in cash and cash equivalents    | (676,959)       | 190,036         |
| <b>Cash and cash equivalents (Note 23)</b>              |                 |                 |
| Beginning of the year                                   | 1,465,025       | 1,274,989       |
| End of the year   | (Won) 788,066   | (Won) 1,465,025 |

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, 2006 and 2005****1. The Company**

LG.Philips LCD Co., Ltd. (the Company) was incorporated in 1985 as the original name of LG Soft, Ltd., 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 and Philips acquired a 50% interest in LG LCD Co., Ltd.

The Company listed its shares with the Korea Stock Exchange and with US Securities and Exchange Commission in July, 2004. In July 2005, pursuant to a Form F-1 Registration statement filed in July, 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, 2006, the Company's shareholders are as follows:

|                                       | <b>Number of<br/>Shares</b> | <b>Percentage of<br/>Ownership (%)</b> |
|---------------------------------------|-----------------------------|--|
| LG Electronics Inc.                   | 135,625,000                 | 37.9                                   |
| Koninklijke Philips Electronics N. V. | 117,625,000                 | 32.9                                   |
| Others                                | 104,565,700                 | 29.2                                   |
|                                       | 357,815,700                 | 100.0                                  |

## **Table of Contents**

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

**Notes to Non-Consolidated Financial Statements**

**December 31, 2006 and 2005**

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

The significant accounting policies followed by the Company in the preparation of its year end 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.

#### **Accounting Estimates**

The preparation of the financial statements requires management to make certain 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. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

#### **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, 2006 and 2005**

#### **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. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is a deduction from 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 capital adjustments, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment losses on the securities are 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 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, 2006 and 2005**

Difference between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee is 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 their intended 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.

Property, plant and equipment, which were acquired by the Company through government subsidies, are recorded at their fair values if the cost is lower than the market value. The government subsidies are presented as a deduction from the acquisition cost. The current year's subsidies are offset against depreciation expense over the useful life of the property, plant and equipment, and the remaining amount is recognized as a loss on sale upon disposal of the property, plant and equipment.

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

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

##### **December 31, 2006 and 2005**

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 is 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.

#### **Intangible Assets**

Intangible assets, consisting of 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 its 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 is 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)929.6 : US\$1 as of December 31, 2006; (Won)1,013.0 : US\$1 as of December 31, 2005), 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, 2006, is (Won)28,015 million (2005: (Won)16,023 million), and provision for warranty reserve for the year ended December 31, 2006, is (Won)35,641 million (2005: (Won)17,215 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.

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

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

##### **December 31, 2006 and 2005**

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

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

#### **Sale 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 sale 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 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 hedges.

#### **Convertible bonds**

When convertible bonds are issued, the amount paid for the conversion rights, which is computed as the difference between the issuing value and the present value of future cash flows discounted at the effective interest rate of the bond without conversion features, is included in other capital surplus. The related adjustment to the conversion right is presented as a deduction from the 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, 2006 and 2005****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 based on estimates when there are reasonable assumptions 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 year.

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 probability of utilization, are recognized as carryforward amount.

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

Cash and cash equivalents, and financial instruments as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>  | <b>Annual interest<br/>rate (%) as of<br/>December 31, 2006</b> | <b>2006</b>   | <b>2005</b>     |
|---|---|---------------|-----------------|
| <b>Cash and cash equivalents</b>  |   |               |                 |
| Cash on hand  |   | (Won) 6       | (Won) 6         |
| Checking accounts   |   | 34            | 51              |
| Time deposits   | 4.16  | 663,480       | 942,359         |
| Passbook accounts in Foreign currencies of US\$129 million,<br>JP¥319 million, EUR 1.5 million (2005: US\$ 516 million and<br>JP¥6 million) | 5.63  | 124,546       | 522,609         |
|   |   | 788,066       | 1,465,025       |
| <b>Long-term financial instruments</b>  |   |               |                 |
| Guarantee deposits for checking accounts  |   | 13            | 16              |
|   |   | (Won) 788,079 | (Won) 1,465,041 |

As of December 31, 2006 and 2005, 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, 2006 and 2005

**4. Receivables**

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>  | <b>Gross amount</b> | <b>2006<br/>Allowance for<br/>doubtful<br/>accounts</b> | <b>Carrying value</b> |
|-------------------------------------|---------------------|---|-----------------------|
| Trade accounts and notes receivable | (Won) 1,050,318     | (Won) 910   | (Won) 1,049,408       |
| Other accounts receivable           | 27,342              | 306   | 27,036                |
| Accrued income                      | 828                 | 8   | 820                   |
| Advance payments                    | 5,486               | 55  | 5,431                 |
|                                     | (Won) 1,083,974     | (Won) 1,279   | (Won) 1,082,695       |

| <i>(in millions of Korean won)</i>  | <b>Gross amount</b> | <b>2005<br/>Allowance for<br/>doubtful accounts</b> | <b>Carrying value</b> |
|-------------------------------------|---------------------|---|-----------------------|
| Trade accounts and notes receivable | (Won) 1,035,155     | (Won) 959   | (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) 1,057,275       |

As of December 31, 2006, trade bills negotiated through banks but not yet matured, amounted to approximately (Won)204,528 million (2005: (Won)303,904 million).



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****5. Assets and Liabilities Denominated in Foreign Currencies**

As of December 31, 2006 and 2005, 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>                | 2006                     |                                 | 2005                     |                                  |
|-------------------------------------|--------------------------|---------------------------------|--------------------------|----------------------------------|
|                                     | Korean Won<br>Equivalent | Foreign<br>Currency             | Korean Won<br>Equivalent | Foreign<br>Currency              |
| Trade accounts and notes receivable | (Won) 1,039,254          | US\$ 994<br>JP¥ 3,530<br>EUR 71 | (Won) 1,027,180          | US\$ 904<br>JP¥ 10,579<br>EUR 17 |
| Other accounts receivable           | 12,575                   | US \$ 4<br>JP¥ 107<br>EUR 6     | 2,372                    | US\$ 2<br>JP¥ 40                 |
| Trade accounts and notes payable    | 383,771                  | US \$ 289<br>JP¥ 14,756         | 163,496                  | US\$ 63<br>JP¥ 11,574            |
| Other accounts payable              | 84,466                   | US \$ 21<br>JP¥ 6,999<br>EUR 8  | 163,970                  | US\$ 14<br>JP¥ 15,608<br>EUR 13  |
| Accrued expenses                    |                          |                                 | 5,769                    | US\$ 6                           |

**6. Inventories**

Inventories as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> | 2006          | 2005          |
|------------------------------------|---------------|---------------|
| Finished products                  | (Won) 311,808 | (Won) 191,918 |
| Work-in-process                    | 312,231       | 131,483       |
| Raw materials                      | 129,373       | 124,999       |
| Supplies                           | 101,068       | 59,750        |
|                                    | 854,480       | 508,150       |
| Less : Valuation loss              | (119,104)     | (36,385)      |
|                                    | (Won) 735,376 | (Won) 471,765 |

For the year ended December 31, 2006, the Company recorded ramp-up cost of (Won)18,043 million (2005: (Won)18,928 million) to counter the unusual low volume of production.

As of December 31, 2006, inventories and property, plant and equipment are insured against fire and other casualty losses for up to (Won)24,679,994 million (2005: (Won)30,088,667 million). Additionally, as of December 31, 2006, the Company insured directors and officers liabilities for up to US\$ 100 million (2005: US\$ 100 million).



