

LG.Philips LCD Co., Ltd.
Form 6-K
February 14, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

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

For the month of February 2006

LG.Philips LCD Co., Ltd.

(Translation of Registrant's name into English)

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

(Address of principal executive offices)

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

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Form 20-F X 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 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

Table of Contents**Submission of Audit Report**

1. Name of external auditor : Samil Accounting Corporation
2. Date of receiving audit report : February 14, 2006
3. Auditor's opinion

| | <u>FY 2005</u> | <u>FY 2004</u> |
|---|----------------|----------------|
| Audit Report on Consolidated Financial Statements | Unqualified | Unqualified |
| Audit Report on Non-consolidated Financial Statements | Unqualified | Unqualified |

4. Financial Highlights of Consolidated Financial Statements

(Unit: KRW M, Korean GAAP, Consolidated)

| <u>Items</u> | <u>FY 2005</u> | <u>FY 2004</u> |
|--|----------------|----------------|
| Total Assets | 13,674,082 | 10,357,302 |
| Total Liabilities | 5,998,485 | 4,584,660 |
| Total Shareholders' Equity | 7,675,597 | 5,772,642 |
| Revenues | 10,075,580 | 8,328,170 |
| Operating Income | 469,697 | 1,728,356 |
| Ordinary Income | 368,695 | 1,687,942 |
| Net Income | 517,012 | 1,655,445 |
| Total Shareholders' Equity / Capital Stock | 429.0% | 354.9% |

5. Financial Highlights of Non-consolidated Financial Statements

(Unit: KRW M, Korean GAAP, Non-consolidated)

| <u>Items</u> | <u>FY 2005</u> | <u>FY 2004</u> |
|--|----------------|----------------|
| Total Assets | 12,995,915 | 9,598,693 |
| Total Liabilities | 5,320,318 | 3,826,051 |
| Total Shareholders' Equity | 7,675,597 | 5,772,642 |
| Revenues | 8,890,155 | 8,079,891 |
| Operating Income | 447,637 | 1,640,708 |
| Ordinary Income | 367,281 | 1,683,067 |
| Net Income | 517,012 | 1,655,445 |
| Total Shareholders' Equity / Capital Stock | 429.0% | 354.9% |

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LG.Philips LCD Co., Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2005 and 2004

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

Report of Independent Auditors

To the 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, 2005 and 2004, and the related consolidated statements of income, 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, 2005 and 2004, 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.

As discussed in Note 1 and 16, 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 issued 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. The Company intends to use the proceeds from these sales to fund the capital expenditures in connection with the construction of TFT-LCD fabrication plant and other LCD facilities in Korea.

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

Seoul, Korea

January 20, 2006

This report is effective as of January 20, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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, 2005 and 2004***(in millions of Korean won)*

| | <u>2005</u> | <u>2004</u> |
|---|-------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 3) | (Won) 1,579,452 | (Won) 1,361,239 |
| Available-for-sale securities | 354 | 15 |
| Trade accounts and notes receivable, net (Notes 4, 5 and 21) | 1,266,899 | 890,507 |
| Inventories, net (Note 6) | 690,785 | 805,288 |
| Other accounts receivable, net (Notes 4 and 5) | 66,203 | 63,810 |
| Accrued income, net (Note 4) | 1,369 | 1,470 |
| Advance payments, net (Note 4) | 5,994 | 9,825 |
| Prepaid expenses | 21,603 | 28,612 |
| Prepaid value added tax | 131,230 | 95,596 |
| Deferred income tax assets (Note 19) | 5,373 | 385 |
| Other current assets (Note 15) | 76,806 | 134,731 |
| Total current assets | 3,846,068 | 3,391,478 |
| Property, plant and equipment, net (Note 8) | 9,199,599 | 6,528,182 |
| Long-term financial instruments (Note 3) | 16 | 16 |
| Available-for-sale securities | 1 | |
| Equity-method investments (Note 7) | 14,156 | |
| Non-current guarantee deposits | 28,070 | 23,341 |
| Long-term prepaid expenses | 83,112 | 49,654 |
| Deferred income tax assets (Note 19) | 343,754 | 172,621 |
| Intangible assets, net (Note 9) | 159,306 | 192,010 |
| Total assets | (Won) 13,674,082 | (Won) 10,357,302 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Short-term borrowings (Note 10) | (Won) 308,969 | (Won) 483,220 |
| Trade accounts and notes payable (Notes 5 and 21) | 693,588 | 581,581 |
| Other accounts payable (Note 5) | 1,474,556 | 1,013,467 |
| Advances received | 58,431 | 3,022 |
| Withholdings | 12,055 | 6,128 |
| Accrued expenses (Note 5) | 69,968 | 119,864 |
| Income taxes payable (Note 19) | 21,788 | 76,603 |
| Warranty reserve | 24,947 | 19,217 |
| Current maturities of long-term debts (Note 11) | 440,840 | 211,011 |
| Other current liabilities (Note 15) | 33,693 | 54,151 |
| Total current liabilities | 3,138,835 | 2,568,264 |
| Debentures, net of current maturities and discounts on debentures (Note 11) | 2,385,272 | 1,707,716 |
| Long-term debts, net of current maturities (Note 11) | 430,697 | 276,716 |
| Accrued severance benefits, net (Note 13) | 43,206 | 31,964 |
| Deferred income tax liabilities (Note 19) | 475 | |

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| | | |
|---|------------------|------------------|
| Total liabilities | 5,998,485 | 4,584,660 |
| 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 (2004 : 325 million) | 1,789,079 | 1,626,579 |
| Capital surplus (Note 17) | 2,279,250 | 1,012,271 |
| Retained earnings (Note 17) | 3,608,686 | 3,091,675 |
| Capital adjustments (Note 18) | (1,418) | 42,117 |
| Total shareholders' equity | 7,675,597 | 5,772,642 |
| Total liabilities and shareholders' equity | (Won) 13,674,082 | (Won) 10,357,302 |

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

Table of Contents**LG.Philips LCD Co., Ltd. and Subsidiaries****Consolidated Income Statements****Years Ended December 31, 2005 and 2004***(in millions of Korean won, except per share amounts)*

| | 2005 | 2004 |
|---|------------------|-----------------|
| Sales (Notes 21 and 23) | (Won) 10,075,580 | (Won) 8,328,170 |
| Cost of sales (Note 21) | 9,094,711 | 6,299,513 |
| Gross profit | 980,869 | 2,028,657 |
| Selling and administrative expenses | 511,172 | 300,301 |
| Operating income | 469,697 | 1,728,356 |
| Non-operating income | | |
| Interest income | 50,622 | 19,964 |
| Foreign exchange gains | 273,790 | 237,797 |
| Gain on foreign currency translation | 68,520 | 163,412 |
| Gain on disposal of property, plant and equipment | 128 | 253 |
| Others | 22,993 | 5,791 |
| | 416,053 | 427,217 |
| Non-operating expenses | | |
| Interest expense | 104,928 | 53,262 |
| Foreign exchange losses | 334,330 | 320,447 |
| Loss on foreign currency translation | 38,481 | 70,233 |
| Loss on valuation of investments using the equity method of accounting (Note 7) | 244 | |
| Loss on disposal of property, plant and equipment | 572 | 3,534 |
| Loss on disposal of accounts receivable | 16,858 | 8,870 |
| Loss on disposal of available-for-sale securities | | 25 |
| Loss on disposition of investment | | 121 |
| Donations | 2,319 | 11,094 |
| Ramp up cost | 18,928 | |
| Others | 395 | 45 |
| | 517,055 | 467,631 |
| Income before income taxes | 368,695 | 1,687,942 |
| Income tax benefit (expense) (Note 19) | 148,317 | (32,497) |
| Net income | (Won) 517,012 | (Won) 1,655,445 |
| Ordinary income per share (Note 20) | (Won) 1,523 | (Won) 5,420 |
| Earnings per share (Note 20) | (Won) 1,523 | (Won) 5,420 |

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| | | | | |
|---|-------|-------------------|-------|-------------------|
| Diluted ordinary income per share (Note 20) | (Won) | 1,523 | (Won) | 5,420 |
| | | <u> </u> | | <u> </u> |
| Diluted earnings per share (Note 20) | (Won) | 1,523 | (Won) | 5,420 |
| | | <u> </u> | | <u> </u> |

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, 2005 and 2004**

| <i>(in millions of Korean won)</i> | Common Stock | Capital Surplus | Retained Earnings | Capital Adjustments | Total |
|------------------------------------|-------------------------|----------------------------|------------------------------|--------------------------------|-----------------|
| Balance as of January 1, 2004 | (Won) 1,450,000 | (Won) 1,012,271 | (Won) 1,436,229 | (Won) 7,806 | (Won) 2,894,035 |
| Issuance of common stock | 176,579 | 1,012,271 | | | 1,188,850 |
| Net income | | | 1,655,445 | | 1,655,445 |
| Changes in capital adjustments | | | | 34,311 | 34,311 |
| Balance as of December 31, 2004 | 1,626,579 | 1,012,271 | 3,091,674 | 42,117 | 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 | (Won) 1,789,079 | (Won) 2,279,250 | (Won) 3,608,686 | (Won) (1,419) | (Won) 7,675,597 |

