AON CORP
Form 424B5
September 07, 2010
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-159841

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated September 7, 2010

Prospectus Supplement

(To Prospectus Dated June 8, 2009)

$

Aon Corporation

$ % Senior Notes due 2015

$ % Senior Notes due 2020

$ % Senior Notes due 2040

We are offering $ aggregate principal amount of our % senior notes due 2015 (the 2015 Notes), $ aggregate principal amount of our % senior notes due 2020 (the 2020 Notes) and $ aggregate principal amount of our % senior notes due 2040 (the 2040 Notes). The 2015 Notes, the 2020 Notes and the 2040 Notes are collectively referred to herein as the Notes.

The 2015 Notes will mature on , 2015, the 2020 Notes will mature on , 2020 and the 2040 Notes will mature on , 2040. We will pay interest on the Notes of each series on each April 30 and October 31, commencing on April 30, 2011.

We may redeem the Notes of any series at any time, and from time to time, by paying to the holders thereof 100% of the principal amount plus a make-whole redemption premium as described in this prospectus supplement under Description of the Notes Optional Redemption. If a Change of Control Repurchase Event occurs as described in this prospectus supplement under Description of the Notes Change of Control Repurchase Event, we will be required to offer to purchase all of the Notes from the holders at a price equal to 101% of the principal amount thereof.

The Notes are being offered to finance in part our merger with Hewitt Associates, Inc. (Hewitt). Upon consummation of the offering of the Notes, we will deposit the net proceeds from this offering into escrow as described in Description of the Notes Escrow of Proceeds; Special Mandatory Redemption. If the merger with Hewitt does not occur on or prior to March 31, 2011, or if the Merger Agreement is terminated at any time prior thereto, we will be required to redeem all of the Notes offered hereby at a redemption price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest from the date of initial issuance, or the most recent date to which interest has been paid or duly provided for, as the case may be, to but excluding the Special Mandatory Redemption Date. See Use of Proceeds and Description of the Notes Escrow of Proceeds; Special Mandatory Redemption.

The Notes will be unsecured and will rank senior to all our existing and future subordinated debt and will rank equally in right of payment with our existing and future unsecured senior debt. The Notes will not have the benefit of all of the covenants applicable to some of our existing unsecured senior debt. The Notes will be effectively subordinated to any secured debt we may have or incur in the future. The Notes will be structurally subordinated to the debt and all other obligations of our subsidiaries.

Investing in the Notes involves a high degree of risk. See Risk Factors beginning on page S-14 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per 2015 Note	Per 2020 Note	Per 2040 Note	Total
Public offering price	%	%	%	$
Underwriting discount	%	%	%	$
Proceeds to us (before expenses)	%	%	%	$

Interest on the Notes will accrue from September , 2010.

The Notes will not be listed on any securities exchange. Currently, there are no public markets for the Notes.

The underwriters expect to deliver the Notes for purchase on or about September , 2010, in book-entry form through the facilities of The Depository Trust Company and its participants, including Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V.

Joint Book-Running Managers

Credit Suisse **Morgan Stanley** **BofA Merrill Lynch**

Deutsche Bank Securities **RBS**

Co-Managers

Aon Benfield Securities, Inc. **ANZ Securities** **Northern Trust**

RBC Capital Markets **UBS Investment Bank** **Wells Fargo Securities**

The date of this prospectus supplement is September , 2010.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

We have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The information appearing or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of the date of the document in which the information appears. Our business, financial condition, results of operations and prospects may have changed since the date of the relevant document. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale made hereunder shall under any circumstance imply that the information in or incorporated by reference in this prospectus supplement or the accompanying prospectus is correct as of any date subsequent to the date of the document in which the information appears.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with the documents incorporated by reference and the additional information described below under the heading Where You Can Find More Information.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference in this prospectus supplement modifies or supersedes that statement. Except as so modified or superseded, any statement so modified or superseded will not be deemed to constitute a part of this prospectus supplement. See Incorporation of Certain Documents by Reference in this prospectus supplement.

In this prospectus supplement, except as otherwise indicated herein, references to Aon, the Company, we, us or our refer to Aon Corporatior its subsidiaries and, in the context of the Notes, Aon, the Company, we, us and our shall only refer to Aon Corporation, the issuer of the Not

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). In accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Our SEC file number is 001-07933. You can read and copy this information at the following location of the SEC:

Public Reference Room

100 F Street, N.E.

Room 1850

Washington, D.C. 20549

You can also obtain copies of these materials from this public reference room, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on its public reference room. The SEC also maintains a web site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov.

This prospectus supplement and the accompanying prospectus, which form a part of the registration statement, do not contain all the information that is included in the registration statement. You will find additional information about us in the registration statement. Any statements made in this prospectus supplement, the accompanying prospectus or any documents incorporated by reference herein or the accompanying prospectus concerning the provisions of legal documents are not necessarily complete and you should read the documents that are filed as exhibits to the registration statement or otherwise filed with the SEC for a more complete understanding of the document or matter.

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and any documents incorporated by reference into this prospectus supplement or the accompanying prospectus contain certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. They use words such as anticipate, believe, estimate, expect, forecast, projec intend, plan, potential, and other similar terms, and future or conditional tense verbs like could, may, might, should, will and woul also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure and the outcome of cost-saving or restructuring initiatives; the outcome of contingencies; dividend policy; the expected impact of acquisitions and dispositions; pension obligations; cash flow and liquidity; future actions by regulators; and the impact of changes in accounting rules. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors that could impact results include:

- changes in global equity and fixed income markets that could affect the return on invested assets;
- fluctuations in exchange and interest rates that could impact revenue and expense;
- rating agency actions that could affect our ability to borrow funds;
- changes in the funding status of our various defined benefit pension plans and the impact of any increased pension funding resulting from those changes;
- changes in the competitive environment;
- the impact on risk and insurance services commission revenues of changes in the availability of, and the premium insurance carriers charge for, insurance and reinsurance products, including the impact on premium rates and market capacity attributable to catastrophic events;
- the outcome of inquiries from regulators and investigations related to compliance with the U.S. Foreign Corrupt Practices Act and non-U.S. anti-corruption laws;
- the impact of investigations brought by U.S. state attorneys general, U.S. state insurance regulators, U.S. federal prosecutors, U.S. federal regulators, and regulatory authorities in the U.K. and other countries;
- the impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions and ERISA class actions;
- the cost of resolution of other contingent liabilities and loss contingencies, including potential liabilities arising from errors and omissions claims;

the ability to realize the anticipated benefits to us of our merger with Benfield Group Limited (Benfield);

the possibility that the expected efficiencies and cost savings from the proposed transaction with Hewitt will not be realized, or will not be realized within the expected time period;

the ability to obtain governmental approvals of the Hewitt merger on the proposed terms and schedule contemplated by the parties;

the failure of stockholders of Hewitt to approve the proposal to adopt the Merger Agreement (as defined herein);

Table of Contents

- the failure of the stockholders of Aon to approve the issuance of Aon common stock to Hewitt stockholders in the merger;

- the risk that the Aon and Hewitt businesses will not be integrated successfully;

- disruption from the proposed Hewitt transaction making it more difficult to maintain business and operational relationships with customers, partners and others;

- the possibility that the proposed Hewitt transaction does not close, including, but not limited to, due to the failure to satisfy the closing conditions;

- general economic conditions in different countries in which Aon and Hewitt do business around the world;

- the loss of key Aon or Hewitt employees following the merger;

- the extent to which Aon and Hewitt retain existing clients and attract new businesses;

- the extent to which Aon and Hewitt manage certain risks created in connection with the various services, including fiduciary and advisory services, among others, that Aon and Hewitt currently provide, or will provide in the future, to clients;

- the ability to implement restructuring initiatives and other initiatives intended to yield cost savings, and the ability to achieve those cost savings; and

- the impact of, and potential challenges in complying with, legislation and regulation in the jurisdictions in which Aon and Hewitt operate, particularly given the global scope of Aon s and Hewitt s businesses and the possibility of conflicting regulatory requirements across jurisdictions in which Aon and Hewitt do business.

Any or all of our forward-looking statements may turn out to be inaccurate, and there are no guarantees about our performance. The factors identified above are not exhaustive. Aon and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement that we may make from time to time, whether as a result of new information, future events or otherwise. Further information about factors that could materially affect Aon, including our results of operations and financial condition and our potential merger with of Hewitt, is contained in the Risk Factors section in this prospectus supplement and in the Risk Factors section, the Legal Proceedings section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and other sections of our Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010, in each case as filed with the SEC. Further information about information that could materially affect Hewitt is contained in the Risk Factors section, the Legal Proceedings section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and other sections of Hewitt s Annual Report on Form 10-K for the year ended September 30, 2009 and Quarterly Reports on Form 10-Q for the quarters ended December 31, 2009, March 31, 2010 and June 30, 2010, in each case as filed with the SEC.

Table of Contents

SUMMARY

This summary highlights certain information about us and the offering of the Notes. This summary does not contain all the information that may be important to you. You should carefully read this entire prospectus supplement, the accompanying prospectus and those documents incorporated by reference into this prospectus supplement and the accompanying prospectus, including the risk factors and the financial statements and related Notes, before making an investment decision.

Aon Corporation

Overview

Aon Corporation provides risk management and human capital consulting services, delivering distinctive client value via innovative and effective risk management solutions, including insurance and reinsurance brokerage and workforce productivity solutions. Aon s technical expertise is delivered locally through colleagues worldwide.

We serve clients through the following businesses:

Risk and Insurance Brokerage Services acts as an advisor and insurance broker, helping clients manage their risks, as well as negotiating and placing insurance risk with insurance carriers through our global distribution network.

Consulting provides advice and services to clients related to health and benefits, retirement, compensation, strategic human capital, and human resource outsourcing.

Our clients include corporations and businesses, insurance companies, professional organizations, independent agents and brokers, governments, and other entities. We also serve individuals through personal lines, affinity groups, and certain specialty operations.

Aon was incorporated in 1979 under the laws of Delaware, and is the parent corporation of both long-established and acquired companies. As of December 31, 2009, we had approximately 36,200 employees and conduct our operations through various subsidiaries in more than 120 countries and sovereignties.

Pending Merger with Hewitt

On July 11, 2010, we, Alps Merger Corp. (Merger Sub), a wholly owned subsidiary of ours, Alps Merger LLC (Merger LLC), a wholly owned subsidiary of ours, and Hewitt entered into an Agreement and Plan of Merger (the Merger Agreement), which is incorporated herein by reference to our Current Report on Form 8-K filed with the SEC on July 12, 2010, providing for the merger of Hewitt with Aon, which we sometimes refer to as the transaction. Subject to the terms and conditions of the Merger Agreement, which has been approved by the board of directors of each of the parties, Merger Sub will be merged with and into Hewitt, with Hewitt continuing as the surviving corporation and a wholly owned subsidiary of Aon, which we sometimes refer to as the merger. Immediately following completion of the merger, Hewitt would merge with and into Merger LLC, with Merger LLC surviving the subsequent merger as a wholly owned subsidiary of Aon. There can be no assurance that the merger will be completed.

If the merger is consummated, each share of Class A common stock of Hewitt outstanding immediately prior to the effective time would convert into, at the election of each of the holders of Hewitt common stock, (i) 0.6362 of a share of common stock of Aon and $25.61 in cash, (ii) an amount of cash (rounded to two decimal places), without interest, equal to the sum of (a) $25.61 and (b) the product obtained by multiplying 0.6362 by

Table of Contents

the closing volume-weighted average price of Aon common stock, rounded to four decimal points, on the NYSE for the period of ten consecutive trading days ending on the second full trading day prior to the effective time of the merger (calculated as (1) the sum of (A) the share price of each trade of common stock during the ten trading day period multiplied by (B) the number of shares of Aon common stock traded in such trade, divided by (2) the total number of shares of Aon common stock traded during the ten day trading period), which price we refer to as the closing Aon VWAP, or (iii) a number of shares of Aon common stock equal to the sum of (a) 0.6362 and (b) the quotient (rounded to four decimal places) obtained by dividing $25.61 by the closing Aon VWAP. The consideration to be paid to holders of Hewitt common stock electing to receive the cash consideration or the stock consideration described above in connection with the merger is subject, pursuant to the terms of the Merger Agreement, to automatic proration and adjustment, as applicable, to ensure that the amount of cash paid and the number of shares of Aon common stock issued by Aon in the merger each represents approximately 50% of the aggregate merger consideration (taking into account the roll-over of Hewitt stock options into options exercisable for Aon common stock).