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****7. Equity-method Investments**

Equity-method investments as of December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>                 | No. of shares<br>owned by the<br>Company | Percentage<br>of<br>Ownership<br>(%) | 2006                |                                 |                   |
|--|--|--------------------------------------|---------------------|---------------------------------|-------------------|
|  |  |                                      | Acquisition<br>cost | Market or<br>net asset<br>value | Carrying<br>value |
| LG.Philips LCD America, Inc.                       | 5,000,000                                | 100                                  | (Won) 6,082         | (Won) 9,409                     | (Won) 8,535       |
| LG.Philips LCD Germany GmbH                        | 960,000                                  | 100                                  | 1,252               | 4,064                           | 7,383             |
| LG.Philips LCD Japan Co., Ltd.                     | 1,900                                    | 100                                  | 1,088               | 4,559                           | 4,048             |
| LG.Philips LCD Taiwan Co., Ltd.                    | 11,549,994                               | 100                                  | 6,076               | 12,400                          | 6,413             |
| LG.Philips LCD Nanjing Co., Ltd.                   | ( <sup>1</sup> )                         | 100                                  | 177,854             | 208,655                         | 205,224           |
| LG.Philips LCD HongKong Co., Ltd.                  | 115,000                                  | 100                                  | 1,736               | 6,014                           | 4,184             |
| LG.Philips LCD Shanghai Co., Ltd.                  | ( <sup>1</sup> )                         | 100                                  | 596                 | 3,967                           | 3,777             |
| LG.Philips LCD Poland Sp. z o.o.                   | 2,385,900                                | 100                                  | 76,591              | 65,806                          | 65,806            |
| LG.Philips LCD Guangzhou Co, Ltd. ( <sup>2</sup> ) | ( <sup>1</sup> )                         | 100                                  | 38,264              | 36,891                          | 36,891            |
| Paju Electric Glass                                | 1,440,000                                | 40                                   | 14,400              | 20,631                          | 19,284            |
|  |  |                                      | (Won) 323,939       | (Won) 372,396                   | (Won) 361,545     |

| <i>(in millions of Korean won)</i> | No. of shares<br>owned by the<br>Company | Percentage<br>of<br>Ownership<br>(%) | 2005                |                                 |                   |
|------------------------------------|--|--------------------------------------|---------------------|---------------------------------|-------------------|
|                                    |  |                                      | Acquisition<br>cost | Market or<br>net asset<br>value | Carrying<br>value |
| LG.Philips LCD America, Inc.       | 5,000,000                                | 100                                  | (Won) 6,082         | (Won) 8,952                     | (Won) 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.   | 500                                      | 100                                  | 16                  | 9                               | 9                 |
| Paju Electric Glass                | 1,440,000                                | 40                                   | 14,400              | 14,083                          | 14,156            |
|                                    |  |                                      | (Won) 171,458       | (Won) 252,383                   | (Won) 213,968     |

(1) No shares have been issued according to the local laws or regulation.

(2) LG.Philips LCD Guangzhou was established in 2006.



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

As of and for the year ended December 31, 2006, condensed financial statements of the investees, prior to the elimination of intercompany transactions, are as follows:

**Condensed Balance Sheet**

|  | <b>LG.Philips LCD</b>                   |  |   |  |                          |
|--|---|--|---|--|--------------------------|
| <i>(in millions of Korean won)</i>               | <b>LG.Philips LCD<br/>America, Inc.</b> | <b>LG.Philips LCD<br/>Germany GmbH</b> | <b>LG.Philips LCD<br/>Japan.Co., Ltd.</b> | <b>LG.Philips LCD<br/>Taiwan Co., Ltd.</b> | <b>Nanjing Co., Ltd.</b> |
| Current assets                                   | (Won) 85,901                            | (Won) 361,469                          | (Won) 90,473                              | (Won) 328,203                              | (Won) 76,262             |
| Non-current assets                               | 5,366                                   | 1,797                                  | 1,045                                     | 3,731                                      | 369,940                  |
| <b>Total assets</b>                              | <b>(Won) 91,267</b>                     | <b>(Won) 363,266</b>                   | <b>(Won) 91,518</b>                       | <b>(Won) 331,934</b>                       | <b>(Won) 446,202</b>     |
| Current liabilities                              | (Won) 81,858                            | (Won) 359,202                          | (Won) 86,925                              | (Won) 319,534                              | (Won) 80,490             |
| Non-current liabilities                          |   |  | 34  |  | 157,057                  |
| <b>Total liabilities</b>                         | <b>81,858</b>                           | <b>359,202</b>                         | <b>86,959</b>                             | <b>319,534</b>                             | <b>237,547</b>           |
| Capital stock                                    | 6,082                                   | 1,252                                  | 1,088                                     | 4,189                                      | 177,854                  |
| Retained earnings                                | 5,672                                   | 3,057                                  | 4,812                                     | 10,906                                     | 51,571                   |
| Capital adjustments                              | (2,345)                                 | (245)                                  | (1,341)                                   | (2,695)                                    | (20,770)                 |
| <b>Total shareholders equity</b>                 | <b>9,409</b>                            | <b>4,064</b>                           | <b>4,559</b>                              | <b>12,400</b>                              | <b>208,655</b>           |
| <b>Total liabilities and shareholders equity</b> | <b>(Won) 91,267</b>                     | <b>(Won) 363,266</b>                   | <b>(Won) 91,518</b>                       | <b>(Won) 331,934</b>                       | <b>(Won) 446,202</b>     |

| <i>(in millions of Korean won)</i> | <b>LG. Philips LCD<br/>HongKong Co., Ltd.</b> | <b>LG. Philips LCD<br/>Shanghai Co., Ltd.</b> | <b>LG. Philips LCD<br/>Poland Sp z o.o.</b> | <b>LG. Philips LCD<br/>Guangzhou Co., Ltd.</b> | <b>Paju Electric<br/>Glass</b> | <b>Total</b>           |
|------------------------------------|---|---|---|--|--------------------------------|------------------------|
| Current assets                     | (Won) 174,257                                 | (Won) 248,379                                 | (Won) 32,110                                | (Won) 25,941                                   | (Won) 65,070                   | (Won) 1,488,065        |
| Non-current assets                 | 356   | 216   | 200,616                                     | 11,670   | 26,192                         | 620,929                |
| <b>Total assets</b>                | <b>(Won) 174,613</b>                          | <b>(Won) 248,595</b>                          | <b>(Won) 232,726</b>                        | <b>(Won) 37,611</b>                            | <b>(Won) 91,262</b>            | <b>(Won) 2,108,994</b> |
| Current liabilities                | (Won) 168,580                                 | (Won) 244,628                                 | (Won) 166,489                               | (Won) 720                                      | (Won) 46,713                   | (Won) 1,555,139        |
| Non-current liabilities            | 19  |   | 431   |  | 167                            | 157,708                |
| <b>Total liabilities</b>           | <b>168,599</b>                                | <b>244,628</b>                                | <b>166,920</b>                              | <b>720</b>                                     | <b>46,880</b>                  | <b>1,712,847</b>       |
| Capital stock                      | 1,736   | 596   | 76,590                                      | 38,264   | 36,000                         | 343,651                |
| Retained earnings                  | 5,040   | 3,936   | (10,360)                                    | (957)  | 8,382                          | 82,059                 |
| Capital adjustments                | (762)   | (565)   | (424)                                       | (416)  |                                | (29,563)               |

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|   |       |         |       |         |       |         |       |        |       |        |       |           |
|---|-------|---------|-------|---------|-------|---------|-------|--------|-------|--------|-------|-----------|
| Total shareholders equity                 |       | 6,014   |       | 3,967   |       | 65,806  |       | 36,891 |       | 44,382 |       | 396,147   |
| Total liabilities and shareholders equity | (Won) | 174,613 | (Won) | 248,595 | (Won) | 232,726 | (Won) | 37,611 | (Won) | 91,262 | (Won) | 2,108,994 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****Condensed Income Statement**

|                                     | <b>LG.Philips LCD,</b>                   |   |  |   |                          |
|-------------------------------------|--|---|--|---|--------------------------|
| <i>(in millions of Korean won)</i>  | <b>LG.Philips LCD,<br/>America, Inc.</b> | <b>LG.Philips LCD,<br/>Germany GmbH</b> | <b>LG.Philips LCD,<br/>Japan Co., Ltd.</b> | <b>LG.Philips LCD,<br/>Taiwan Co., Ltd.</b> | <b>Nanjing Co., Ltd.</b> |
| Sales                               | (Won) 1,035,463                          | (Won) 1,653,550                         | (Won) 1,190,264                            | (Won) 2,749,688                             | (Won) 1,688,227          |
| Cost of sales                       | 1,019,704                                | 1,636,554                               | 1,180,483                                  | 2,727,103                                   | 1,615,202                |
| Gross profit                        | 15,759                                   | 16,996                                  | 9,781                                      | 22,585                                      | 73,025                   |
| Selling and administrative expenses | 11,054                                   | 11,074                                  | 8,120                                      | 9,937                                       | 57,928                   |
| Operating income                    | 4,705                                    | 5,922                                   | 1,661                                      | 12,648                                      | 15,097                   |
| Non-operating income (expense)      | (2,707)                                  | (4,572)                                 | 305  | (10,834)                                    |                          |
| Ordinary income                     | 1,998                                    | 1,350                                   | 1,966                                      | 1,814                                       | 15,097                   |
| Income tax expense (benefit)        | 771                                      | 647                                     | 1,095                                      | 667   | (1,113)                  |
| Net income(loss)                    | (Won) 1,227                              | (Won) 703                               | (Won) 871                                  | (Won) 1,147                                 | (Won) 16,210             |