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, 2005 and 2004***(in millions of Korean won)*

| | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Net income | (Won) 517,012 | (Won) 1,655,445 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 1,746,901 | 1,228,191 |
| Amortization of intangible assets | 45,421 | 45,048 |
| Provision for severance benefits | 43,851 | 32,584 |
| Gain on foreign currency translation, net | (34,462) | (103,500) |
| Loss on disposal of available-for-sale securities | 25 | 25 |
| Loss on disposal of property, plant and equipment, net | 444 | 3,281 |
| Amortization of discount on debentures | 29,891 | 11,719 |
| Others | 29,153 | 13,909 |
| | <u>1,861,199</u> | <u>1,231,257</u> |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in trade accounts and notes receivable | (398,445) | 243,871 |
| Decrease (increase) in inventories | 114,503 | (468,114) |
| Increase in other accounts receivable | (2,415) | (59,961) |
| Decrease (increase) in accrued income | 101 | (1,187) |
| Decrease (increase) in advance payments | 3,832 | (6,617) |
| Decrease in prepaid expenses | 16,566 | 7,821 |
| Increase in prepaid value added tax | (35,634) | (5,511) |
| Decrease (increase) decrease in other current assets | 67,891 | (664) |
| Decrease in long-term other accounts receivable | 1 | 166 |
| Increase in long-term prepaid expenses | (43,016) | (28,070) |
| Increase in deferred income tax assets | (180,276) | (57,338) |
| Increase in trade accounts and notes payable | 122,926 | 179,409 |
| Increase in other accounts payable | 218,698 | 56,651 |
| Increase (decrease) in advances received | 56,179 | (3,524) |
| Increase (decrease) in withholdings | 5,927 | (6,475) |
| (Decrease) increase in accrued expenses | (49,896) | 13,635 |
| (Decrease) increase in income taxes payable | (54,815) | 35,406 |
| Decrease in warranty reserve | (23,179) | (14,472) |
| Decrease in other current liabilities | (54,133) | (10,763) |
| Accrued severance benefits transferred from affiliated company, net | 2,484 | 1,130 |
| Payment of severance benefits | (16,306) | (8,291) |
| Increase in severance insurance deposits | (18,817) | (14,499) |
| Decrease in contributions to the National Pension Fund | 29 | 77 |
| Decrease in consolidation adjustments, net | (2,000) | (13,248) |
| | <u>(269,795)</u> | <u>(160,568)</u> |
| Net cash provided by operating activities | <u>2,108,416</u> | <u>2,726,134</u> |

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

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from investing activities | | |
| Proceeds from disposal of available-for-sale securities | (Won) 253 | (Won) 253 |
| Acquisition of available-for-sale securities | (339) | (225) |
| Payment of non-current guarantee deposits | (4,732) | (6,156) |
| Proceeds from non-current guarantee deposits | 2 | 749 |
| Proceeds from disposal of property, plant and equipment | 461 | 6,156 |
| Acquisition of property, plant and equipment | (4,166,151) | (3,885,650) |
| Acquisition of intangible assets | (12,704) | (7,884) |
| Acquisition of equity method investment | (14,400) | |
| Decrease of short-term loan | (11) | |
| | <u> </u> | <u> </u> |
| Net cash used in investing activities | (4,197,874) | (3,892,757) |
| | <u> </u> | <u> </u> |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | | 373,118 |
| Repayment of short-term borrowings | (173,004) | (33,936) |
| Repayment of current maturities of long-term debt | (212,931) | (467,202) |
| Issuance of debentures | 1,073,684 | 811,171 |
| Proceeds from long-term debt | 218,580 | 151,915 |
| Proceeds from issuance of common stock | 1,401,342 | 1,188,850 |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 2,307,671 | 2,023,916 |
| | <u> </u> | <u> </u> |
| Net increase in cash and cash equivalents | 218,213 | 857,293 |
| Cash and cash equivalents (Note 24) | | |
| Beginning of the year | 1,361,239 | 503,946 |
| | <u> </u> | <u> </u> |
| End of the year | (Won) 1,579,452 | (Won) 1,361,239 |
| | <u> </u> | <u> </u> |

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, 2005 and 2004****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 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.

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

| | Number of Shares | Percentage of 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, 2005 and 2004****Consolidated Subsidiaries**

Consolidated subsidiaries as of December 31, 2005, are as follows:

| | <u>Total issued and outstanding shares</u> | <u>No. of shares owned by the Controlling Company</u> | <u>Percentage of Ownership (%)</u> |
|------------------------------------|--|---|--|
| Overseas Subsidiaries | | | |
| 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 L CD 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.zo.o. | 500 | 500 | 100 |

¹ 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, 2005 and 2004, 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, 2005 and 2004, 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)

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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, 2005 and 2004, its capital stock amounted to EUR1 million and is wholly owned by LG.Philips LCD Co., Ltd.

(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, 2005 and 2004, its capital stock amounted to NTD116 million and is wholly owned by LG.Philips LCD Co., Ltd.

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(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, 2005 and 2004, its capital stock amounted to CNY 1,069 million and CNY 753 million respectively, 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, 2005 and 2004, 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, 2005 and 2004, 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, 2005, its capital stock amounted to (Won)16 million and is 100% 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, 2005, its capital stock amounted to (Won)36,000 million and 40% shares of PEG is owned by LG.Philips LCD Co., Ltd.

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

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

Condensed Balance Sheet

| <i>(in millions of Korean won)</i> | LG.Philips LCD | | LG.Philips LCD | | LG.Philips LCD | |
|--|-----------------------|----------------------|------------------------|-------------------------|---|--|
| | America, Inc. | Germany GmbH | Japan.Co., Ltd. | Taiwan Co., Ltd. | LG.Philips LCD Nanjing Co., Ltd. | |
| Current assets | (Won) 179,547 | (Won) 195,139 | (Won) 166,443 | (Won) 406,261 | (Won) 790,923 | |
| Non-current assets | 997 | 748 | 1,018 | 2,073 | 228,535 | |
| Total assets | (Won) 180,544 | (Won) 195,887 | (Won) 167,461 | (Won) 408,334 | (Won) 1,019,458 | |
| Current liabilities | (Won) 171,592 | (Won) 192,632 | (Won) 163,337 | (Won) 395,659 | (Won) 682,932 | |
| Non-current liabilities | | | 18 | 443 | 133,120 | |
| Total liabilities | 171,592 | 192,632 | 163,355 | 396,102 | 816,052 | |
| Capital stock | 6,082 | 1,252 | 1,088 | 4,189 | 140,212 | |
| Retained earnings | 4,445 | 2,353 | 3,941 | 9,759 | 73,004 | |
| Capital adjustments | (1,575) | (350) | (923) | (1,716) | (9,810) | |
| Total shareholders equity | 8,952 | 3,255 | 4,106 | 12,232 | 203,406 | |
| Total liabilities and shareholders equity | (Won) 180,544 | (Won) 195,887 | (Won) 167,461 | (Won) 408,334 | (Won) 1,019,458 | |

| <i>(in millions of Korean won)</i> | LG. Philips LCD | | LG. Philips LCD | | LG. Philips LCD | |
|------------------------------------|---------------------------|---------------------------|------------------------|----------------|------------------------|--|
| | HongKong Co., Ltd. | Shanghai Co., Ltd. | Poland Sp z | o.o. | Total | |
| Current assets | (Won) 144,939 | (Won) 318,230 | (Won) 9 | (Won) 9 | (Won) 2,201,491 | |
| Non-current assets | 495 | 353 | | | 234,219 | |
| Total assets | (Won) 145,434 | (Won) 318,583 | (Won) 9 | (Won) 9 | (Won) 2,435,710 | |

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| | | | | |
|--|----------------------|----------------------|----------------|------------------------|
| Current liabilities | (Won) 141,776 | (Won) 315,870 | (Won) | (Won) 2,063,798 |
| Non-current liabilities | 31 | | | 133,612 |
| Total liabilities | 141,807 | 315,870 | | 2,197,410 |
| Capital stock | 1,736 | 596 | 16 | 155,171 |
| Retained earnings | 2,267 | 2,535 | (6) | 98,298 |
| Capital adjustments | (376) | (418) | (1) | (15,169) |
| Total shareholders equity | 3,627 | 2,713 | 9 | 238,300 |
| Total liabilities and shareholders equity | (Won) 145,434 | (Won) 318,583 | (Won) 9 | (Won) 2,435,710 |

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Condensed Income Statement

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

| <i>(in millions of Korean won)</i> | LG. Philips LCD HongKong Co., Ltd. | LG. Philips LCD Shanghai Co., Ltd. | LG. Philips LCD Poland Sp. z o.o. | Total |
|-------------------------------------|---|---|--|------------------|
| Sales | (Won) 1,160,715 | (Won) 1,184,751 | (Won) | (Won) 12,477,690 |
| Cost of sales | 1,153,589 | 1,178,182 | | 12,307,513 |
| Gross profit | 7,126 | 6,569 | | 170,177 |
| Selling and administrative expenses | 6,273 | 6,376 | 6 | 114,485 |
| Operating income (loss) | 853 | 193 | (6) | 55,692 |
| Non-operating income (expense) | 473 | 998 | | (12,575) |
| Ordinary income (loss) | 1,326 | 1,191 | (6) | 43,117 |
| Income tax expense | 168 | 181 | | 1,392 |
| Net income (loss) | (Won) 1,158 | (Won) 1,010 | (Won) (6) | (Won) 41,725 |

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company and its consolidated subsidiaries (collectively referred to as the consolidated companies) 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. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying consolidated financial statements.