Hewitt is a leading global provider of human resources outsourcing and consulting services. Hewitt helps its clients generate greater value from their investment in their people by helping them solve their most complex human resources, benefit and related financial challenges. Founded in 1940, Hewitt began as a provider of actuarial services for sponsors of retirement plans and executive compensation consulting services. Over the last seven decades, Hewitt expanded to provide a full range of human capital services that anticipate its clients changing business needs.

Hewitt s total revenues and net income for its fiscal year ended September 30, 2009 were $3.1 billion and $265 million, respectively and for the nine months ended June 30, 2010 were $2.3 billion and $204 million, respectively. Hewitt s common stock is listed on the New York Stock Exchange. Hewitt files reports and other information with the New York Stock Exchange and the SEC.

As described below under Merger Agreement, the consummation of the merger is subject to certain conditions, including, among others, the adoption of the Merger Agreement by Hewitt s stockholders and the approval of the issuance of our common stock by our stockholders.

Transaction Rationale

In determining to pursue the merger with Hewitt, our board of directors considered, among other things, the following factors relating to the merger:

- the areas of risk and human capital are becoming increasingly linked and our combination with Hewitt would create the world s preeminent provider of risk and human capital solutions, with the ability to offer enhanced and diverse services and solutions to Aon and Hewitt clients across all market segments;

- the combined Aon Hewitt business would represent a leading global brand with revenues of approximately $4.3 billion and would supplement Aon s existing number one ranking in terms of revenues as an advisor in the areas of primary insurance brokerage, reinsurance brokerage and captive management;

- the combined Aon Hewitt business is expected to have a number one ranking in revenues in the areas of benefits administration and Human Resource Business Process Outsourcing (HR BPO), as well as allow Aon to assume a leading market position in human resources consulting;

- Aon and Hewitt share a complementary product portfolio across the benefits administration and consulting businesses, which would offer significant cross-selling opportunities within the combined Aon Hewitt business, allowing Aon to offer certain products to Hewitt s predominantly large corporate client base and allowing Hewitt to offer certain products to Aon s predominantly middle market client base;

the combination would facilitate cross-selling across segments, including the marketing of Hewitt s benefits outsourcing and HR BPO services to Aon s existing clients, as well as the marketing of Aon s risk services product portfolio to Hewitt s existing clients;

the combined Aon and Hewitt client base in the human capital solutions area would create a diversified geographic presence that would likely provide additional cross-selling opportunities;

though no particular level of cost synergies could be assured, the combination is estimated to yield significant potential cost synergies in the principal areas of consolidated corporate governance, reduced public company costs, reduced labor and shared platform costs of approximately $355 million on an annual basis in 2013;

the similar management styles and comparable corporate cultures of the two companies would allow the companies to easily and quickly integrate their operations; and

Aon s history and experience in integrating businesses in prior significant transactions, including the acquisition of Benfield in 2008.
For the discussion of various factors that could prohibit or limit us from realizing some or all of these benefits, see the discussion in this prospectus supplement under Risk Factors.

Merger Agreement

Conditions

The Merger Agreement provides that the consummation of the merger with Hewitt is subject to certain conditions, including, among others, the adoption of the Merger Agreement by Hewitt s stockholders, the approval of the issuance of common stock in the merger by our stockholders, the expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act), which expiration occurred on August 23, 2010, and the receipt of other material antitrust approvals as described below under Aon Corporation Merger Agreement Governmental Approvals. The meeting of Hewitt s stockholders to vote on the merger is currently scheduled to take place on September 20, 2010. The meeting of our stockholders to approve the issuance of common stock in the merger is currently scheduled to take place on September 20, 2010. There can be no assurance as to whether or, if so, when the conditions to consummation of the merger will be satisfied.

Covenants

The Merger Agreement contains customary covenants, including covenants providing for no solicitation of alternate transactions by Hewitt and for each of the parties to use reasonable best efforts to cause the transaction to be consummated.

Governmental Approvals

Aon and Hewitt have each agreed to use their respective reasonable best efforts to obtain all governmental and regulatory approvals required to complete the transactions contemplated by the Merger Agreement. These approvals include approval under, or the expiration or termination of waiting periods pursuant to, the HSR Act, the EC Merger Regulation (Regulation 139 of 2004), the Investment Canada Act, the Competition Act (Canada) and other applicable regulatory laws. The waiting period under the HSR Act expired on August 23, 2010.

Termination

The Merger Agreement contains certain termination rights for both Aon and Hewitt. If the Merger Agreement is terminated, Hewitt may be required in certain specified circumstances to pay a termination fee of $190 million to Aon. If the Merger Agreement is terminated under certain other specified circumstances, Aon

Table of Contents

may be required to pay a termination fee of $190 million to Hewitt or, if the Merger Agreement is terminated under certain specified circumstances relating to Aon s failure to obtain the requisite financing for the merger, a termination fee of $225 million to Hewitt. If the Merger Agreement is terminated under certain circumstances, Hewitt may also be required to reimburse Aon for its expenses incurred in connection with the merger in an aggregate amount not to exceed $50 million.