| <i>(in millions of Korean won)</i>  | <b>LG. Philips LCD<br/>HongKong Co., Ltd.</b> | <b>LG. Philips LCD<br/>Shanghai Co., Ltd.</b> | <b>LG. Philips LCD<br/>Poland Sp z o.o.</b> | <b>LG. Philips LCD<br/>Guangzhou Co., Ltd.</b> | <b>Paju Electric<br/>Glass</b> | <b>Total</b>     |
|-------------------------------------|---|---|---|--|--------------------------------|------------------|
| Sales                               | (Won) 1,097,365                               | (Won) 1,163,364                               | (Won) 9                                     | (Won)  | (Won) 164,379                  | (Won) 10,742,309 |
| Cost of sales                       | 1,087,564                                     | 1,154,570                                     |   |  | 153,782                        | 10,574,962       |
| Gross profit                        | 9,801   | 8,794   | 9   |  | 10,597                         | 167,347          |
| Selling and administrative expenses | 7,106   | 7,532   | 12,056                                      | 800  | 2,373                          | 127,980          |
| Operating income                    | 2,695   | 1,262   | (12,047)                                    | (800)  | 8,224                          | 39,367           |
| Non-operating income (expense)      | 443   | 601   | 1,693                                       | (157)  | (23)                           | (15,251)         |
| Ordinary income                     | 3,138   | 1,863   | (10,354)                                    | (957)  | 8,201                          | 24,116           |
| Income tax expense (benefit)        | 365   | 462   |   |  | (790)                          | 2,104            |
| Net income(loss)                    | (Won) 2,773                                   | (Won) 1,401                                   | (Won) (10,354)                              | (Won) (957)                                    | (Won) 8,991                    | (Won) 22,012     |

The financial statements of an investee were adjusted due to a change in an accounting policy.

Details of said adjustment are as follows:

| Company name        | Reason for adjustment              | 2006                              |  | Adjustment amount | Net asset value after adjustment |
|---------------------|------------------------------------|-----------------------------------|--|-------------------|----------------------------------|
|                     |                                    | Net asset value before adjustment |  |                   |                                  |
| Paju Electric Glass | Unification of depreciation method | (Won) 44,382                      |  | (Won) 7,195       | (Won) 51,577                     |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

The details of the equity method valuation for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                    | 2006                                |                                    |  |                                    |                       |                      | Balance as of |
|---|-------------------------------------|------------------------------------|--|------------------------------------|-----------------------|----------------------|---------------|
|   | Balance as of<br>January 1,<br>2006 | Acquisitions<br>during the<br>year | Gain (loss) on<br>valuation of<br>equity method<br>investments | Retained<br>earnings<br>adjustment | Capital<br>adjustment | December 31,<br>2006 |               |
| LG. Philips LCD America, Inc.                         | (Won) 6,388                         | (Won)                              | (Won) 2,917  | (Won)                              | (Won)                 | (Won) 8,535          |               |
| LG. Philips LCD Germany GmbH                          | 2,100                               |                                    | 5,178  |                                    | 105                   | 7,383                |               |
| LG. Philips LCD Japan Co., Ltd.                       | 3,787                               |                                    | 680  |                                    | (419)                 | 4,048                |               |
| LG. Philips LCD Taiwan Co., Ltd.                      | 7,460                               |                                    | (68)   |                                    | (979)                 | 6,413                |               |
| LG. Philips LCD Nanjing Co., Ltd.                     | 176,814                             | 37,643                             | 39,370   | (37,643)                           | (10,960)              | 205,224              |               |
| LG. Philips LCD HongKong Co.,<br>Ltd.                 | 2,643                               |                                    | 1,927  |                                    | (386)                 | 4,184                |               |
| LG. Philips LCD Shanghai Co.,<br>Ltd.                 | 611                                 |                                    | 3,313  |                                    | (147)                 | 3,777                |               |
| LG. Philips LCD Poland Sp. z o.o.                     | 9                                   | 76,574                             | (10,355)   |                                    | (422)                 | 65,806               |               |
| LG. Philips LCD Guangzhou Co.,<br>Ltd. <sup>(2)</sup> |                                     | 38,264                             | (956)  |                                    | (417)                 | 36,891               |               |
| Paju Electric Glass                                   | 14,156                              |                                    | 5,128  |                                    |                       | 19,284               |               |
|   | (Won) 213,968                       | (Won) 152,481                      | (Won) 47,134   | (Won) (37,643)                     | (Won) (14,395)        | (Won) 361,545        |               |

| <i>(in millions of Korean won)</i>    | 2005                                |                                    |  |                                    |                       |                      | Balance as of |
|---------------------------------------|-------------------------------------|------------------------------------|--|------------------------------------|-----------------------|----------------------|---------------|
|                                       | Balance as of<br>January 1,<br>2005 | Acquisitions<br>during the<br>year | Gain (loss) on<br>valuation of<br>equity method<br>investments | Retained<br>earnings<br>adjustment | Capital<br>adjustment | December 31,<br>2005 |               |
| 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.,<br>Ltd. | 2,491                               |                                    | 210  |                                    | (58)                  | 2,643                |               |
| LG. Philips LCD Shanghai Co.,<br>Ltd. | 886                                 |                                    | (283)  |                                    | 8                     | 611                  |               |
| LG. Philips LCD Poland<br>Sp. z o.o.  |                                     | 16                                 | (6)  |                                    | (1)                   | 9                    |               |
| Paju Electric Glass                   |                                     | 14,400                             | (244)  |                                    |                       | 14,156               |               |
|                                       | (Won) 168,039                       | (Won) 54,557                       | (Won) (6,628)  | (Won)                              | (Won) (2,000)         | (Won) 213,968        |               |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

As of December 31, 2006 and 2005, the eliminated unrealized gains or losses in the valuation of equity method investments are as follows:

|  | 2006          |                                     |                | 2005           |                                     |                |
|--|---------------|-------------------------------------|----------------|----------------|-------------------------------------|----------------|
|  | Inventories   | Property,<br>plant and<br>equipment | Total          | Inventories    | Property,<br>plant and<br>equipment | Total          |
| LG. Philips LCD America, Inc.                  | (Won) (874)   | (Won)                               | (Won) (874)    | (Won) (2,564)  | (Won)                               | (Won) (2,564)  |
| LG. Philips LCD Germany GmbH                   | 3,319         |                                     | 3,319          | (1,155)        |                                     | (1,155)        |
| LG. Philips LCD Japan Co., Ltd.                | (511)         |                                     | (511)          | (319)          |                                     | (319)          |
| LG. Philips LCD Taiwan Co., Ltd.               | (5,987)       |                                     | (5,987)        | (4,772)        |                                     | (4,772)        |
| LG. Philips LCD Nanjing Co., Ltd.              | 107           | (3,538)                             | (3,431)        | (21,216)       | (5,376)                             | (26,592)       |
| LG. Philips LCD HongKong Co., Ltd.             | (1,830)       |                                     | (1,830)        | (984)          |                                     | (984)          |
| LG. Philips LCD Shanghai Co., Ltd.             | (190)         |                                     | (190)          | (2,102)        |                                     | (2,102)        |
| LG. Philips LCD Poland Sp. z o.o.              |               |                                     |                |                |                                     |                |
| LG. Philips Guangzhou Co., Ltd. <sup>(2)</sup> |               |                                     |                |                |                                     |                |
| Paju Electric Glass                            | (1,347)       |                                     | (1,347)        |                |                                     |                |
|  | (Won) (7,313) | (Won) (3,538)                       | (Won) (10,851) | (Won) (33,112) | (Won) (5,376)                       | (Won) (38,488) |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****8. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | 2006          |                 |               |                         |              |                        |
|------------------------------------|---------------|-----------------|---------------|-------------------------|--------------|------------------------|
|                                    | Land          | Buildings       | Structures    | Machinery and equipment | Tools        | Furniture and fixtures |
| Balance as of January 1, 2006      | (Won) 316,236 | (Won) 1,633,119 | (Won) 122,772 | (Won) 5,078,844         | (Won) 50,471 | (Won) 146,673          |
| Acquisition during the year        |               | 30,971          | 748           | 34,529                  | 69           | 33,174                 |
| Capitalized interest               |               | 1               | 2             | 19,723                  |              |                        |
| Depreciation                       |               | (83,756)        | (7,447)       | (2,333,913)             | (21,742)     | (73,419)               |
| Disposal                           |               | (1,168)         |               | (993)                   | (1)          | (109)                  |
| Transfer                           | 925           | 40,442          | 20,499        | 2,873,435               | 33,317       | 45,079                 |
| Subsidy (increase) decrease        |               | (1,161)         | (1,970)       | (76)                    |              |                        |
| Balance as of December 31, 2006    | (Won) 317,161 | (Won) 1,618,448 | (Won) 134,604 | (Won) 5,671,549         | (Won) 62,114 | (Won) 151,398          |
| Accumulated depreciation           | (Won)         | (Won) 255,969   | (Won) 34,168  | (Won) 8,082,424         | (Won) 76,189 | (Won) 260,061          |