Accounting Estimates

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

Application of the Statements of Korean Financial Accounting Standards

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

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

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 significant 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, 2005 and 2004

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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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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

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

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

The Company's proportionate unrealized profit arising from sales between the Company and the equity-method investees or sales between equity-method investees is eliminated.

Property, Plant and Equipment

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

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

| | <u>Estimated useful life</u> |
|-------------------------|------------------------------|
| Buildings | 20 - 40 years |
| Structures | 20 - 40 years |
| Machinery and equipment | 4 years |

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Vehicles

4 years

Tools, furniture and fixtures

3 - 5 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

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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

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, 2005, current lease transactions are classified only as operating leases and the related lease rentals are charged to expense when incurred.

Intangible Assets

Intangible assets, comprising 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 the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Discounts on Debentures

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date ((Won)1.013.0: US\$1 as of December 31, 2005; (Won)1,035.6 : US\$1 as of December 31, 2004), and the resulting translation gains and losses are recognized in current operations.

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.

Warranty Reserve

The Company provides warranty relating to product defects for a specified period of time after sale. Estimated costs of product warranties are charged to cost at the time of sale and are included in the accompanying balance sheet as a warranty reserve. The warranty reserve as of December 31, 2005 is (Won)24,947 million (December 31, 2004, (Won)19,217 million), and provision for warranty reserve for the year ended in December 31, 2005 is (Won)28,909 million (2004: (Won)13,909 million).

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Accrued Severance Benefits

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

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

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

Sales or Discount of Accounts Receivable

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

Derivatives

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

Convertible bonds

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

Stock Appreciation Plan

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

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

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

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

3. Cash and Cash Equivalents, and Financial Instruments

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

| <i>(in millions)</i> | Annual interest rate (%) as of December 31, 2005 | 2005 | 2004 |
|---|--|-----------|-----------|
| Cash and cash equivalents | | | |
| Cash on hand | | (Won) 6 | (Won) 7 |
| Checking accounts | | 51 | 122 |
| Time deposits | 3.5-3.7 | 942,359 | 1,130,869 |
| Passbook accounts in millions of foreign currencies of US\$ 517, JP¥ 268, EUR 6, NTD 93, CNY 706, HKD 96 (2004 : US\$, 139, JP¥ 146, EUR 2, NTD 100, CNY 585, HKD, 42) | 3.8 | 637,036 | 230,241 |
| | | 1,579,452 | 1,361,239 |
| Long-term financial instruments | | | |
| Guarantee deposit for checking accounts | 0.1-0.5 | 16 | 16 |

(Won) 1,579,468 (Won) 1,361,255

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

Table of Contents**LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2005 and 2004****4. Receivables**

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

| <i>(in millions of Korean won)</i> | 2005 | | | |
|-------------------------------------|------------------------|----------------------|---------------------|------------------------|
| | Gross | Allowance for | Discounts on | Carrying |
| | amount | accounts | value | value |
| Trade accounts and notes receivable | (Won) 1,270,781 | (Won) 3,882 | (Won) | (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) | (Won) 1,340,465 |

| <i>(in millions of Korean won)</i> | 2004 | | | |
|-------------------------------------|----------------------|----------------------|---------------------|----------------------|
| | Gross | Allowance for | Discounts on | Carrying |
| | amount | accounts | value | value |
| Trade accounts and notes receivable | (Won) 893,577 | (Won) 3,070 | (Won) | (Won) 890,507 |
| Other accounts receivable | 64,161 | 349 | 2 | 63,810 |
| Accrued income | 1,485 | 15 | | 1,470 |
| Advance payments | 9,924 | 99 | | 9,825 |
| | (Won) 969,147 | (Won) 3,533 | (Won) 2 | (Won) 965,612 |

There were no negotiated foreign currency receivables outstanding as of December 31, 2005, and 2004. As of December 31, 2005, trade bills to overseas subsidiaries negotiated through banks but not yet matured, which was recorded as short-term borrowing, amounted to (Won)303,904 million (December 31, 2004: (Won)410,824 million).

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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.

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

As of December 31, 2005, the outstanding balance of securitized accounts receivable held by the third party conduits totaled (Won)272,571 million (December 31, 2004: (Won)305,203 million), of which the Company's subordinated retained interest was (Won)52,532 million (December 31, 2004 : (Won)59,324 million). Accordingly, (Won)220,039 million (December 31, 2004: (Won)245,879 million) of accounts receivable balances, net of applicable allowances, was removed from the consolidated balance sheets at December 31, 2005. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately (Won)8,737 million for the year ended December 31, 2005.

5. Assets and Liabilities Denominated in Foreign Currencies

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

| <i>(in millions)</i> | 2005 | | 2004 | |
|-------------------------------------|--------------------------|---|--------------------------|---|
| | Korean Won equivalent | Foreign currency | Korean Won equivalent | Foreign Currency |
| Trade accounts and notes receivable | (Won) 1,258,328 | US\$ 480 JP¥ 16,914 EUR 142 NTD 10,773 HKD 938 | (Won) 859,505 | US\$ 494 JP¥ 3,396 EUR 64 NTD 3,196 HKD 896 |
| Other accounts receivable | 63,535 | US\$ 7 JP¥ 705 EUR 15 NTD 1,006 CNY 8 | 63,739 | US\$ 6 JP¥ 1,003 EUR 9,986 NTD 21 CNY |
| Trade accounts and notes payable | 291,505 | US\$ 63 JP¥ 11,150 EUR 1 CNY 1,041 HKD | 298,173 | US\$ 61 JP¥ 10,440 NTD 2 CNY 1,038 HKD |
| Other accounts payable | 197,188 | US\$ 14 JP¥ 16,170 EUR 17 NTD 24 CNY 179 HKD 3 | 158,879 | US\$ 13 JP¥ 10,651 EUR 11 NTD 22 CNY 171 HKD 2 |
| Accrued expenses | 10,886 | | 17,469 | |

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| | | | | | | |
|-------------------|--------|------|----|--|------|----|
| | | US\$ | 7 | | US\$ | 14 |
| | | JP¥ | 8 | | JP¥ | 8 |
| | | EUR | 1 | | EUR | |
| | | NTD | 46 | | NTD | 27 |
| | | CNY | 12 | | CNY | 10 |
| | | HKD | 1 | | HKD | 1 |
| Advanced received | 51,991 | US\$ | 51 | | US\$ | |

Table of Contents**LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2005 and 2004****6. Inventories**

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

(in millions of Korean won)

| | 2005 | 2004 |
|-----------------------|---------------|---------------|
| Finished products | (Won) 355,532 | (Won) 536,645 |
| Work-in-process | 170,775 | 148,511 |
| Raw materials | 142,717 | 125,202 |
| Supplies | 66,142 | 54,067 |
| | 735,166 | 864,425 |
| Less : Valuation loss | (44,381) | (59,137) |
| | (Won) 690,785 | (Won) 805,288 |

As of December 31, 2005, inventories and property, plant and equipment are insured against fire and other casualty losses up to (Won)30,088,637 million, CNY 5,451 million, US\$ 19 million, NTD 5 million and EUR 11 million (December 31, 2004: (Won)26,873,073 million, CNY 5,490 million, US\$ 44 million, NTD 10 million and EUR 5 million). Also, as of December 31, 2005, the Company insured directors and officers liabilities up to US\$ 100 million (December 31, 2004: (Won)85 million).