Financing

Aon intends to finance all or a portion of the cash component of the merger consideration. On August 13, 2010, we entered into a three-year term credit agreement, which we refer to as the term loan credit agreement, with Credit Suisse AG, as administrative agent, and the lenders party thereto, which we refer to collectively as the term loan lenders, pursuant to which, subject to the conditions set forth therein, the term loan lenders committed to provide an unsecured term loan financing of up to $1.0 billion. Concurrently with entering into the term loan credit agreement, Aon entered into a senior bridge term loan credit agreement, which we refer to as the bridge credit agreement, with Credit Suisse AG, as administrative agent, and the lenders party thereto, which we refer to collectively as the bridge lenders, pursuant to which, subject to the conditions set forth therein, the bridge lenders committed to provide an unsecured bridge financing of up to $1.5 billion. The term loan credit agreement will mature three years following the closing date of the merger, and the bridge credit agreement will mature 364 days following the closing date of the merger. The term loan credit agreement and the bridge credit agreement provide, among other things, that funding under each of those agreements is subject to certain conditions.

Under the terms of the bridge credit agreement, we have the option to issue up to $1.5 billion in senior notes in lieu of all or a portion of the drawing under the bridge credit agreement or to refinance all or a portion of the bridge credit agreement at a later date which will automatically and permanently reduce the bridge lenders commitments under the bridge credit agreement in an aggregate amount equal to the net proceeds of this offering. The Notes in this offering are being issued in lieu of our drawing on the bridge credit agreement.

Table of Contents

Offering Summary

The following is a summary of some of the terms of this offering. For a more complete description of the terms of the Notes, please refer to Description of the Notes in this prospectus supplement and Description of Debt Securities in the accompanying prospectus.

Issuer	Aon Corporation.

Notes Offered	$ aggregate principal amount of Senior Notes due 2015.
	$ aggregate principal amount of Senior Notes due 2020.
	$ aggregate principal amount of Senior Notes due 2040.

Maturity	2015 Notes: , 2015. 2020 Notes: , 2020. 2040 Notes: , 2040.
Interest Rate	The 2015 Notes will bear interest from , 2010 at the rate of % per annum, payable semiannually in arrears. The 2020 Notes will bear interest from , 2010 at the rate of % per annum, payable semiannually in arrears. The 2040 Notes will bear interest from , 2010 at the rate of % per annum, payable semiannually in arrears.
Interest Payment Dates	We will pay interest on the 2015 Notes on each April 30 and October 31, commencing on April 30, 2011. We will pay interest on the 2020 Notes on each April 30 and October 31, commencing on April 30, 2011. We will pay interest on the 2040 Notes on each April 30 and October 31 commencing on April 30, 2011.
Ranking	The Notes of each series are unsecured and will rank equally in right of payment with the other series of Notes and all of our other existing and future senior unsecured indebtedness. The Notes will be effectively subordinated to all of the secured indebtedness of Aon Corporation (excluding its subsidiaries). As of June 30, 2010, we had no secured indebtedness for borrowed money. The Notes will be structurally subordinated to all of the secured and unsecured indebtedness and other liabilities of our subsidiaries. As of June 30, 2010, on a pro forma basis after giving effect to the merger and related transactions as described under Aon Corporation and Hewitt Associates, Inc. Unaudited Pro Forma Condensed Combined Financial Statements, our subsidiaries would have had approximately $6.8 billion of outstanding indebtedness and other liabilities, including trade payables, pension and other post employment liabilities, other current and non-current liabilities but excluding intercompany liabilities and fiduciary liabilities, or 30% of our total liabilities.

Table of Contents

Optional Redemption	We may redeem any series of Notes at our option, at any time in whole or from time to time in part, at a redemption price equal to the greater of: 100% of the principal amount of the Notes being redeemed; and the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined herein), plus basis points in the case of the 2015 Notes, plus basis points in the case of the 2020 Notes and plus basis points in the case of the 2040 Notes.

We will also pay accrued and unpaid interest to the redemption date. See Description of the Notes Optional Redemption.

Escrow of Proceeds; Special Mandatory Redemption	Upon consummation of the offering of the Notes, we will deposit the net proceeds into an escrow account. If we do not consummate the merger with Hewitt on or prior to March 31, 2011, or the Merger Agreement is terminated at any time prior thereto, we must redeem all of the Notes at a redemption price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest from the date of initial issuance, or the most recent date to which interest has been paid or provided for, as the case may be, to but excluding the Special Mandatory Redemption Date. See Description of the Notes Escrow of Proceeds; Special Mandatory Redemption.
Change of Control Repurchase Event	If a Change of Control Repurchase Event occurs as described under Description of the Notes Change of Control Repurchase Event, we will be required to offer to purchase all of the Notes from holders at a price equal to 101% of the aggregate principal amount thereof.
Covenants	The indenture includes requirements that must be met if we consolidate with or merge into, or transfer or lease our assets substantially as an entirety to, another entity or person.
Use of Proceeds	We intend to use the net proceeds of this offering to pay a portion of the cash consideration for our merger with Hewitt, to refinance existing indebtedness of Hewitt and its subsidiaries and to pay certain fees and expenses relating to the merger. See Use of Proceeds.
Absence of Market	The Notes are a new issue of securities with no established trading market. We currently have no intention to apply to list the Notes on any securities exchange or to seek their admission to trading on any automated quotation system. Accordingly, we cannot provide assurance as to the development or liquidity of any market for any series of the Notes. See Underwriting.

Table of Contents

Risk Factors	See Risk Factors beginning on page S-14 of this prospectus supplement for important information regarding us and an investment in the Notes.
Further Issuances	We may, from time to time, without the written consent of or notice to holders of the Notes, create and issue additional notes having the same terms and conditions as the Notes of any series in all respects (other than the issue date, issue price, and to the extent applicable, first date of interest accrual and first interest payment date of such notes). Those additional notes will be consolidated with and form a single series with the previously outstanding Notes of that series.
Conflicts of Interest	The underwriters and their affiliates have provided, and may in the future provide, investment banking, commercial lending, financial advisory and other services for us as well as for Hewitt. They have received customary fees and expenses for these services. In particular, Credit Suisse AG is administrative agent and affiliates of the underwriters are joint lead arrangers, joint bookrunners and/or lenders under our term loan credit agreement that is available to provide financing for a portion of the purchase price for our merger with Hewitt. In addition, Credit Suisse AG is administrative agent and affiliates of the underwriters are joint lead arrangers, joint bookrunners and/or lenders under our bridge credit agreement that is available to provide short-term financing for a portion of the purchase price for our merger with Hewitt. Pursuant to its terms, the bridge lenders commitments under the bridge credit agreement will be automatically and permanently reduced in an aggregate amount equal to the net proceeds of this offering and will no longer be available to us after this offering. Further, Credit Suisse is acting as financial advisor to us in connection with the transaction, and will receive a contingent payment in the event of the successful completion of the merger.