|                                 | Vehicles                      | Others      | Machinery-in-transit | Construction-in-progress | Total           |
|---------------------------------|-------------------------------|-------------|----------------------|--------------------------|-----------------|
|                                 | Balance as of January 1, 2006 | (Won) 5,560 | (Won) 6,052          | (Won) 505,787            | (Won) 1,122,945 |
| Acquisition during the year     | 74                            |             | 596,088              | 1,686,893                | 2,382,546       |
| Capitalized interest            |                               |             |                      | 6,401                    | 26,127          |
| Depreciation                    | (2,457)                       |             |                      |                          | (2,522,734)     |
| Disposal                        |                               |             | (9,759)              |                          | (12,030)        |
| Transfer                        | 2,164                         | 2,408       | (1,050,106)          | (1,968,431)              | (268)           |
| Subsidy (increase) decrease     |                               |             |                      | 1,183                    | (2,024)         |
| Balance as of December 31, 2006 | (Won) 5,341                   | (Won) 8,460 | (Won) 42,010         | (Won) 848,991            | (Won) 8,860,076 |
| Accumulated depreciation        | (Won) 6,952                   | (Won)       | (Won)                | (Won)                    | (Won) 8,715,763 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i> | 2005          |                 |               |                         |              |                        |
|------------------------------------|---------------|-----------------|---------------|-------------------------|--------------|------------------------|
|                                    | Land          | Buildings       | Structures    | Machinery and equipment | Tools        | Furniture and 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          |

  

|                                 | Vehicles    | Others      | Machinery-in-transit | Construction-in-progress | Total           |
|---------------------------------|-------------|-------------|----------------------|--------------------------|-----------------|
| 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        | (Won) 1,122,945          | (Won) 8,988,459 |
| Accumulated depreciation        | (Won) 4,860 | (Won)       | (Won)                | (Won)                    | (Won) 6,235,577 |

As of December 31, 2006, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately (Won)403,198 million (2005: (Won)366,820 million).

The Company capitalizes the loss 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, 2006, amount to (Won)26,127 million (2005: (Won)46,719 million).

For the year ended December 31, 2006, net loss on foreign currency translation, arising from foreign currency borrowings, which was deducted from capitalized interest expenses, is (Won)9,628 million (2005: net loss of (Won)4,133 million).

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

For the year ended December 31, 2006, the accumulated effects of capitalized expenses on significant accounts in the balance sheet and statement of operations 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 depreciation | Acquisition                                   | Accumulated depreciation | Acquisition   | Accumulated depreciation |
|                                    | cost                                 | depreciation             | cost  | depreciation             | cost          | depreciation             |
| Property, plant and equipment      | (Won) 17,578,852                     | (Won) 8,715,762          | (Won) 17,463,991                              | (Won) 8,686,825          | (Won) 114,861 | (Won) 28,937             |

**Statement of Operations**

| <i>(in millions of Korean won)</i> | If interest expenses are capitalized | If interest expenses are expensed as incurred | Difference   |
|------------------------------------|--------------------------------------|---|--------------|
| Depreciation                       | (Won) 2,522,734                      | (Won) 2,507,567                               | (Won) 15,167 |
| Interest expense                   | 159,339                              | 195,094                                       | (35,755)     |
| Foreign currency translation gain  | 50,945                               | 60,573  | 9,628        |
| Net income                         | 769,313                              | 780,273                                       | (10,960)     |

**9. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | 2006                         |   |                                       |             | Total         |
|------------------------------------|------------------------------|---|---------------------------------------|-------------|---------------|
|                                    | Intellectual property rights | Rights for usage of electricity and gas supply facilities | Rights to industrial water facilities | Software    |               |
| Balance as of January 1, 2006      | (Won) 141,013                | (Won) 228   | (Won) 8,653                           | (Won)       | (Won) 149,894 |
| Acquisition during the year        | 8,251                        | 268   |                                       |             | 8,519         |
| Reversal                           |                              |   |                                       |             |               |
| Amortization                       | (42,940)                     | (59)  | (1,232)                               |             | (44,231)      |
| Balance as of December 31, 2006    | (Won) 106,324                | (Won) 437   | (Won) 7,421                           | (Won)       | (Won) 114,182 |
| Accumulated amortization           | (Won) 328,083                | (Won) 146   | (Won) 4,878                           | (Won) 9,713 | (Won) 342,820 |



**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i> | Intellectual<br>property<br>rights | Rights for<br>usage of<br>electricity and<br>gas supply<br>facilities | 2005   |             | Total         |
|------------------------------------|------------------------------------|---|--|-------------|---------------|
|                                    |                                    |   | Rights to<br>industrial<br>water<br>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)      |
| Balance as of December 31, 2005    | (Won) 141,013                      | (Won) 228   | (Won) 8,653                                    | (Won)       | (Won) 149,894 |
| Accumulated amortization           | (Won) 285,138                      | (Won) 88  | (Won) 3,646                                    | (Won) 9,713 | (Won) 298,585 |

The Company has classified the amortization as part of manufacturing overhead costs. The amortization expense for the year ended December 31, 2006, amounts to (Won)44,231 million (2005: (Won)44,400 million).

The details of intellectual property rights as of December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | Description                            | 2006          | 2005          | Remaining  |
|------------------------------------|--|---------------|---------------|------------|
|                                    |  |               |               | Period     |
| Intellectual property rights       | Patent relating to TFT-LCD<br>business | (Won) 106,324 | (Won) 141,013 | 4~10 years |

The Company expensed research and development costs of (Won)436,112 million for the year ended December 31, 2006 (2005: (Won)361,761 million).