7. Equity-method Investment

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

| <i>(in millions of Korean won)</i> | 2005 | | | | |
|------------------------------------|--|-----------------------------------|---------------------|------------------------------|-------------------|
| | No. of shares owned by the Company | Percentage of Ownership (%) | Acquisition cost | Market or net asset value | Carrying value |
| 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, 2005 and 2004**

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

Condensed Balance Sheets

(in millions of Korean won)

| | Paju Electric Glass |
|---|----------------------------|
| Current assets | (Won) 26,250 |
| Non-current assets | 27,829 |
| Total assets | (Won) 54,079 |
| Current liabilities | (Won) 18,872 |
| Non-current liabilities | |
| Total liabilities | 18,872 |
| Capital stock | 36,000 |
| Retained earnings | (608) |
| Capital adjustments | (185) |
| Total shareholders' equity | 35,207 |
| Total liabilities and shareholders' equity | (Won) 54,079 |

Condensed Income Statement

(In millions of Korean won)

| | Paju Electric Glass |
|-------------------------------------|----------------------------|
| Sales | (Won) |
| Cost of sales | |
| Gross profit | |
| Selling and administrative expenses | 669 |

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| | |
|----------------------|-------------|
| Operating loss | (669) |
| Non-operating income | 60 |
| | <hr/> |
| Ordinary loss | (609) |
| Income tax expense | |
| | <hr/> |
| Net loss | (Won) (609) |
| | <hr/> |

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

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

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. Property, Plant and Equipment

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

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

| | Vehicles | Other | Machinery-in-transit | Construction-in-progress | Total |
|---------------------------------|-------------------------------|-------------|----------------------|--------------------------|-----------------|
| | Balance as of January 1, 2005 | (Won) 4,961 | (Won) 2,501 | (Won) 704,588 | (Won) 953,145 |
| 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 |

2004

| <i>(in millions of Korean won)</i> | 2004 | | | | | |
|------------------------------------|---------------|---------------|---------------|-------------------------|--------------|------------------------|
| | Land | Buildings | Structures | Machinery and equipment | Tools | Furniture and fixtures |
| Balance as of January 1, 2004 | (Won) 88,669 | (Won) 530,769 | (Won) 119,091 | (Won) 2,087,283 | (Won) 19,171 | (Won) 75,334 |
| Acquisition during the year | 23 | 55,300 | 2,016 | 47,188 | 8,885 | 47,128 |
| Capitalized interest | 55 | 4,147 | | 18,327 | | |
| Depreciation | | (43,603) | (5,834) | (1,119,267) | (10,692) | (47,344) |
| Disposal | | (88) | | (4,766) | (3) | (4,580) |
| Transfers | 224,873 | 337,629 | (398) | 2,405,163 | 8,571 | 19,940 |
| Balance as of December 31, 2004 | (Won) 313,620 | (Won) 884,154 | (Won) 114,875 | (Won) 3,433,928 | (Won) 25,932 | (Won) 90,478 |
| Accumulated depreciation | (Won) | (Won) 126,580 | (Won) 20,005 | (Won) 4,273,741 | (Won) 44,666 | (Won) 142,427 |

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| | Vehicles | Other | Machinery in-transit | Construction- in-progress | Total |
|--|--------------------|--------------------|-------------------------|------------------------------|------------------------|
| Balance as of January 1, 2004 | (Won) 3,048 | (Won) 1,529 | (Won) 28,521 | (Won) 993,992 | (Won) 3,947,407 |
| Acquisition during the year | 3,334 | | 1,333,467 | 2,295,070 | 3,792,411 |
| Capitalized interest | | | 4,747 | 5,412 | 32,688 |
| Depreciation | (1,451) | | | | (1,228,191) |
| Disposal | | | | | (9,437) |
| Transfers | 30 | 972 | (662,147) | (2,341,329) | (6,696) |
| Balance as of December 31, 2004 | (Won) 4,961 | (Won) 2,501 | (Won) 704,588 | (Won) 953,145 | (Won) 6,528,182 |
| Accumulated depreciation | (Won) 3,762 | (Won) | (Won) | (Won) | (Won) 4,611,181 |

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

The Company capitalizes the loss (gain) on foreign currency rate changes and interest expense incurred on borrowings used to finance the cost of constructing facilities and equipment. Capitalized loss on foreign exchange rate fluctuations and interest expense for the year ended December 31, 2005, is (Won)46,719 million (2004: (Won)32,688 million).

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

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

Balance sheet

| <i>(in millions of Korean won)</i> | If interest expenses are capitalized | | If interest expenses are expensed as incurred | | Difference |
|------------------------------------|---|-------------|--|-------------|-------------|
| | Acquisition cost | Accumulated | Acquisition cost | Accumulated | Accumulated |

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| | <u>depreciation</u> | <u>depreciation</u> | <u>depreciation</u> | <u>depreciation</u> | <u>Acquisition cost</u> | <u>depreciation</u> |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------|---------------------|
| Property, plant and equipment | (Won) 15,503,110 | (Won) 6,303,511 | (Won) 15,414,376 | (Won) 6,289,740 | (Won) 88,734 | (Won) 13,771 |

Statement of income

| <i>(in millions of Korean won)</i> | <u>If interest expenses are capitalized</u> | | <u>If interest expenses are expensed as incurred</u> | | <u>Difference</u> |
|------------------------------------|---|-----------|--|-----------|-------------------|
| Depreciation | (Won) | 1,750,502 | (Won) | 1,740,556 | (Won) 9,946 |
| Interest expense | | 104,928 | | 155,780 | (50,852) |
| Foreign currency translation gain | | 68,520 | | 72,653 | 4,133 |
| Net income | | 517,012 | | 480,239 | (36,773) |

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9. Intangible Assets

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

| <i>(in millions of Korean won)</i> | 2005 | | | | |
|------------------------------------|---|---|-----------------|---------------|---------------|
| | Intellectual property rights | Rights for industrial water facilities | Software | Others | Total |
| Balance as of January 1, 2005 | (Won) 172,073 | (Won) 9,893 | (Won) 9,785 | (Won) 259 | (Won) 192,010 |
| Acquisition during the year | 10,829 | 12 | 1,894 | | 12,735 |
| Reversal | | (18) | | | (18) |
| Amortization | (41,889) | (1,234) | (2,266) | (32) | (45,421) |
| Balance as of December 31, 2005 | (Won) 141,013 | (Won) 8,653 | (Won) 9,413 | (Won) 227 | (Won) 159,306 |
| Accumulated amortization | (Won) 285,141 | (Won) 3,646 | (Won) 11,561 | (Won) 1,115 | (Won) 301,463 |
| | | | | | |
| | | | | | |
| <i>(in millions of Korean won)</i> | 2004 | | | | |
| | Intellectual property rights | Rights for industrial water facilities | Software | Others | Total |
| Balance as of January 1, 2004 | (Won) 209,922 | (Won) 4,287 | (Won) 8,144 | (Won) 128 | (Won) 222,481 |
| Acquisition during the year | 3,269 | 6,461 | 4,694 | 153 | 14,577 |
| Amortization | (41,118) | (855) | (3,053) | (22) | (45,048) |
| Balance as of December 31, 2004 | (Won) 172,073 | (Won) 9,893 | (Won) 9,785 | (Won) 259 | (Won) 192,010 |
| Accumulated amortization | (Won) 243,252 | (Won) 2,412 | (Won) 9,295 | (Won) 1,083 | (Won) 256,042 |

The Company has classified the amortization as part of manufacturing overhead cost. The total amortization expense for the year ended December 31, 2005, amount to (Won)45,421 million (2004: (Won)45,048 million).

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

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

The Company expensed research and development costs of (Won)365,437 million for the year ended December 31, 2005 (2004: (Won)255,327 million).

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For the years ended December 31, 2005 and 2004, the significant expenses, which are expected to have probable future economic benefits but expensed in the period incurred, consist of the following:

(in millions of Korean won)

| | 2005 | 2004 |
|---------------------------------------|---------------------|---------------------|
| Training expenses | (Won) 15,042 | (Won) 13,258 |
| Advertising expenses | 21,907 | 5,524 |
| Expenses for foreign market expansion | 8,835 | 7,377 |
| | <u>(Won) 45,784</u> | <u>(Won) 26,159</u> |

10. Short-Term Borrowings

Short-term borrowings as of December 31, 2005 and 2004, are as follows:

| <i>(in millions of Korean won)</i> | Creditor | Annual interest rates (%) as of December 31, | | |
|--|------------------------|--|----------------------|----------------------|
| | | 2005 | 2005 | 2004 |
| Documents against acceptance of US\$ 300 million (2004 : US\$ 369 million and JP¥ 2,808 million) | Woori Bank and others | 3M Libor + 0.7~0.9 | (Won) 303,904 | (Won) 410,824 |
| General loans of US\$ 5 million (2004 : US\$ 61 million, JP¥ 393 million and CNY 43 million) | Mizuho Bank and others | 3M Libor + 0.5~0.8 | 5,065 | 72,396 |
| | | | <u>(Won) 308,969</u> | <u>(Won) 483,220</u> |

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

| <i>(in millions of Korean won)</i> | Annual interest rates (%) as of December 31, 2005 | 2005 | 2004 |
|--|--|------------------------|------------------------|
| Won currency debentures | | | |
| Non-guaranteed, payable through 2010 | 3.5 ~ 6.0 | (Won) 1,750,000 | (Won) 1,350,000 |
| Private debentures, payable in 2010 | 5.89 | 200,000 | |
| Less: Current maturities | | (200,000) | |
| Discounts on debentures | | (28,120) | (33,396) |
| | | <u>1,721,880</u> | <u>1,316,604</u> |
| Foreign currency debentures | | | |
| Floating rate notes, payable through 2007 | 3ML+0.6~3ML+1.1 | 304,913 | 416,311 |
| Term notes, payable through 2006 | 3ML+1.1 | 82,559 | 168,803 |
| | | <u>387,472</u> | <u>585,114</u> |
| Less: Current maturities | | (184,872) | (188,997) |
| Discount on debentures | | (1,960) | (5,005) |
| | | <u>200,640</u> | <u>391,112</u> |
| Convertible bonds¹ | | | |
| US dollar-denominated bond, payable through 2010 | | 483,780 | |
| Add : Call premium | | 84,613 | |
| Less : Current maturities | | | |
| Discount on debentures | | (2,724) | |
| Conversion adjustment | | (102,917) | |
| | | <u>462,752</u> | |
| | | <u>(Won) 2,385,272</u> | <u>(Won) 1,707,716</u> |
| Won currency loans | | | |
| General loans | 5.9~6.1 | (Won) 117,800 | (Won) 117,800 |
| | 3.25 | 8,620 | |
| Less : Current maturities | | (29,417) | |

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| | | | |
|-------------------------------|---|---------------|---------------|
| | | 97,003 | 117,800 |
| Foreign currency loans | | | |
| General loans | 4.6~5.5, 3ML+1.1, 6ML+1.2, 3ML+1.35, 3ML+0.99 | 362,908 | 182,911 |
| Less : Current maturities | | (29,214) | (23,995) |
| | | 333,694 | 158,916 |
| | | (Won) 430,697 | (Won) 276,716 |

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¹ 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, 2005, the number of non-converted common shares is 8,276,681.