In addition, Aon Benfield Securities, Inc. is an indirect wholly owned subsidiary of Aon. This offering is subject to, and will be conducted in compliance with, the requirements of NASD Rule 2720 of the Financial Industry Regulatory Authority, Inc. (FINRA) regarding a FINRA member firm distributing the securities of an affiliate.

Table of Contents

Summary Selected Historical and Pro Forma Financial Data

The following table sets forth the selected historical consolidated financial and operating data for Aon. The selected consolidated financial and operating data as of and for the years ended December 31, 2009, 2008 and 2007 have been derived from Aon s audited consolidated financial statements and related notes contained in its Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference into this prospectus supplement. The selected consolidated financial and operating data as of and for the six months ended June 30, 2010 and 2009 have been derived from Aon s unaudited condensed consolidated financial statements, and related notes contained in Aon s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which is incorporated by reference into this prospectus supplement, except that the balance sheet data as of June 30, 2009 has been derived from Aon s unaudited condensed consolidated financial statements contained in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which has not been incorporated by reference in this prospectus supplement. The results for the six months ended June 30, 2010 and 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year. Aon s unaudited interim financial statements reflect all adjustments that management of Aon considers necessary for fair presentation of the financial position and results of operations for such periods in accordance with United States generally accepted accounting principles, which we refer to as GAAP. Historical results are not necessarily indicative of the results that may be expected for any future period. This selected consolidated financial and operating data should be read in conjunction with Aon s audited consolidated financial statements, the notes related thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Aon s Annual Report on Form 10-K for the year ended December 31, 2009 and Aon s unaudited consolidated financial statements, the notes related thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Aon s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010. See Incorporation of Certain Documents by Reference in this prospectus supplement.

The following table also sets forth selected unaudited pro forma condensed combined statement of income data for the six months ended June 30, 2010 and year ended December 31, 2009 reflecting the merger and related transactions as if they had occurred on January 1, 2009. The following selected unaudited pro forma condensed combined balance sheet data as of June 30, 2010 reflects the merger and related transactions as if they had occurred on June 30, 2010. Such unaudited pro forma condensed combined financial data is based on the historical financial statements of Aon and Hewitt and on publicly available information and certain assumptions and adjustments as discussed in the section entitled Aon Corporation and Hewitt Associates, Inc. Unaudited Pro Forma Condensed Combined Financial Statements in this prospectus supplement, including assumptions relating to the allocation of the consideration paid for the assets and liabilities of Hewitt based on preliminary estimates of their fair value. This unaudited pro forma condensed combined financial information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Aon or Hewitt would have been had the merger and related transactions been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results or financial position. Aon and Hewitt may have performed differently had they been combined during the periods presented. The following should be read in connection with Aon Corporation and Hewitt Associates, Inc. Unaudited Pro Forma Condensed Combined Financial Statements in this prospectus supplement and other information included in or incorporated by reference into this prospectus supplement.

Table of Contents

Historical						Pro Forma	
Six Months Ended June 30, 2010	Six Months Ended June 30, 2009		Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Six Months Ended June 30, 2010	Year Ended December 31, 2009
(millions, except per share data)							
3,774	$	3,684	$ 7,521	$ 7,357	$ 7,054	$ 5,297	$ 10,595
28		44	74	171	180	28	74
3,802	$	3,728	$ 7,595	$ 7,528	$ 7,234	$ 5,325	$ 10,669
541	$	586	$ 1,021	$ 940	$ 1,003	$ 667	$ 1,308
370		388	681	637	675	444	799
(26)		52	111	841	202	N/A	N/A
344	$	440	$ 792	$ 1,478			

Description	Investment period	Investment Assets	Investment effect	Total investment	Already invested	i
New / xpansion, etc.	Q1 04~	Building/ Machinery, etc.	Capacity expansion	8,050	5,800	2,250

(2) Investment Plan (Consolidated basis)

(Unit: In billions of Won)

Business area	Project	Expected yearly investment 2006 *	2007**	2008**	Investment effects	Remarks
TFT-LCD	New / Expansion, etc.	3,035			Capacity Expansion, etc.	

* Expected investments in 2006 are subject to change depending on market environment and was adjusted downward from KRW 4,230B.

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

5. Sales

A. Sales performance

(Unit: In billions of Won)

Business area	Sales types	Items (Market)		1H 2006	1H 2005	2005
TFT-LCD	Products, etc.	TFT-LCD	Overseas	4,090	3,436	8,114
			Korea*	414	363	776
			Total	4,504	3,799	8,890

* Local export was included.

B. Sales route and sales method

(1) Sales organization

As of June 30, 2006, Sales departments for Notebook Computer, Monitor and TV panels, qualification department and sales planning & administration department are grouped under the Chief Marketing Sales Officer. Sales department for Application and Customer Service department for Application are in the Application Division.

* On August 1, 2006, we reorganized our organization and adopted three business units - IT business, Television business and small and medium display business unit. As each business unit has individual sales and customer support function, the above mentioned & existing sales departments were reorganized into each business unit.

Sales subsidiaries in America, Germany, Japan, Taiwan and China (Hong Kong and Shanghai) perform sales activities in overseas countries and provide technical support to customers.

(2) Sales route

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

LG.Philips LCD HQ & Overseas manufacturing subsidiary, etc. → System integrators, Branded customers → End users

(3) Sales methods and conditions

Direct sales & sales through overseas subsidiaries, etc.

(4) Sales strategy

To secure stable sales to major PC makers and the leading consumer electronics makers globally

To increase sales of premium Notebook Computer products, to strengthen sales of the larger size and high-end Monitor segment and to lead the large and wide LCD TV market

To diversify our market in the application segment, including products such as mobile phone, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment, etc.