For the years ended December 31, 2006 and 2005, 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>    | 2006         | 2005         |
|---------------------------------------|--------------|--------------|
| Training expenses                     | (Won) 13,247 | (Won) 14,283 |
| Advertising expenses                  | 24,024       | 21,728       |
| Expenses for foreign market expansion | 5,255        | 8,835        |
|                                       | (Won) 42,526 | (Won) 44,846 |



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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

**10. Current Maturities of Long-Term Debts and Debentures**

Current maturities of long-term debts and debentures as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

| Type of borrowing   | Creditor                      | Annual interest                      |               |               |
|---|-------------------------------|--------------------------------------|---------------|---------------|
|   |                               | rates (%) as of<br>December 31, 2006 | 2006          | 2005          |
| Long-term debt in won<br>currency loans                                 | Korea Export - Import<br>Bank | 5.9-6.1                              | (Won) 39,267  | (Won) 29,417  |
| Corporate bonds in won<br>currency                                      |                               | 6.0                                  | 300,000       | 200,000       |
| Long-term debt in foreign<br>currency debentures of US\$<br>200 million |                               | 3M Libor + 0.6                       | 185,920       | 184,872       |
| Long-term debt in foreign<br>currency loans of US\$<br>34 million       | Woori Bank                    | 6M Libor + 1.2                       | 32,071        | 17,727        |
|   |                               |                                      | 557,258       | 432,016       |
| Less : Discounts on<br>debentures                                       |                               |                                      | (4,169)       | (2,664)       |
|   |                               |                                      | (Won) 553,089 | (Won) 429,352 |

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

**11. Long-Term Debts and Debentures**

Long-term debts as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

| Type of borrowing                                 | Annual interest   |      | 2006            | 2005            |
|---|-------------------|------|-----------------|-----------------|
|   | rates (%) as of   |      |                 |                 |
|   | December 31, 2006 |      |                 |                 |
| <b>Won currency debentures</b>                    |                   |      |                 |                 |
| Non-guaranteed, payable through 2010              | 3.5               | 5.0  | (Won) 1,550,000 | (Won) 1,750,000 |
| Private debentures, payable in 2011               | 5.3               | 5.89 | 600,000         | 200,000         |
| Less : Current maturities                         |                   |      | (300,000)       | (200,000)       |
| Discounts on debentures                           |                   |      | (16,036)        | (28,120)        |
|   |                   |      | 1,833,964       | 1,721,880       |
| <b>Foreign currency debentures</b>                |                   |      |                 |                 |
| Floating rate notes, payable through 2007         | 3M Libor + 0.6,   |      | 185,920         | 304,913         |
| Term notes, payable through 2006                  |                   |      |                 | 82,559          |
|   |                   |      | 185,920         | 387,472         |
| Less : Current maturities                         |                   |      | (185,920)       | (184,872)       |
| Discount on debentures                            |                   |      |                 | (1,960)         |
|   |                   |      |                 | 200,640         |
| <b>Convertible bonds<sup>1</sup></b>              |                   |      |                 |                 |
| US dollar-denominated bonds, payable through 2010 |                   |      | 483,780         | 483,780         |
| Add : Call premium                                |                   |      | 84,613          | 84,613          |
| Less : Current maturities                         |                   |      |                 |                 |
| Discount on debentures                            |                   |      | (2,139)         | (2,724)         |
| Conversion adjustment                             |                   |      | (80,827)        | (102,917)       |
|   |                   |      | 485,427         | 462,752         |
|   |                   |      | (Won) 2,319,391 | (Won) 2,385,272 |
| <b>Won currency loans</b>                         |                   |      |                 |                 |
| General loans                                     | 5.53              | 6.1  | (Won) 238,383   | (Won) 117,800   |
|   | 3.5               |      | 14,634          | 8,620           |
| Less : Current maturities                         |                   |      | (39,267)        | (29,417)        |

|                               |                     |               |               |
|-------------------------------|---------------------|---------------|---------------|
|                               |                     | 213,750       | 97,003        |
| <b>Foreign currency loans</b> |                     |               |               |
| General loans                 | 3M Libor+1.0,       |               |               |
|                               | 3M Libor+0.99 1.35, |               |               |
|                               | 3M Libor+0.35 0.47, |               |               |
|                               | 6M Libor+1.2        | 648,861       | 218,301       |
| Less : Current maturities     |                     | (32,071)      | (17,727)      |
|                               |                     | 616,790       | 200,574       |
|                               |                     | (Won) 830,540 | (Won) 297,577 |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

<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, 2006, the number of non-converted common shares is 8,276,681.

As of December 31, 2006, the foreign currency debentures denominated in U.S. dollars amount to US\$ 200 million (2005: US\$ 383 million), while the foreign currency loans denominated in U.S. dollars amount to US\$ 698 million (2005: US\$ 215 million).

The aggregate annual maturities of long-term debts outstanding as of December 31, 2006, exclusive of adjustments relating to discounts, are as follows:

*(in millions of Korean won)*

| For the Year ending December 31, | Won                    |                          | Convertible<br>bonds | Foreign<br>currency<br>loans |                 | Total |
|----------------------------------|------------------------|--------------------------|----------------------|------------------------------|-----------------|-------|
|                                  | currency<br>debentures | Won<br>currency<br>loans |                      |                              |                 |       |
| 2008                             | (Won) 250,000          | (Won) 61,766             | (Won)                | (Won) 39,043                 | (Won) 350,809   |       |
| 2009                             | 600,000                | 40,451                   |                      | 39,043                       | 679,494         |       |
| 2010                             | 600,000                | 32,065                   | 483,780              | 39,043                       | 1,154,888       |       |
| 2011                             | 400,000                | 32,927                   |                      | 492,688                      | 925,615         |       |
| 2012                             |                        | 32,927                   |                      | 6,973                        | 39,900          |       |
| Thereafter                       |                        | 13,614                   |                      |                              | 13,614          |       |
|                                  | (Won) 1,850,000        | (Won) 213,750            | (Won) 483,780        | (Won) 616,790                | (Won) 3,164,320 |       |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****12. Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i>               | <b>2006</b>   | <b>2005</b>  |
|--|---------------|--------------|
| Balance at the beginning of the year             | (Won) 111,992 | (Won) 81,955 |
| Actual severance payments                        | (33,921)      | (16,282)     |
| Transferred from/to affiliated companies, net    | 3,531         | 2,485        |
| Provision for severance benefits                 | 55,157        | 43,834       |
|  | 136,759       | 111,992      |
| Cumulative deposits to the National Pension Fund | (640)         | (708)        |
| Severance insurance deposit                      | (54,268)      | (68,097)     |
| Balance at the end of the year                   | (Won) 81,851  | (Won) 43,187 |

The severance benefits are funded approximately 39.7% as of December 31, 2006 (2005 : 60.8%), 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, 2006 and 2005****13. Stock Appreciation Plan**

On April 7, 2005, the Company granted 450,000 shares of stock appreciations rights ( SARs ) to 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 starting 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, 2006, follows:

|  | 2006    | 2005    |
|--|---------|---------|
| Beginning, number of shares under SARs | 410,000 |         |
| Options granted                        |         | 450,000 |
| Options canceled/expired <sup>1</sup>  | 150,000 | 40,000  |
| Ending, number of shares under SARs    | 260,000 | 410,000 |

<sup>1</sup> Options canceled due to the retirement of several executive officers.

The Company did not recognize any compensation costs in 2006 as market price is below the exercise price as of December 31, 2006.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****14. Commitments and Contingencies**

As of December 31, 2006, the Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of December 31, 2006, the Company has a revolving credit facility agreement with several banks totaling (Won)200,000 million and US\$ 100 million.

As of December 31, 2006, the Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities up to US\$1,186.5 million. The Company has made agreements with several banks in relation to the opening of letters of credit amounting to (Won)90,000 million and US\$123.5 million.

The Company receives repayment guarantees from ABN AMRO Bank amounting to US\$ 8.5 million relating to tax payments in Poland.

As of December 31, 2006, in relation to its TFT-LCD business, the Company has patent license agreements with Hitachi and others. As of December 31, 2006, 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)*

| Contracting party       | Selling position | Buying position      | Contract foreign     |  | Maturity date     |
|-------------------------|------------------|----------------------|----------------------|--|-------------------|
|                         |                  |                      | exchange rate        |  |                   |
| BNP and others          | US\$ 2,064       | (Won) 1,951,067      | (Won)916.40:US\$1-   |  | January 3, 2007   |
|                         |                  |                      | (Won)974.30:US\$1    |  | December 11, 2007 |
| Kookmin Bank and others | EUR 180          | (Won) 217,757        | (Won)1,164.28:EUR 1- |  | January 9, 2007   |
|                         |                  |                      | (Won) 1,229.17:EUR1  |  | November 19, 2007 |
| HSBC and others         | (Won) 334,571    | JP(Won) (Won) 40,500 | (Won)7.9790:JP¥1-    |  | January 12, 2007  |
|                         |                  |                      | (Won)8.7140:JP¥1     |  | December 14, 2007 |
| Kookmin Bank and others | US\$ 78          | JP(Won) (Won) 9,000  | JP¥114.42: US\$1-    |  | January 12, 2007  |
|                         |                  |                      | JP¥116.10: US\$1     |  | April 16, 2007    |

As of December 31, 2006, the Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of (Won)35,560 million and (Won) 19,996 million, respectively. Total unrealized gains and losses of (Won)2,496 million and (Won)5,843 million, respectively, were charged to operations for the year ended December 31, 2006, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, incurred relating to cash flow hedges from forecasted exports, were recorded as capital adjustments.