As of December 31, 2005, the foreign currency debentures denominated in U.S. dollars amount to US\$ 383 million (December 31, 2004 : US\$ 565 million), while the foreign currency loans denominated in U.S. dollars and Chinese yuan renminbi amounted to US\$ 326 million and CNY 263 million (December 31, 2004 : US\$ 159 million and CNY 145 million), respectively.

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

(in millions of Korean won)

| Type of borrowing | Annual interest rate (%) as of December 31, 2005 | 2005 | 2004 |
|--|--|---------------|---------------|
| Long -term debt in won currency loans | 5.9-6.1 | (Won) 29,417 | (Won) |
| Long-term debt in won currency debt | 6.0 | 200,000 | |
| Long-term debt in foreign currency debentures of US\$ 183 million (2004: US\$ 183 million) | 3ML+1.1 | 184,872 | 188,997 |
| Long-term debt in foreign currency loans of US\$ 28 million (2004: US\$ 24 million) | 3ML+1.1, 5.3 | 29,215 | 23,995 |
| | | 443,504 | 212,992 |
| Less: Discount on debentures | | (2,664) | (1,981) |
| | | (Won) 440,840 | (Won) 211,011 |

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

(in millions of Korean won)

| For the year ending December 31, | Won currency debentures | Won currency loans | Foreign currency debentures | Convertible bonds | Foreign currency loans | Total |
|----------------------------------|----------------------------|--------------------------|-----------------------------------|----------------------|------------------------------|-----------------|
| 2007 | (Won) 300,000 | (Won) 39,267 | (Won) 202,600 | (Won) | (Won) 46,646 | (Won) 588,513 |
| 2008 | 250,000 | 39,266 | | | 103,304 | 392,570 |
| 2009 | 600,000 | 9,850 | | | 72,873 | 682,723 |
| 2010 | 600,000 | 862 | | 483,780 | 72,884 | 1,157,526 |
| 2011 | | 1,724 | | | 30,390 | 32,114 |
| 2012 | | 1,724 | | | 7,597 | 9,321 |
| Thereafter | | 4,310 | | | | 4,310 |
| | (Won) 1,750,000 | (Won) 97,003 | (Won) 202,600 | (Won) 483,780 | (Won) 333,694 | (Won) 2,867,077 |

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, 2005, future lease payments under these operating lease agreements are as follows:

(in millions of Korean won)

| For the period ending December 31, | Annual payment |
|------------------------------------|----------------|
| 2006 | (Won) 1,564 |
| 2007 | 516 |
| 2008 | 195 |
| 2009 | 45 |
| 2010 | 17 |
| Total | (Won) 2,337 |

Table of Contents**LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2005 and 2004****13. Accrued Severance Benefits**

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

(in millions of Korean won)

| | 2005 | 2004 |
|---|--------------|--------------|
| Balance at the beginning of the year | (Won) 81,981 | (Won) 56,558 |
| Actual severance payments | (16,306) | (8,291) |
| Transferred from / to affiliated companies, net | 2,484 | 1,130 |
| Provision for severance benefits | 43,851 | 32,584 |
| | 112,010 | 81,981 |
| Cumulative deposits to National Pension Fund | (708) | (737) |
| Severance insurance deposit | (68,096) | (49,280) |
| Balance at the end of the year | (Won) 43,206 | (Won) 31,964 |

The severance benefits are funded approximately 60.8% (2004 : 60.1%) as of December 31, 2005, 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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On April 7, 2005, the Company granted 450,000 shares of stock appreciations rights (SARs) for certain executives. Under the terms of this plan, executives, upon exercising their SARs, are entitled to receive cash equal to the excess of the market price of the Company's common stock over the exercise price of (Won)44,050 per share. The exercise price decreased from (Won)44,260 to (Won)44,050 due to the additional issuance of common stock in 2005. These SARs are exercisable on or after April 8, 2008, through April 7, 2012. Additionally, when the increase rate of the Company's share price is the same or less than the increase rate of the Korea Composite Stock Price Index (KOSPI) over the three-year period following the grant date, only 50% of the initially granted shares can be exercised.

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

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

¹ Option canceled due to the retirement of an executive officer.

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

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15. Commitments and Contingencies

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

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

As of December 31, 2005, the Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities up to an aggregate of US\$1,175 million. The Company has made agreements with several banks in relation to the opening of letters of credit amounting to (Won)140,000 million and US\$145 million.

LPLA has entered into a line of credit agreement, 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¥1,000 million and NTD35 million, respectively, relating to their local tax payments.

As of December 31, 2005, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others, and also 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 follows :

| <i>(in millions)</i> | | | | |
|--------------------------|-------------------------|------------------------|---------------------------------------|----------------------|
| <u>Contracting party</u> | <u>Selling position</u> | <u>Buying position</u> | <u>Contract foreign exchange rate</u> | <u>Maturity date</u> |
| HSBC and others | US\$ 3,266 | (Won)3,357,233 | | |

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| | | | | |
|-----------------------------------|--------------|--------------|--|---|
| | | | (Won)994.31:US\$1- (Won)1,058.65:US\$1 | January 2, 2006 - December 12, 2006 |
| Citibank and others | EUR 104 | (Won)131,182 | (Won)1,219.31:EUR 1- (Won)1,352.44:EUR1 | January 23, 2006 - December 20, 2006 |
| ABN AMRO and others | (Won)370,919 | JP¥ 40,239 | (Won)8.669: JP¥1- (Won)9.92:JP¥1 | January 2, 2006 - December 1, 2006 |
| Korea Exchange Bank and others | US\$ 135 | JP¥ 15,800 | JP¥112.23: US\$1- JP¥120.4: US\$1 | January 4, 2006 - March 28, 2006 |

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

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

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

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

A summary of such contracts follows:

(in millions)

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

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

The Company is subject to several legal proceedings and claims arising in the ordinary course of business. In August 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process for TFT-LCDs. Subsequently the Company filed a complaint against customers of Chunghwa Picture

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Tubes, including ViewSonic Corp., Jeans Co, Lite-On Technology Corp., Lite-On Technology International, Inc., TpV Technology and Invision Peripheral Inc. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged infringement of certain patents and violation of U.S. antitrust laws. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In May 2004, the Company filed a complaint against Tatung Co., the parent company of Chunghwa Picture Tubes and ViewSonic Corp. and

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others, claiming patent infringement of rear mountable liquid crystal display devices in the United States District of Delaware and the Patent Country Court in the United Kingdom. On November 28, 2005, the Company lost its patent infringement case against Tatung Company and ViewSonic Corp. at first instance in Patent Country Court in United Kingdom, and the Company is preparing the appeal against the decision of U.K. Court. In January 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against the Company. On May 13, 2005, the Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process for TFT-LCDs in the United States District of Delaware. On September 20, 2005, the United States District Court for the Central District of California dismissed the patent case against Tatung Company and other defendants regarding the patent infringement by Chunghwa Picture Tubes relating to side mounting patent. Thereafter, the Company has revised its claim and has refilled the above complaint including the side mounting patent. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have any material adverse effect on the Company's financial condition, results of operations or cash flows.

16. Capital Stock

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

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

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December 31, 2005 and 2004

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

(in millions of Korean won)

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

17. Capital Surplus and Retained Earnings

Capital surplus as of December 31, 2005 and 2004, consists of:

(in millions of Korean won)

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

¹ Net of tax effects.

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

Retained earnings as of December 31, 2005 and 2004, consists of:

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|--------------------------------------|------------------------|------------------------|
| Legal reserve | (Won) 60,086 | (Won) 60,086 |
| Reserve for business rationalization | 68,251 | 68,251 |
| Unappropriated retained earnings | 3,480,349 | 2,963,338 |
| | <u>(Won) 3,608,686</u> | <u>(Won) 3,091,675</u> |

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

18. Capital Adjustments

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

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|---------------------|
| Overseas subsidiary translation adjustment ¹ | (Won) (11,729) | (Won) (13,170) |
| Gain on valuation of derivative instruments | 29,293 | 55,287 |
| Loss on valuation of derivative instruments | (18,982) | |
| | <u>(Won) (1,418)</u> | <u>(Won) 42,117</u> |

¹ Net of tax effects.