6. Directors & Employees

A. Members of Board of Directors as of June 30, 2006

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

B. Committees of the Board of Directors

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

C. Director & Officer Liability Insurance

(1) Overview of Director & Officer Liability Insurance (as of June 30, 2006)

(Unit: USD)

Name of insurance	Premium paid in 1H 2006	Limit of liability	Remarks
Directors & Officers Liability Insurance		100,000,000	

* Premium of USD2,623,000 was paid on July 2005 for director & officer liability insurance with coverage until July 2006. (In July 2006, LPL renewed director & officer liability insurance with coverage until July 2007.)

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

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

(3) The insured

1. LG.Philips LCD Co., Ltd. and its subsidiaries and their respective Directors and Officers

2. Duly elected or appointed Directors or Officers, past and new Directors and Officers during the policy period

3. The estates and heirs of deceased Directors or Officers, and the legal representatives of Directors or Officers in the event of their incompetence, insolvency or bankruptcy (only if the Directors or Officers were employed at the time the acts were committed)

(4) The Covered Risks

1. The Loss for shareholders or 3rd party, arising from any alleged Wrongful Act of director or officer of the company in their respective capacities, in spite of their fiduciary duties

   a. Wrongful Act means any breach of duty, neglect, error, misstatement, misleading statement, omission, or act by the Directors or Officers

   b. Loss means damages, judgments, settlements and Defense Costs

2. Coverage for security holder derivative action & security claims

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

(5) Exclusions

1. General Exclusions (any loss related to following items)

   Any illegal gaining of personal profit, dishonest or criminal act;

   Remuneration payment to the Insureds without the previous approval of the stockholders, which payment was illegal;

   Profits in fact made from the purchase or sale of securities of the Company using non- public information in an illegal manner;

   Payment of commissions, gratuities, benefits or any other favor provided to political group, government official, director, officer, employee or any person having an ownership interest in any customers of the company or their agent(s), representative(s) or member(s) of their family or any other entity(ies) with which they are affiliated.

   Wrongful Acts alleged in any claim which has been reported under any policy of which this policy is a renewal or replacement;

   Any pending or prior litigation as of the inception date of this policy, or derived from the same facts as alleged in such pending or prior litigation, etc. ;

   Wrongful Act which Insured knew or should reasonably have foreseen at the inception date of this policy;

Pollutants, contamination;

Act or omission as directors or officers of any other entity other than the Company;

Nuclear material, radioactive contamination;

Bodily injury, disease, death or emotional distress of any person, or damage to tangible property, loss of use of property, or injury from oral or written publication of a libel or slander, or material that violates a person s right of privacy ;

Any alleged Wrongful Act of any Subsidiary of which the insured did not own more than 50% of stock either directly or indirectly through its Subsidiaries.

2. Special Exclusions (any loss related to following items)

Punitive Damage

Nuclear Energy Liability

Mutual claim between Insureds

Claim of 15% Closely Held entity

Claim of Regulator

Professional Service liability

SEC (Securities and Exchange Commission) 16(b)

ERISA(Employee Retirement Income Security Act)

The so called Year 2000 Problem

War & Terrorism

Asbestos/Mould liability

Patent / Copyright liability, etc.

D. Employees

(as of June 30, 2006) (Unit: person, in millions of Won)

	Details of employees				Total Salary	Per	
Sex	**Office Worker**	**Line Worker**	**Others**	**Total**	**in 1H 2006**	**Capita Salary**	**Average Service Year**
Male	5,592	5,703		11,295	223,115	20	3.8
Female	465	5,333		5,798	80,406	14	1.9
Total	6,057	11,036		17,093	303,521	18	3.1

* Directors and executive officers are excluded.

E. Stock Option

The following table sets forth certain information regarding our stock option plan as of June 30, 2006.

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

7. Financial Information

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

(Unit: In millions of Won)

Description	1H 2006	2005	2004	2003	2002
[Current Assets]	2,773,422	3,196,934	2,638,616	1,918,329	806,156
Quick Assets	1,943,545	2,725,169	2,170,617	1,644,838	463,539
Inventories	829,877	471,765	467,999	273,491	342,617
[Fixed Assets]	10,413,832	9,798,981	6,960,077	4,295,753	3,613,748
Investments	834,511	660,628	409,955	203,343	147,832
Tangible Assets	9,396,713	8,988,459	6,366,651	3,874,428	3,210,884
Intangible Assets	182,608	149,894	183,471	217,982	255,032
Total Assets	13,187,254	12,995,915	9,598,693	6,214,082	4,419,904
[Current Liabilities]	2,404,532	2,594,282	1,900,765	2,044,005	1,117,066
[Non-current Liabilities]	3,359,041	2,726,036	1,925,286	1,276,045	1,436,775
Total Liabilities	5,763,573	5,320,318	3,826,051	3,320,050	2,553,841
[Capital Stock]	1,789,079	1,789,079	1,626,579	1,450,000	1,450,000
[Capital Surplus]	2,275,172	2,279,250	1,012,271		
[Retained Earnings]	3,334,684	3,608,686	3,091,674	1,436,229	417,129
[Capital Adjustment]	24,746	(-)1,418	42,118	7,803	(-)1,066
Total Shareholder s Equity	7,423,681	7,675,597	5,772,642	2,894,032	1,866,063
Sales Revenues	4,504,035	8,890,155	8,079,891	6,031,261	3,518,289
Operating Income	(-)409,923	447,637	1,640,708	1,086,517	215,724
Ordinary Income	(-)390,618	367,281	1,683,067	1,009,731	293,249
Net Income	(-)274,002	517,012	1,655,445	1,019,100	288,792

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

B. R&D Expense

(1) Summary

(Unit: In millions of Won)

Account		1H 2006	2005	2004	Remarks
	Direct Material Cost	144,676	253,930	170,051	
	Direct Labor Cost	43,928	72,142	58,202	
	Depreciation Expense	9,506	11,710	11,078	
	Others	16,135	23,979	13,874	
	R&D Expense Total	214,245	361,761	253,205	
Accounting	Selling & Administrative Expenses	35,816	55,057	43,095	
Treatment	Manufacturing Cost	178,429	306,704	210,110	
	R&D Expense / Sales Ratio	4.76%	4.07%	3.13%	
	[Total R&D Expense/Sales for the period×100]				

* Capex for R&D, Manufacturing Cost for R&D test run are excluded.