**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

The forecasted hedged transactions are expected to be completed on December 14, 2007. The aggregate amount of all deferred gains and losses of (Won)33,064 million and (Won)14,153 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, 2006.

For the year ended December 31, 2006, the Company recorded realized exchange gains of (Won)246,904 million (2005: (Won)107,825 million) on foreign currency forward contracts upon settlement, and realized exchange losses of (Won)78,768 million (2005: (Won)112,618 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.

A summary of these contracts is as follows:

*(in millions)*

| Contracting party | Buying position | Selling position | Contract foreign exchange rate | Maturity date   |
|-------------------|-----------------|------------------|--------------------------------|-----------------|
| Kookmin Bank      | US\$ 100        | (Won) 96,170     | 3M Libor 4.54%                 | August 29, 2011 |

As of December 31, 2006, unrealized gains and losses of (Won)623 million and (Won)3,210 million, respectively, were charged to loss on valuation.

For the year ended December 31, 2006, the Company recorded realized gains of (Won) 361 million (2005: (Won) 903 million) and realized losses of (Won) 26,174 million (2005: (Won) 7,734 million) on cross-currency swap contracts upon settlement.

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

A summary of these contracts is as follows:

*(in millions)*

| Contracting party | USD Put Buying | USD Call Selling | Strike Price                              | Maturity date                 |
|-------------------|----------------|------------------|---|-------------------------------|
| KDB and others    | US\$ 50        | US\$ 100         | (Won) 957.30:US\$1-<br>(Won) 966.50:US\$1 | May 21, 2007<br>June 21, 2007 |

As of December 31, 2006, unrealized gains of (Won)1,557 million were charged to current operations, as these contracts do not fulfill the requirement for hedge accounting for financial statement purposes.



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The Company entered into interest rate swap contracts to manage the exposure to changes in interest rates related to floating rate notes.

A summary of these contracts is as follows:

*(in millions)*

| Contracting party | Contract Amount | Contract Foreign Exchange Rate                                      | Maturity date                   |
|-------------------|-----------------|---|---------------------------------|
| SC First Bank     | US\$ 150        | Accept floating rate Pay fixed rate<br>6 M Libor 5.375% -<br>5.644% | May 21, 2009<br>May 24,<br>2010 |

As of December 31, 2006, unrealized losses of (Won)2,152 million was charged to capital adjustments, as these contracts fulfill the requirements for hedge accounting for financial statement purposes.

For the year ended December 31, 2006, the Company recorded realized gains of (Won) 6 million and realized losses of (Won) 27 million on interest rate swap contracts upon settlement.

The Company is involved in several legal proceedings and claims arising in the ordinary course of business. In August 29, 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 of TFT-LCDs. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court under the Central District of California for alleged ownership for certain patents and violation of U.S. antitrust laws. In October 2006, the court of the Central District of California dismissed the counter-claim for alleged ownership for certain patents. In November 2006, the Jury in California issued a verdict that Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America had willfully infringed a patent owned by the Company, and awarded the Company US\$53.5 million in damages. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In June 20, 2006, the American Arbitration Association decided in favor of the Company.

In May 27, 2004, the Company filed a complaint in the United States District of Delaware and the Patent County Court in the United Kingdom 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. On November 28, 2005, the Company lost its patent infringement case against Tatung Company and ViewSonic Corp. in the Patent County Court in United Kingdom. The Company appealed this judgment. On December 20, 2006, the Court of Appeals dismissed the appeal.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against LG Electronics Inc.( LGE ) and the Company in the United States District Court for the Central District of California. However, Chungwha Picture Tubes and the Company have proposed to stay the case until June 2007. Chungwha Picture Tubes later withdrew the case against LGE.

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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 of TFT-LCDs in the United States District of Delaware. On July 27, 2006, the Jury in Delaware issued a verdict that Chunghwa Picture Tubes had willfully infringed a patent owned by the Company, and awarded the Company \$52.4 million in damages.

On January 9, 2006, New Medium Technology LLC, AV Technologies LLC, IP Innovation LLC, and Technology Licensing Corporation filed a complaint for patent infringement against the Company in the United States District Court for the Northern District of Illinois.

On December 1, 2006, the Company filed a complaint against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others alleging patent infringement related to liquid crystal display and manufacturing process for TFT-LCDs in the United States District Court for the District of Delaware.

The Company's management does not expect that the outcome in any of these legal proceedings and claims, individually or collectively, will have any material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is currently under investigation by the fair trade or antitrust authorities in Korea, Japan, US and other markets with respect to possible anti-competitive activities in the LCD industry. As of December 31, 2006, the Company, along with a number of other companies in the LCD industry, has been named as defendant in a number of federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the sale of LCD panels. Each of these matters remains in the very early stages and the Company is not in a position to predict their outcome. However, the Company intends to defend itself vigorously in these matters.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****15. Capital Stock**

On March 19, 2004, at their Annual General Meeting, the stockholders approved the increase in 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, 2006, is 357,815,700 (2005: 357,815,700).

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.

Issuances and other movements in common stock from January 1, 2005 to December 31, 2006, 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, 2005, balance   |   | (Won) 1,626,579  | (Won) 1,012,271                   |
| July 26, 2005              | Issuance of common stock<br>Stock issuance cost | 162,500          | 1,259,469<br>(20,627)             |
| December 31, 2005, balance |   | (Won) 1,789,079  | (Won) 2,251,113                   |
| December 31, 2006, 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, 2006 and 2005****16. Capital Surplus and Retained Earnings**

Capital surplus as of December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i> | <b>2006</b>     | <b>2005</b>     |
|------------------------------------|-----------------|-----------------|
| Additional paid in capital         | (Won) 2,251,113 | (Won) 2,251,113 |
| Conversion rights <sup>1</sup>     | 24,059          | 28,137          |
|                                    | (Won) 2,275,172 | (Won) 2,279,250 |

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

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 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, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                               | <b>2006</b>    | <b>2005</b>    |
|--|----------------|----------------|
| Foreign currency translation loss on the affiliates <sup>1</sup> | (Won) (26,550) | (Won) (11,729) |
| Gain on valuation of derivative instruments <sup>1</sup>         | 24,423         | 29,293         |
| Loss on valuation of derivative instruments <sup>1</sup>         | (11,821)       | (18,982)       |
|  | (Won) (13,948) | (Won) (1,418)  |

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

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****18. Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                  | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
| Current income taxes                                | (Won) 25,989    | (Won) 25,989    |
| Deferred income taxes from temporary differences    | (16,319)        | (15,941)        |
| Deferred income taxes from tax credit               | 16,017          | (155,148)       |
| Deferred income taxes added to shareholders' equity | (6,261)         | (4,631)         |
| Deferred income taxes from losses carried forward   | (248,493)       |                 |
| Income tax benefit                                  | (Won) (255,056) | (Won) (149,731) |

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, 2006 and 2005, are as follows:

| <i>(in millions of Korean won)</i>                   | <b>2006</b>   | <b>2005</b>   |
|--|---------------|---------------|
| Inventories  | (Won) 21,098  | (Won) 8,354   |
| Investments  | (11,578)      | 7,584         |
| Other current assets                                 | 492           | (4,133)       |
| Property, plant and equipment                        | 40,875        | 34,403        |
| Tax credit carryforward                              | 436,486       | 292,976       |
| Deferred income taxes added to shareholders' equity  | (10,892)      | (4,631)       |
| Deferred income taxes from losses carried forward    | 248,493       |               |
| Others   | 27,616        | 9,715         |
| Deduction of unrealizable deferred income tax assets | (159,527)     |               |
|  | (Won) 593,063 | (Won) 344,268 |

Available tax credits as of December 31, 2006, amounted to (Won)481,414 million. Tax credits can be carried forward up to four or five years under the Corporate Income Tax Law in Korea.

The Company estimates the realizability of deferred tax assets based on the estimated taxable income. The Company did not recognize (Won)159,527 million of deferred tax assets as they were determined to be unrealizable.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

As of December 31, 2006, as the possibility of sale of investments or payment of dividends from subsidiaries in the near future is minimal, the Company did not recognize (Won)25,102 million of temporary differences related to the valuation of equity method investments.