19. Income Taxes

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

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------------|-----------------------------|
| Current income taxes | (Won) 31,981 | (Won) 89,449 |
| Deferred income taxes from temporary differences | (20,519) | (11,638) |
| Deferred income taxes from accumulated deficit carryforward | | |
| Deferred income taxes from tax credit | (155,148) | (45,314) |
| Deferred income taxes added to shareholders' equity | (4,631) | |
| | <u> </u> | <u> </u> |
| Income tax expense (benefit) | <u>(Won) (148,317)</u> | <u>(Won) 32,497</u> |

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

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

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|
| Inventories | (Won) 8,570 | (Won) 7,958 |
| Other current assets | (4,133) | (2,158) |
| Property, plant and equipment | 34,762 | 24,631 |
| Warranty liabilities | 4,320 | 2,619 |
| Tax credit carryforward | 292,976 | 137,828 |
| Deferred income taxes added to shareholders' equity | (4,631) | |
| Others | 16,788 | 1,743 |
| | <u>(Won) 348,652</u> | <u>(Won) 172,621</u> |

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

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

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|----------------------------|----------------------|------------------------|
| Income before income taxes | (Won) 368,695 | (Won) 1,687,942 |
| Add (deduct) : | | |
| Temporary differences | 61,467 | 23,470 |
| Permanent differences | 1,578 | (42,933) |
| Taxable income | <u>(Won) 431,740</u> | <u>(Won) 1,668,479</u> |

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

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2004, and was amended to 27.5% effective for fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003. 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, 2005, is negative 40.23% (2004: 1.93%).

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

(in millions of Korean won)

| | <u>January 1, 2005</u> | <u>Increase (decrease)</u> | <u>December 31, 2005</u> |
|--------------------------------|------------------------|----------------------------|--------------------------|
| Inventories | (Won) 49,693 | (Won) (8,750) | (Won) 40,943 |
| Derivatives | (14,157) | (4,072) | (18,229) |
| Property, plant and equipment | 109,496 | 30,989 | 140,485 |
| Warranty accrual | 15,151 | 5,450 | 20,601 |
| Others | 10,884 | 37,850 | 48,734 |
| Total | (Won) 171,067 | (Won) 61,467 | (Won) 232,534 |
| Addition to capital | (Won) | (Won) (31,350) | (Won) (31,350) |
| Tax credit carryforward | (Won) 137,828 | (Won) 155,148 | (Won) 292,976 |

20. Earnings Per Share

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

the period.

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

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

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

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

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

(in millions, except for per share amount)

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

¹ Net of tax effect.

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Additionally, earnings per share for the three-month period ended September 30, 2005, were:

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

Table of Contents**LG.Philips LCD Co., Ltd. and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2005 and 2004****21. Related Party Transactions**

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

Between LG.Philips LCD and consolidated subsidiaries*(in millions of Korean won)*

| | <u>2005</u> | <u>2004</u> |
|----------------------------------|-----------------|-----------------|
| Sales ¹ | (Won) 7,870,776 | (Won) 7,066,182 |
| Purchases ¹ | 10,701 | 1,299 |
| Accounts receivable ² | 1,237,187 | 883,856 |
| Accounts payable ² | 12,004 | 217 |

¹ Includes sale of property, plant and equipment.

² Includes other accounts receivable and other accounts payable.

Between consolidated subsidiaries*(in millions of Korean won)*

| | <u>2005</u> | <u>2004</u> |
|---------------------------------|---------------|---------------|
| Accounts receivable and payable | (Won) 571,563 | (Won) 260,258 |
| Sales and purchases | 3,411,230 | 1,284,750 |

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, as of and for the years ended December 31, 2005 and 2004, are summarized as follows:

(in millions of Korean won)

| | <u>Sales ¹</u> | <u>Purchases ¹</u> | <u>Receivables</u> | <u>Payables</u> |
|---------------------|---------------------------|-------------------------------|--------------------|-----------------|
| LG Electronics Inc. | (Won) 1,821,507 | (Won) 179,577 | (Won) 219,327 | (Won) 66,751 |

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| | | | | |
|------------------|-----------------|-----------------------------|-----------------------------|-----------------------------|
| LG Corporation | | 11,218 | 10,970 | 1,692 |
| LG Chem Ltd. | | 620,930 | | 72,319 |
| LG International | 743,768 | 1,338,057 | 47,515 | 198,422 |
| Serveone | | 146,109 | | 36,792 |
| LG Micron Ltd. | | 125,224 | | 55,234 |
| LG CNS | | 113,615 | | 32,370 |
| Philips | 1,323,637 | 52,229 | 176,599 | 4,548 |
| Others | 75,142 | 61,959 | 22,320 | 9,790 |
| | | <u> </u> | <u> </u> | <u> </u> |
| 2005 Total | (Won) 3,964,054 | (Won) 2,648,918 | (Won) 476,731 | (Won) 477,918 |
| | | <u> </u> | <u> </u> | <u> </u> |
| 2004 Total | (Won) 3,342,602 | (Won) 3,451,889 | (Won) 427,914 | (Won) 669,301 |
| | | <u> </u> | <u> </u> | <u> </u> |

¹ Includes sale and purchases of property, plant and equipment.

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

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LG.Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

22. Value Added Information

Value added information for the years ended December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i> | 2005 | | | | |
|------------------------------------|------------------------|------------------------------------|-----------------------------------|--------------------------|------------------------|
| | Cost of Sales | Selling and administrative expense | Research and development expenses | Construction-in-progress | Total |
| 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 |
| | <u>(Won) 2,271,992</u> | <u>(Won) 97,408</u> | <u>(Won) 31,686</u> | <u>(Won) 55,641</u> | <u>(Won) 2,456,727</u> |

| <i>(in millions of Korean won)</i> | 2004 | | | | |
|------------------------------------|------------------------|-------------------------------------|-----------------------------------|--------------------------|------------------------|
| | Cost of Sales | Selling and administrative expenses | Research and development expenses | Construction-in-progress | Total |
| Salaries and wages | (Won) 301,716 | (Won) 54,298 | (Won) 17,259 | (Won) 34,404 | (Won) 407,677 |
| Severance benefits | 24,023 | 3,491 | 1,598 | 3,472 | 32,584 |
| Employee fringe benefits | 59,122 | 7,369 | 2,679 | 2,270 | 71,440 |
| Rent | 1,670 | 5,114 | 402 | | 7,186 |
| Depreciation | 1,256,034 | 6,909 | 7,685 | 2,611 | 1,273,239 |
| Taxes and dues | 3,870 | 2,791 | 151 | 105 | 6,917 |
| | <u>(Won) 1,646,435</u> | <u>(Won) 79,972</u> | <u>(Won) 29,774</u> | <u>(Won) 42,862</u> | <u>(Won) 1,799,043</u> |

23. Segment Information

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

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

(in millions of Korean won)

| Sales | Domestic | Asia | North America | Europe | Others | Total |
|--------------|-----------------|-----------------|--------------------------|-----------------|---------------|------------------|
| 2005 | (Won) 990,900 | (Won) 6,688,993 | (Won) 1,062,374 | (Won) 1,329,989 | (Won) 3,324 | (Won) 10,075,580 |
| 2004 | (Won) 890,194 | (Won) 5,672,782 | (Won) 752,971 | (Won) 1,008,645 | (Won) 3,578 | (Won) 8,328,170 |

Table of Contents**24. Supplemental Cash Flow Information**

Significant transaction not affecting cash flow for the years ended December 31, 2005 and 2004, follows:

(in millions of Korean won)

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

25. Approved of Financial Statement

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

26. Reclassification of prior year financial statement presentation

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

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LG.Philips LCD Co., Ltd.

Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

Report of Independent Auditors

To the Board of Directors and Shareholders of

LG.Philips LCD Co., Ltd.

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

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

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

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

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

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

Seoul, Korea

January 20, 2006

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

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

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

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

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

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

Years ended December 31, 2005 and 2004

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

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

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

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

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LG.Philips LCD Co., Ltd.

Non-Consolidated Statements of Appropriations of Retained Earnings

Years ended December 31, 2005 and 2004

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

(in millions of Korean won)

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

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

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

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

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

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

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

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

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

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

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

Accounting Estimates

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

Application of the Statements of Korean Financial Accounting Standards

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

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

Cash and Cash Equivalents

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

Revenue Recognition

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Allowance for Doubtful Accounts

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

Inventories

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

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

Investments in Affiliates and Other Investments

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

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

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

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

Property, Plant and Equipment

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

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

| | <u>Estimated useful lives</u> |
|-------------------------------|--------------------------------------|
| 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.