(2) R&D achievements

[Achievement in 2004]

1) Development of 20.1-inch AMOLED

Joint development of 20.1-inch AMOLED with LG Electronics

Development of world s largest 20.1-inch wide AMOLED based on LTPS technology

2) Development of copper bus line

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

3) Development and mass production of world s largest TFT-LCD panel for Full-HD TV (55-inch) in October 2004.

Stitch Lithography and Segmented Circuit Driving to cope with large-size LCD Panel

Achievement of High Contrast Ratio and Fast Response Time through new technologies

Application of innovative panel technology to solve the weak point (gravity/touch stains) of large size

4) Development of Ultra High Resolution Product (30-inch)

World s 1st success in mass production of LCM applying Cu Line(source & gate Area)

Achievement of Ultra High Resolution (2560x1600 : 101ppi)

5) Development of the world s lowest power-consumption, 32-inch Wide LCD TV Model

Development of the world s lowest power consumption, under 90W model (EEFL applied)

High Contrast Ratio, Fast Response Time (DCR + ODC applied)

[Achievement in 2005]

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

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

Development of 6200nit luminance backlight

7) Development of world s largest 10.1-inch Flexible Display

Joint development with E-ink Corporation

8) 37-inch, 42-inch, 47-inch Full-HD Model Development, applying Low Resistance Line

(Copper bus Line)

World s 1st mass production of copper bus line Model

Realize Full HD Resolution (1920x1080)

9) 37-inch wide LCD Model development which is world s best in power consumption

The lowest power consumption of below 120W (applying EEFL)

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

[Achievement in 2006]

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

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

Development of Slim and High Brightness Backlight

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

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

High dignity picture for Full HDTV

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

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

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

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

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

C. Domestic Credit Rating

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

D. Remuneration for directors in 1H 2006

(Unit: In millions of Won)

Classification	Salary Paid	Approved Salary at Shareholders Meeting	Per Capita Average Salary Paid	Remarks
Inside Directors (4 persons)	651	13,400	163	
Outside Directors (5 persons)	140		28	Audit committee consists of three outside directors.

E. Derivative contracts

(1) Foreign currency forward contracts

(Unit: In millions)

Contracting party	Selling position	Buying position	Contract foreign exchange rate	Maturity date
HSBC and others	US$ 3,091	(Won)3,017,525	(Won) 925.22:US$1 ~ (Won) 1,050.70:US$1	July 3, 2006 ~ June 12, 2007
CITI and others	EUR 272	(Won)326,678	(Won) 1,156.54:EUR1 ~ (Won) 1,279.28:EUR1	July 6, 2006 ~ June 13, 2007
ABN AMRO and others	(Won)478,337	JP¥ 55,600	(Won) 8.1720:JP¥1 ~ (Won) 9.5480:JP¥1	July 3, 2006 ~ June 12, 2007
Korea Exchange Bank and others	US$ 188	JP¥ 21,200	JP¥109.317:US$1 ~ JP¥116.534:US$1	July 12, 2006 ~ September 29, 2006

(2) Cross Currency Swap

(Unit: In millions)

Contracting party	Contract Amount			Contract interest rate	Maturity date
ABN AMRO and others	Buying position	US$	300	3-Month Libor	July 12, 2006 ~ December 8, 2006
	Selling position	(Won)	310,590	3.65% ~ 4.40%	

(3) Interest Rate Swap

(Unit: In millions)

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

(4) Currency Option

(Unit: In millions)

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

F. Status of Equity Investment as of June 30, 2006

Company	Total issued and outstanding shares	Number of shares owned by us	Ownership ratio
LG.Philips LCD America, Inc.	5,000,000	5,000,000	100%
LG.Philips LCD Japan Co., Ltd.	1,900	1,900	100%
LG.Philips LCD Germany GmbH	960,000	960,000	100%
LG.Philips LCD Taiwan, Co., Ltd.	11,549,994	11,549,994	100%
LG.Philips LCD Nanjing Co., Ltd.	(*)	(*)	100%
LG.Philips LCD Hong Kong Co., Ltd.	115,000	115,000	100%
LG.Philips LCD Shanghai Co., Ltd.	(*)	(*)	100%
LG.Philips LCD Poland Sp. z o.o. (**)	500	500	100%
Paju Electric Glass Co., Ltd.	3,600,000	1,440,000	40%

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

** In July 4, 2006, we injected the paid-in capital of US$ 10,000,000 into LG.Philips LCD Poland Sp. z o.o. and our ownership ratio thereafter remained 100%.

*** In August 2006, we injected the paid-in capital of US$ 1,000,000 into LG.Philips LCD Guangzhou Co., Ltd. and our ownership ratio thereafter remained 100%.

LG. Philips LCD Co., Ltd.

Interim Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

LG. Philips LCD Co., Ltd.

Interim Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

Report of Independent Accountants

To the Board of Directors and Shareholders of

LG.Philips LCD Co., Ltd.

We have reviewed the accompanying non-consolidated balance sheet of LG.Philips LCD Co., Ltd. (the Company) as of June 30, 2006, and the related non-consolidated statements of operations and cash flows for the three-month and six-month periods ended June 30, 2006 and 2005, expressed in Korean won. These interim financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these interim financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly review standards established by the Securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the non-consolidated interim financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

We have audited the non-consolidated balance sheet of LG.Philips LCD Co., Ltd. as of December 31, 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated January 20, 2006. These financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2005, presented herein for comparative purposes, is consistent, in all material respects, with the above audited balance sheet as of December 31, 2005.

Samil Pricewaterhouse Cooper 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.

Samil PricewaterhouseCoopers

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

Seoul, Korea

July 14, 2006

This report is effective as of July 14, 2006, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

2

LG. Philips LCD Co., Ltd.