The reconciliation between income before income taxes and taxable income for the years ended December 31, 2006 and 2005, follows :

| <i>(in millions of Korean won)</i> | <b>2006</b>            | <b>2005</b>          |
|------------------------------------|------------------------|----------------------|
| Income(loss) before income taxes   | (Won) (1,024,369)      | (Won) 367,281        |
| Add (deduct) :                     |                        |                      |
| Temporary differences              | 115,712                | 37,012               |
| Permanent differences              | 5,047                  | (4,578)              |
| <b>Taxable income</b>              | <b>(Won) (903,610)</b> | <b>(Won) 399,715</b> |

The statutory income tax rate, including resident tax surcharges, applicable to the Company is 27.5% for years ended December 31, 2006 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.

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, 2006, is 24.90% (2005: negative 40.77%).

Changes in accumulated temporary differences for the year ended December 31, 2006, are as follows:

| <i>(in millions of Korean won)</i> | <b>January 1,<br/>2006</b> | <b>Increase<br/>(decrease)</b> | <b>December 31,<br/>2006</b> |
|------------------------------------|----------------------------|--------------------------------|------------------------------|
| Inventories                        | (Won) 36,848               | (Won) 39,871                   | (Won) 76,719                 |
| Investments                        | 33,450                     | (75,550)                       | (42,100)                     |
| Derivatives                        | (18,229)                   | 20,019                         | 1,790                        |
| Property, plant and equipment      | 135,701                    | 12,934                         | 148,635                      |
| Warranty reserve                   | 16,023                     | 11,992                         | 28,015                       |
| Others                             | (6,324)                    | 45,543                         | 39,219                       |
| <b>Total</b>                       | <b>(Won) 197,469</b>       | <b>(Won) 54,809</b>            | <b>(Won) 252,278</b>         |
| Deduction from capital             | (Won) (31,250)             | (Won) (8,357)                  | (Won) (39,607)               |
| <b>Net loss carryforward</b>       | <b>(Won)</b>               | <b>(Won) 903,610</b>           | <b>(Won) 903,610</b>         |



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|                         |               |               |               |
|-------------------------|---------------|---------------|---------------|
| Tax credit carryforward | (Won) 292,976 | (Won) 143,510 | (Won) 436,486 |
|-------------------------|---------------|---------------|---------------|

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****19. Earnings Per Share**

Earnings(Loss) per share is computed by dividing net income(loss) by the weighted-average number of common shares outstanding during the period. Ordinary income(loss) per share is computed by dividing ordinary income(loss) allocated to common stock, which is net income(loss) 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(Loss) per share for the three-month periods and years ended December 31, 2006 and 2005, is calculated as follows:

| <i>(in millions, except for per share amount)</i>            | <b>For the three-month</b>        |               | <b>For the years</b>      |               |
|--|-----------------------------------|---------------|---------------------------|---------------|
|  | <b>periods ended December 31,</b> |               | <b>ended December 31,</b> |               |
|  | <b>2006</b>                       | <b>2005</b>   | <b>2006</b>               | <b>2005</b>   |
| Net income(loss) as reported on the statements of operations | (Won) (174,345)                   | (Won) 327,848 | (Won) (769,313)           | (Won) 517,012 |
| Weighted-average number of common shares outstanding         | 358                               | 358           | 358                       | 339           |
| Earnings(Loss) per share                                     | (Won) (487)                       | (Won) 916     | (Won) (2,150)             | (Won) 1,523   |
| Diluted earnings(loss) per share                             | (Won) (487)                       | (Won) 908     | (Won) (2,150)             | (Won) 1,523   |

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, 2006.

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The diluted ordinary earnings per share and the diluted net earnings per share were (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, was 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>                                      | (Won) 4,548   |
| Diluted net income allocated to common stock  | (Won) 332,396 |
| Weighted average number of common shares and diluted securities outstanding during the period | (Won) 366     |
| Diluted earnings per share  | (Won) 908     |

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

Earnings(Loss) per share for the three-month period ended September 30, 2006, follows:

|                        | <b>September 30,<br/>2006</b> |
|------------------------|-------------------------------|
| Basic loss per share   | (Won) (897)                   |
| Diluted loss per share | (Won) (897)                   |

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005****20. Related Party Transactions**

The Company's ultimate parent company is LG Corporation, while its parent is LG Electronics Inc., which is responsible for the consolidated financial statements.

Significant transactions which occurred in the ordinary course of business with related companies for the years ended December 31, 2006 and 2005, and the related account balances outstanding as of December 31, 2006 and 2005, are summarized as follows:

| <i>(in millions of Korean won)</i>                             | Sales <sup>1</sup> |                 | Purchases <sup>1</sup> |                 |
|--|--------------------|-----------------|------------------------|-----------------|
|  | 2006               | 2005            | 2006                   | 2005            |
| <b>Parent companies</b>  |                    |                 |                        |                 |
| LG Electronics Inc.-domestic                                   | (Won) 454,709      | (Won) 388,616   | (Won) 134,137          | (Won) 179,562   |
| LG Electronics Inc.-overseas                                   | 378,509            | 101,786         | 26                     |                 |
| Philips-domestic   |                    |                 | 38,985                 | 413             |
| Philips-overseas   | 525                | 391             | 35,565                 | 51,816          |
| <b>Company that has significant influence over the Company</b> |                    |                 |                        |                 |
| LG Corporation   |                    |                 | 13,151                 | 11,218          |
| <b>Overseas subsidiaries</b>                                   |                    |                 |                        |                 |
| LG.Philips LCD America, Inc.                                   | 967,273            | 786,908         | 3                      |                 |
| LG.Philips LCD Taiwan Co., Ltd.                                | 1,973,370          | 791,783         | 899                    | 28              |
| LG.Philips LCD Japan Co., Ltd.                                 | 1,145,535          | 890,659         | 4                      |                 |
| LG.Philips LCD Germany GmbH.                                   | 1,700,712          | 1,011,926       | 170                    | 8,878           |
| LG.Philips LCD Nanjing Co., Ltd.                               | 992,995            | 3,055,775       | 148,380                | 1,795           |
| LG.Philips LCD Shanghai Co., Ltd.                              | 1,033,561          | 817,675         | 26                     |                 |
| LG.Philips LCD Hongkong Co., Ltd.                              | 816,141            | 516,050         | 20                     |                 |
| LG.Philips LCD Poland Sp. z o.o.                               | 2,813              |                 |                        |                 |
| LG.Philips LCD Guangzhou Co., Ltd.                             | 19                 |                 |                        |                 |
| <b>Equity-method investee</b>                                  |                    |                 |                        |                 |
| Paju Electric Glass Co., Ltd.                                  | 6                  | 1               | 162,182                |                 |
| <b>Other related parties</b>                                   |                    |                 |                        |                 |
| LG Chem Ltd.   |                    |                 | 650,545                | 406,035         |
| LG International domestic                                      | 3                  | 905             | 17,715                 | 3,940           |
| LG International overseas                                      | 205,610            | 127,240         | 861,271                | 1,271,734       |
| Serveone   | 299                |                 | 175,665                | 146,109         |
| Micron Ltd.  | 237                |                 | 113,268                | 125,224         |
| LG CNS   | 5                  |                 | 90,253                 | 108,766         |
| Others   | 32,484             | 74,340          | 140,730                | 61,959          |
| Total  | (Won) 9,704,806    | (Won) 8,564,055 | (Won) 2,582,995        | (Won) 2,377,477 |

<sup>1</sup> Includes sales of (Won)831 million and purchases of property, plant and equipment of (Won)797,486 million.