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Intangible Assets

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

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

Discounts on Debentures

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

Foreign Currency Translation

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

Warranty Reserve

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

Accrued Severance Benefits

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

Sales or Discount of Accounts Receivable

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

Derivatives

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

Convertible bonds

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

Stock Appreciation Plan

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

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

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

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

3. Cash and Cash Equivalents, and Financial Instruments

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

4. Receivables

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

| <i>(in millions of Korean won)</i> | 2005 | | | |
|-------------------------------------|------------------------|----------------------|------------------|------------------------|
| | Gross | Allowance for | Discounts on | Carrying |
| | amount | doubtful accounts | present value | value |
| Trade accounts and notes receivable | (Won) 1,035,155 | (Won) 959 | (Won) | (Won) 1,034,196 |
| Other accounts receivable | 16,148 | 397 | | 15,751 |
| Accrued income | 1,383 | 14 | | 1,369 |
| Advance payments | 6,019 | 60 | | 5,959 |
| | <u>(Won) 1,058,705</u> | <u>(Won) 1,430</u> | <u>(Won)</u> | <u>(Won) 1,057,275</u> |
| | | | | |
| | | | | |
| <i>(in millions of Korean won)</i> | 2004 | | | |
| | Gross | Allowance for | Discounts on | Carrying |
| | amount | doubtful accounts | present value | value |
| Trade accounts and notes receivable | (Won) 636,724 | (Won) 821 | (Won) | (Won) 635,903 |
| Other accounts receivable | 7,012 | 320 | 2 | 6,690 |
| Accrued income | 1,485 | 15 | | 1,470 |
| Advance payments | 9,892 | 99 | | 9,793 |
| | <u>(Won) 655,113</u> | <u>(Won) 1,255</u> | <u>(Won) 2</u> | <u>(Won) 653,856</u> |

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

5. Assets and Liabilities Denominated in Foreign Currencies

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

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

6. Inventories

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

| <i>(in millions of Korean won)</i> | 2005 | 2004 |
|------------------------------------|---------------|---------------|
| Finished products | (Won) 191,918 | (Won) 244,084 |
| Work-in-process | 131,483 | 112,538 |
| Raw materials | 124,999 | 108,221 |
| Supplies | 59,750 | 53,133 |

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| | | |
|-----------------------|----------------------|----------------------|
| | 508,150 | 517,976 |
| Less : Valuation loss | (36,385) | (49,977) |
| | <u>(Won) 471,765</u> | <u>(Won) 467,999</u> |

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

7. Equity-method Investments

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

| <i>(in millions of Korean won)</i> | 2005 | | | | |
|---|--|-----------------------------------|---------------------|---------------------------------|-------------------|
| | No. of shares owned by the Company | Percentage of Ownership (%) | Acquisition cost | Market or net asset value | Carrying 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. | ¹ | 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. | ¹ | 100 | 596 | 2,713 | 611 |
| LG.Philips LCD Poland Sp. z o.o. ² | 500 | 100 | 16 | 9 | 9 |
| Paju Electric Glass ² | 1,440,000 | 40 | 14,400 | 14,083 | 14,156 |
| | | | (Won) 171,458 | (Won) 252,383 | (Won) 213,968 |

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

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

² Paju Electric Glass and LG.Philips LCD-Poland were established in 2005.

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

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

Condensed Balance Sheet

| <i>(in millions of Korean won)</i> | LG.Philips LCD | | LG.Philips LCD | | LG.Philips LCD | |
|--|-----------------------|----------------------|-----------------------|----------------------|--------------------------|--|
| | America, Inc. | | Germany GmbH | | Nanjing Co., Ltd. | |
| Current assets | (Won) 179,547 | (Won) 195,139 | (Won) 166,443 | (Won) 406,261 | (Won) 790,923 | |
| Non-current assets | 997 | 748 | 1,018 | 2,073 | 228,535 | |
| Total assets | (Won) 180,544 | (Won) 195,887 | (Won) 167,461 | (Won) 408,334 | (Won) 1,019,458 | |
| Current liabilities | (Won) 171,592 | (Won) 192,632 | (Won) 163,337 | (Won) 395,659 | (Won) 682,932 | |
| Non-current liabilities | | | 18 | 443 | 133,120 | |
| Total liabilities | 171,592 | 192,632 | 163,355 | 396,102 | 816,052 | |
| Capital stock | 6,082 | 1,252 | 1,088 | 4,189 | 140,212 | |
| Retained earnings | 4,445 | 2,353 | 3,941 | 9,759 | 73,004 | |
| Capital adjustments | (1,575) | (350) | (923) | (1,716) | (9,810) | |
| Total shareholders equity | 8,952 | 3,255 | 4,106 | 12,232 | 203,406 | |
| Total liabilities and shareholders equity | (Won) 180,544 | (Won) 195,887 | (Won) 167,461 | (Won) 408,334 | (Won) 1,019,458 | |

| <i>(in millions of Korean won)</i> | LG. Philips LCD | | LG. Philips LCD | | Paju Electric | |
|------------------------------------|---------------------------|----------------------|---------------------------|---------------------|------------------------|--|
| | HongKong Co., Ltd. | | Shanghai Co., Ltd. | | Glass | |
| Current assets | (Won) 144,939 | (Won) 318,230 | (Won) 9 | (Won) 26,250 | (Won) 2,227,741 | |
| Non-current assets | 495 | 353 | | 27,829 | 262,048 | |
| Total assets | (Won) 145,434 | (Won) 318,583 | (Won) 9 | (Won) 54,079 | (Won) 2,489,789 | |
| Current liabilities | (Won) 141,776 | (Won) 315,870 | (Won) | (Won) 18,872 | (Won) 2,082,670 | |
| Non-current liabilities | 31 | | | | 133,612 | |

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| | | | | | |
|---|---------------|---------------|---------|--------------|-----------------|
| Total liabilities | 141,807 | 315,870 | | 18,872 | 2,216,282 |
| Capital stock | 1,736 | 596 | 16 | 36,000 | 191,171 |
| Retained earnings | 2,267 | 2,535 | (6) | (608) | 97,690 |
| Capital adjustments | (376) | (418) | (1) | (185) | (15,354) |
| Total shareholders equity | 3,627 | 2,713 | 9 | 35,207 | 273,507 |
| Total liabilities and shareholders equity | (Won) 145,434 | (Won) 318,583 | (Won) 9 | (Won) 54,079 | (Won) 2,489,789 |

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

Condensed Income Statement

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

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

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

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

| | | 2005 | | | | | Balance as of | | | |
|---|-------|----------------------|---------------------|--------------------------|---------|-------------------|----------------------|----------------|----------------------|---------|
| <i>(in millions of Korean won)</i> | | Balance as of | Acquisitions | Gain (loss) on | | Retained | December 31, | | | |
| | | January 1, | during the | valuation of | | earnings | 2005 | | | |
| | | 2005 | period | investments using | | adjustment | | | | |
| | | | | equity method | | Capital | | | | |
| | | | | | | adjustment | | | | |
| | | | | | | | | | | |
| LG.Philips LCD America, Inc. | (Won) | 7,133 | (Won) | (Won) | (552) | (Won) | (Won) | (193) | (Won) | 6,388 |
| LG.Philips LCD Germany GmbH | | 2,262 | | | 348 | | | (510) | | 2,100 |
| LG.Philips LCD Japan Co., Ltd. | | 4,052 | | | 388 | | | (653) | | 3,787 |
| LG.Philips LCD Taiwan Co., Ltd. | | 10,974 | | | (2,881) | | | (633) | | 7,460 |
| LG.Philips LCD Nanjing Co., Ltd. | | 140,241 | 40,141 | | (3,608) | | | 40 | | 176,814 |
| LG.Philips LCD HongKong Co., Ltd. | | 2,491 | | | 210 | | | (58) | | 2,643 |
| LG.Philips LCD Shanghai Co., Ltd. | | 886 | | | (283) | | | 8 | | 611 |
| LG.Philips LCD Poland Sp. z o.o. ² | | | 16 | | (6) | | | (1) | | 9 |
| Paju Electric Glass ² | | | 14,400 | | (244) | | | | | 14,156 |
| | | <u>(Won) 168,039</u> | <u>(Won) 54,557</u> | <u>(Won) (6,628)</u> | | <u>(Won)</u> | <u>(Won)</u> | <u>(2,000)</u> | <u>(Won) 213,968</u> | |
| | | | | | | | | | | |
| | | 2004 | | | | | Balance as of | | | |
| <i>(in millions of Korean won)</i> | | Balance as of | Acquisitions | Gain (loss) on | | Retained | December 31, | | | |
| | | January 1, | during the | valuation of | | earnings | 2004 | | | |
| | | 2004 | period | investments | | adjustment | | | | |
| | | | | using | | Capital | | | | |
| | | | | equity method | | adjustment | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

8. Property, Plant and Equipment

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

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

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

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

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

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

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

The Company capitalizes the loss (gain) on foreign currency rate changes and interest expense incurred on borrowings used to finance the cost of constructing facilities and equipment. Capitalized loss on foreign exchange rate fluctuations and interest expenses for the year ended December 31, 2005, amount to (Won)46,719 million (2004: (Won)32,688 million).

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

Balance sheet

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

Statement of income

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

9. Intangible Assets

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

| <i>(in millions of Korean won)</i> | 2005 | |
|------------------------------------|----------|-------|
| | Software | Total |

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| | <u>Intellectual property rights</u> | <u>Rights for usage of electricity and gas supply facilities</u> | <u>Rights to industrial water facilities</u> | <u> </u> | <u> </u> |
|--|---|--|--|-----------------------------|-----------------------------|
| 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 |

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

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

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

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

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

The Company expensed research and development costs of (Won)361,761 million for the year ended December 31, 2005 (2004: (Won)253,205 million).

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

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(in millions of Korean won)

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

10. Current maturities of long-term debts

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

(in millions of Korean won)

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

11. Long-Term Debts

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

(in millions of Korean won)

| Type of borrowing | Annual interest rates (%) as of December 31, 2005 | 2005 | 2004 |
|---|---|-----------------|-----------------|
| Won currency debentures | | | |
| Non-guaranteed, payable through 2010 | 3.5 6.0 | (Won) 1,750,000 | (Won) 1,350,000 |
| Private debentures, payable in 2010 | 5.89 | 200,000 | |
| Less : Current maturities | | (200,000) | |
| Discounts on debentures | | (28,120) | (33,396) |
| | | 1,721,880 | 1,316,604 |
| Foreign currency debentures | | | |
| Floating rate notes, payable through 2007 | 3M Libor + 0.6, 3M Libor + 1.1 | 304,913 | 416,311 |
| Term notes, payable through 2006 | 3M Libor + 1.1 | 82,559 | 168,803 |
| | | 387,472 | 585,114 |
| Less : Current maturities | | (184,872) | (188,997) |
| Discount on debentures | | (1,960) | (5,005) |
| | | 200,640 | 391,112 |
| Convertible bonds¹ | | | |
| US dollar-denominated bonds, payable through 2010 | | 483,780 | |
| Add : Call premium | | 84,613 | |
| Less : Current maturities | | | |
| Discount on debentures | | (2,724) | |
| Conversion adjustment | | (102,917) | |
| | | 462,752 | |
| | | (Won) 2,385,272 | (Won) 1,707,716 |
| Won currency loans | | | |
| General loans | 5.9 6.1 | (Won) 117,800 | (Won) 117,800 |

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| | | | |
|-------------------------------|---|----------------------|----------------------|
| | 3.25 | 8,620 | |
| Less : Current maturities | | (29,417) | |
| | | <u>97,003</u> | <u>117,800</u> |
| Foreign currency loans | | | |
| General loans | 3M Libor+1.1, 3M Libor+0.99, 3M Libor+1.35, 6M Libor+1.2 | 218,301 | 85,955 |
| Less : Current maturities | | (17,727) | (18,123) |
| | | <u>200,574</u> | <u>67,832</u> |
| | | <u>(Won) 297,577</u> | <u>(Won) 185,632</u> |

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

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LG. Philips LCD Co., Ltd.

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

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

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

(in millions of Korean won)

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

12. Accrued Severance Benefits

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

(in millions of Korean won)

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

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

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

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

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

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

¹ Option canceled due to the retirement of an executive officer.

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

14. Commitments and Contingencies

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

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

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

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

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

A summary of said contracts is as follows :

| <i>(in millions)</i> | Contract foreign | | | | | |
|--------------------------|------------------|-------|-----------------|--|---------------|---|
| | Selling position | | Buying position | | exchange rate | Maturity date |
| Contracting party | | | | | | |
| HSBC and others | US\$ | 3,266 | (Won) 3,357,233 | (Won)994.31:US\$1- (Won)1,058.65:US\$1 | | January 2, 2006 - December 12, 2006 |
| Citi bank and others | EUR | 104 | (Won) 131,182 | (Won)1,219.31:EUR 1- (Won)1,352.44:EUR1 | | January 23, 2006 - December 20, 2006 |

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| | | | | | |
|--------------------------------|---------------|-----|--------|--|---------------------------------------|
| ABN AMRO and others | (Won) 370,919 | JP¥ | 40,239 | (Won)8.669: JP¥1- (Won)9.92:JP¥1 | January 2, 2006 - December 1, 2006 |
| Korea Exchange Bank and others | US\$ 135 | JP¥ | 15,800 | JP ¥ 112.23: US\$1- JP ¥ 120.4: US\$1 | January 4, 2006 - March 28, 2006 |

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

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

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

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

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

A summary of such contracts follows:

(in millions)

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

The Company is subject to several legal proceedings and claims arising in the ordinary course of business. In August 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process for TFT-LCDs. Subsequently the Company filed a complaint against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jeans Co, Lite-On Technology Corp., Lite-On Technology International, Inc., TpV Technology and Invision Peripheral Inc. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged infringement of certain patents and violation of U.S. antitrust laws. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In May 2004, the Company filed a complaint against Tatung Co., the parent company of Chunghwa Picture Tubes and ViewSonic Corp. and others, claiming patent infringement of rear mountable liquid crystal display devices in the United States District of Delaware and the Patent Country Court in the United Kingdom. On November 28, 2005, the Company lost its patent infringement case against Tatung Company and ViewSonic Corp. at first instance in Patent Country Court in United Kingdom, and the Company is preparing the appeal against the decision of U.K. Court. On May 25, 2004, the Company filed a Complaint for Declaratory Judgement of properly recorded inventorship in the United States District Court for the District of Massachusetts. In January 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against the Company. On May 13, 2005, the Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process for TFT-LCDs in the United States District of Delaware. On September 20, 2005, the United States District Court for the Central District of California dismissed the patent case against Tatung Company and other defendants regarding the patent infringement by Chunghwa Picture Tubes relating to side mounting patent. Thereafter, the Company has revised its claim and has refiled the above complaint including the side mounting patent. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have any material adverse effect on the Company's financial condition, results of operations or cash flows.

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

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

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

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

(in millions of Korean won)

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

16. Capital Surplus and Retained Earnings

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

(in millions of Korean won)

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

¹ Net of tax effects.

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

(in millions of Korean won)

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

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

17. Capital Adjustments

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

(in millions of Korean won)

| | <u>2005</u> | <u>2004</u> |
|--|----------------------|---------------------|
| Foreign currency translation loss on the affiliates ¹ | (Won) (11,729) | (Won) (13,169) |
| Gain on valuation of derivative instruments ¹ | 29,293 | 55,287 |
| Loss on valuation of derivative instruments ¹ | (18,982) | |
| | <u>(Won) (1,418)</u> | <u>(Won) 42,118</u> |

¹ Net of tax effects.

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

18. Income Taxes

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

(in millions of Korean won)

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

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

(in millions of Korean won)

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

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

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

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

(in millions of Korean won)

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

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

(in millions of Korean won)

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

19. Earnings Per Share

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

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

| | For the three-month periods ended December 31, | | For the years ended December 31, | |
|--|---|--------------|-------------------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(in millions, except for per share amount)</i> | | | | |
| Net income as reported on the statements of income | (Won) 327,848 | (Won) 35,421 | (Won) 517,012 | (Won) 1,655,445 |
| | 358 | 325 | 339 | 305 |

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Weighted-average number of common shares
outstanding

| | | | | | | | | |
|----------------------------|-------|-----|-------|-----|-------|-------|-------|-------|
| Earnings per share | (Won) | 916 | (Won) | 109 | (Won) | 1,523 | (Won) | 5,420 |
| Diluted earnings per share | (Won) | 908 | (Won) | 109 | (Won) | 1,523 | (Won) | 5,420 |

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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

(in millions, except for per share amount)

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

¹ Net of tax effect.

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

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

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

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

(in millions of Korean won)

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

¹ Includes sales and purchases of property, plant and equipment.

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

21. Value Added Information

Value added information for the years ended December 31, 2005 and 2004, consist of the following:

| <i>(in millions of Korean won)</i> | 2005 | | | | |
|------------------------------------|------------------------|-------------------------------------|---------------------|--------------------------|------------------------|
| | Cost of sales | Selling and administrative expenses | Research and | Construction-in-progress | Total |
| | | | development expense | | |
| 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 |
| | <u>(Won) 2,217,068</u> | <u>(Won) 67,126</u> | <u>(Won) 31,686</u> | <u>(Won) 55,641</u> | <u>(Won) 2,371,521</u> |
| <i>(in millions of Korean won)</i> | 2004 | | | | |
| | Cost of sales | Selling and administrative expenses | Research and | Construction-in-progress | Total |
| | | | development expense | | |
| Salaries and wages | (Won) 301,676 | (Won) 37,955 | (Won) 17,259 | (Won) 34,404 | (Won) 391,294 |
| Severance benefits | 24,023 | 3,472 | 1,598 | 3,472 | 32,565 |
| Employee fringe benefits | 59,109 | 5,222 | 2,679 | 2,270 | 69,280 |
| Rent | 1,670 | 1,435 | 402 | | 3,507 |
| Depreciation | 1,235,532 | 5,307 | 7,685 | 2,611 | 1,251,135 |
| Taxes and dues | 3,870 | 1,527 | 151 | 105 | 5,653 |
| | <u>(Won) 1,625,880</u> | <u>(Won) 54,918</u> | <u>(Won) 29,774</u> | <u>(Won) 42,862</u> | <u>(Won) 1,753,434</u> |

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

22. Segment Information

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

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

(in millions of Korean won)

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

23. Supplemental Cash Flow Information

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

(in millions of Korean won)

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

24. Operating Results for the Final Interim Period

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

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

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

25. Approval of Non-Consolidated Financial Statements

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

26. Reclassification of prior year financial statement presentation

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

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Report on the Review of Internal Accounting Control System

To the President of

LG.Philips LCD Co., Ltd.

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

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

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

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

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

Samil PricewaterhouseCoopers

January 20, 2006

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Notice to Readers

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

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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: February 14, 2006

By: /s/ Ron H. Wirahadiraksa

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