**Table of Contents****LG. Philips LCD Co., Ltd.****Notes to Non-Consolidated Financial Statements****December 31, 2006 and 2005**

| <i>(in millions of Korean won)</i>                             | Receivables     |                 | Payables      |               |
|--|-----------------|-----------------|---------------|---------------|
|  | 2006            | 2005            | 2006          | 2005          |
| <b>Parent companies</b>  |                 |                 |               |               |
| LG Electronics Inc.-domestic                                   | (Won) 25,236    | (Won) 27,383    | (Won) 13,501  | (Won) 66,251  |
| LG Electronics Inc.-overseas                                   | 45,390          | 40,773          |               | 370           |
| Philips-domestic   |                 |                 | 2,426         | 291           |
| Philips-overseas   | 179             | 171             | 3,401         | 4,244         |
| <b>Company that has significant influence over the Company</b> |                 |                 |               |               |
| LG Corporation   | 2,340           | 10,970          | 548           | 1,692         |
| <b>Overseas subsidiaries</b>                                   |                 |                 |               |               |
| LG.Philips LCD America, Inc.                                   | 77,085          | 22,683          | 3             |               |
| LG.Philips LCD Taiwan Co., Ltd.                                | 221,085         | 53,521          | 1,732         | 1             |
| LG.Philips LCD Japan Co., Ltd.                                 | 67,754          | 130,090         | 138           | 1             |
| LG.Philips LCD Germany GmbH.                                   | 313,340         | 103,637         | 2,063         | 8,886         |
| LG.Philips LCD Nanjing Co., Ltd.                               | 3,400           | 375,158         | 23,367        | 3,068         |
| LG.Philips LCD Shanghai Co.,Ltd.                               | 184,204         | 202,329         | 10            |               |
| LG.Philips LCD Hongkong Co., Ltd.                              | 93,535          | 45,863          | 136           | 48            |
| LG.Philips LCD Poland Sp. zo.o.                                | 2,676           | 1               |               |               |
| LG.Philips LCD Guangzhou Co., Ltd.                             | 19              |                 |               |               |
| <b>Equity-method investee</b>                                  |                 |                 |               |               |
| Paju Electric Glass Co., Ltd.                                  |                 |                 | 22,535        |               |
| <b>Other related parties</b>                                   |                 |                 |               |               |
| LG Chem Ltd.   |                 |                 | 180,425       | 44,602        |
| LG International domestic                                      | 7,960           | 11              | 1,337         | 986           |
| LG International overseas                                      | 196             | 3,114           | 109,760       | 191,252       |
| Serveone   | 2,373           |                 | 47,169        | 36,792        |
| Micron Ltd.  |                 |                 | 50,568        | 55,234        |
| LG CNS   |                 |                 | 8,343         | 32,127        |
| Others   | 12,368          | 21,409          | 26,970        | 9,791         |
| Total  | (Won) 1,059,140 | (Won) 1,037,113 | (Won) 494,432 | (Won) 455,636 |

Key management<sup>1</sup> compensation costs for the year ended December 31, 2006, are as follows:

| <i>(in millions of Korean won)</i> |             |
|------------------------------------|-------------|
| Officers salaries                  | (Won) 1,506 |
| Post-retirement benefits           | 374         |
|                                    | (Won) 1,880 |

<sup>1</sup> Key management refers to the directors who have significant control and responsibilities on the Company's operations and business. Total ceiling for compensation for such directors in 2006 is (Won)13.4 billion.

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Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

**21. Value Added Information**

Value added information for the years ended December 31, 2006 and 2005, consist of the following:

| <i>(in millions of Korean won)</i> |                 |                                     |                                  | 2006                     |                 |  |
|------------------------------------|-----------------|-------------------------------------|----------------------------------|--------------------------|-----------------|--|
|                                    | Cost of sales   | Selling and administrative expenses | Research and development expense | Construction-in-progress | Total           |  |
| Salaries and wages                 | (Won) 533,985   | (Won) 43,932                        | (Won) 26,065                     | (Won) 10,314             | (Won) 614,296   |  |
| Severance benefits                 | 45,833          | 5,586                               | 2,698                            | 1,040                    | 55,157          |  |
| Employee fringe benefits           | 86,989          | 5,537                               | 3,655                            | 1,347                    | 97,528          |  |
| Rent                               | 2,430           | 3,154                               | 509                              |                          | 6,093           |  |
| Depreciation                       | 2,549,490       | 3,105                               | 13,567                           | 803                      | 2,566,965       |  |
| Taxes and dues                     | 7,400           | 1,726                               | 216                              | 20                       | 9,362           |  |
|                                    | (Won) 3,226,127 | (Won) 63,040                        | (Won) 46,710                     | (Won) 13,524             | (Won) 3,349,401 |  |

| <i>(in millions of Korean won)</i> |                 |                                     |                                  | 2005                     |                 |  |
|------------------------------------|-----------------|-------------------------------------|----------------------------------|--------------------------|-----------------|--|
|                                    | Cost of sales   | Selling and administrative expenses | Research and development expense | Construction-in-progress | Total           |  |
| 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 |  |

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LG. Philips LCD Co., Ltd.

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December 31, 2006 and 2005

**22. Segment Information**

The Company operates only one segment, the TFT-LCD division. Export sales represent about 92% of total sales for the year ended December 31, 2006.

The following is a summary of operations by country based on the location of the customers for the years ended December 31, 2006 and 2005:

*(in millions of Korean won)*

| Sales | Domestic      | Taiwan          | Japan           | America       | China           | Europe          | Others        | Total            |
|-------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|------------------|
| 2006  | (Won) 845,693 | (Won) 1,973,185 | (Won) 1,148,192 | (Won) 967,723 | (Won) 2,979,621 | (Won) 1,796,180 | (Won) 490,066 | (Won) 10,200,660 |
| 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  |

**23. Supplemental Cash Flow Information**

Significant transactions not affecting cash flows for the years ended December 31, 2006 and 2005, are as follows:

*(in millions of Korean won)*

|   | 2006          | 2005            |
|---|---------------|-----------------|
| Other accounts payable arising from the purchase of property, plant and equipment | (Won) 740,048 | (Won) 1,077,932 |

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

Significant operating results for the three-month period ended December 31, 2006, are as follows :

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

|                        |                 |
|------------------------|-----------------|
| Sales                  | (Won) 2,967,139 |
| Cost of sales          | 3,003,570       |
| Operating loss         | 150,838         |
| Net loss               | 174,345         |
| Loss per share         | 487             |
| Diluted loss per share | 487             |

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

**Notes to Non-Consolidated Financial Statements**

**December 31, 2006 and 2005**

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

The December 31, 2006 non-consolidated financial statements of the Company were approved at the Board of Directors meeting on January 16, 2007.

**26. Subsequent Events**

On January 16, 2007, the Board of Directors appointed Mr. Young Su Kwon to replace Mr. Bon Joon Koo as the Joint Representative Director of the Company. This appointment will be ratified by the shareholders during the 22nd Shareholders Meeting scheduled to be held on February 28, 2007.

In February 2007, the Company and certain of its officers and directors have been named as defendants in a federal class action in the United States by the shareholders of the Company alleging violations of the U.S. Securities Exchange Act of 1934, as amended, by the Company and certain of its officers and directors in connection with possible anti-competitive activities in the LCD industry. The Company and the officers and directors intend to defend themselves vigorously in this matter.

In February 2007, Anvik Corporation filed a patent infringement case against the Company, along with other LCD manufacturing companies, in connection with the usage of photo-masking equipments manufactured by Nikon Corporation.



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The English translation of the report of independent accountants' review of internal accounting control system is intended for reference only. The reader is advised to refer to the original report in Korean.

**Report of Independent Accountants**

**Review of Internal Accounting Control System**

To the President of

LG.Philips LCD Co., Ltd.

We have reviewed the accompanying 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, 2006. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that based on its assessment of the operations of the IACS as of December 31, 2006, the Company's IACS has been designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association.

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review management's assessment of its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

February 13, 2007

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

To the Board of Directors and Auditor (Audit Committee) of

LG.Philips LCD Co., Ltd.

I, as the Internal Accounting Control Officer ( IACO ) of LG.Philips LCD Co., Ltd. ( the Company ), assessed the status of the design and operations of the Company s internal accounting control system ( IACS ) for the year ended December 31, 2006.

The Company s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company s IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS standards.

January 16, 2007

Ron H. Wirahadiraksa

Internal Accounting Control System Officer

Bon Joon Koo

Chief Executive Officer or President

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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 30, 2007

By: /s/ Ron H. Wirahadiraksa  
(Signature)

Name: Ron H. Wirahadiraksa  
Title: Joint Representative Director/  
President & Chief Financial Officer