Non-Consolidated Balance Sheets

June 30, 2006 and December 31, 2005

(Unaudited)

(in millions of Korean won)	**2006**	**2005**
Assets		
Current assets		
Cash and cash equivalents	(Won) 719,900	(Won) 1,465,025
Available-for-sale securities	15	354
Trade accounts and notes receivable, net (Notes 8 and 11)	950,485	1,034,196
Inventories, net (Note 4)	829,877	471,765
Other accounts receivable, net (Note 11)	11,703	15,751
Accrued income, net	1,044	1,369
Advanced payments, net	3,761	5,959
Prepaid expenses	64,439	20,532
Prepaid value added tax	64,355	102,094
Deferred income tax assets (Note 9)	19,499	4,647
Others (Note 8)	108,344	75,242
Total current assets	2,773,422	3,196,934
Property, plant and equipment, net	9,396,713	8,988,459
Long-term financial instruments (Note 3)	16	16
Equity-method investments	282,860	213,968
Non-current guarantee deposits	17,864	24,000
Long-term prepaid expenses	116,854	83,023
Deferred income tax assets (Note 9)	416,917	339,621
Intangible assets, net	182,608	149,894
Total assets	(Won) 13,187,254	(Won) 12,995,915
Liabilities and Shareholders Equity		
Current liabilities		
Trade accounts and notes payable (Note 11)	(Won) 538,371	(Won) 563,874
Other accounts payable (Note 11)	1,277,118	1,445,471
Advances received	3,541	609
Withholdings	6,598	12,004
Accrued expenses	72,656	73,772
Income tax payable		19,499
Warranty reserve	18,375	16,023
Current maturities of debentures and long-term debts (Note 5)	434,808	429,352
Others (Note 8)	53,065	33,678
Total current liabilities	2,404,532	2,594,282
Debentures, net of current maturities and discounts on debentures (Note 6)	2,789,006	2,385,272
Long-term debts, net of current maturities (Note 6)	505,529	297,577
Accrued severance benefits, net	64,506	43,187
Total liabilities	5,763,573	5,320,318
Commitments and contingencies (Note 8)		

Shareholders equity		
Capital stock		
Common stock, (Won)5,000 par value per share ; 400 million shares authorized ; 358 million shares issued and outstanding	1,789,079	1,789,079
Capital surplus	2,275,172	2,279,250
Retained earnings	3,334,684	3,608,686
Capital adjustments	24,746	(1,418)
Total shareholders equity	7,423,681	7,675,597
Total liabilities and shareholders equity	(Won) 13,187,254	(Won) 12,995,915

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

See Report of Independent Accountants

3

LG. Philips LCD Co., Ltd.

Non-Consolidated Statements of Operations

Three-Month and Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won, except per share amounts)	For the three-month periods ended June 30, 2006	For the three-month periods ended June 30, 2005	For the six-month periods ended June 30, 2006	For the six-month periods ended June 30, 2005
Sales (Notes 11 and 12)	(Won) 2,086,362	(Won) 2,028,538	(Won) 4,504,035	(Won) 3,798,846
Cost of sales (Note 11)	2,392,653	1,909,089	4,666,630	3,767,219
Gross profit (loss)	(306,291)	119,449	(162,595)	31,627
Selling and administrative expenses	138,897	90,564	247,328	165,139
Operating income (loss)	(445,188)	28,885	(409,923)	(133,512)
Non-operating income				
Interest income	7,323	11,717	17,290	20,554
Rental income	2,234		4,043	
Foreign exchange gains	48,963	12,692	111,317	56,352
Gain on foreign currency translation	27,502	42,366	46,640	35,106
Gain on valuation of equity method investments	68,445	3,465	81,702	6,956
Gain on disposal of property, plant and equipment	90	790	90	1,996
Others	14,466	4,267	19,128	7,427
	169,023	75,297	280,210	128,391
Non-operating expenses				
Interest expenses	35,302	27,962	71,036	47,259
Foreign exchange losses	47,716	43,949	133,867	73,210
Loss on foreign currency translation	32,484	15,505	32,484	29,390
Donations	1,067	83	1,254	93
Loss on disposal of accounts receivable	2,887	2,992	3,063	4,953
Loss on disposal of available-for-sale securities	35		35	
Loss on disposal of property, plant and equipment	1	8	1,046	22
Loss on valuation of equity method investments	57	13,255	72	2,080
Ramp up costs	7,104		18,043	
Others	1		5	
	126,654	103,754	260,905	157,007
Income (loss) before income taxes	(402,819)	428	(390,618)	(162,128)
Income tax benefit	(81,299)	(40,638)	(116,616)	(124,364)
Net income (loss)	(Won) (321,520)	(Won) 41,066	(Won) (274,002)	(Won) (37,764)
Ordinary income (loss) per share (Note 10)	(Won) (899)	(Won) 126	(Won) (766)	(Won) (116)
Earnings (loss) per share (Note 10)	(Won) (899)	(Won) 126	(Won) (766)	(Won) (116)
Diluted ordinary income (loss) per share (Note 10)	(Won) (899)	(Won) 126	(Won) (766)	(Won) (116)

Diluted earnings (loss) per share (Note 10)	(Won)	(899)	(Won)	126	(Won)	(766)	(Won)	(116)

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

See Report of Independent Accountants

4

LG. Philips LCD Co., Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)	For the three-month periods ended June 30, 2006	2005	For the six-month periods ended June 30, 2006	2005
Cash flows from operating activities				
Net income (loss)	(Won) (321,520)	(Won) 41,066	(Won) (274,002)	(Won) (37,764)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Loss on disposal of available-for-sale securities	35		35	
Loss (gain) on valuation of equity method investments (68,388)	9,790	(81,630)	(4,876)	
Amortization of intangible assets	13,694	11,351	24,678	22,663
Depreciation	588,142	402,756	1,191,944	797,892
Loss (gain) on disposal of property, plant and equipment, net	(89)	(782)	956	(1,974)
Gain on foreign currency translation, net	4,539	(23,384)	(18,185)	(2,718)
Amortization of discount on debentures	9,141	7,969	18,184	11,370
Provision for warranty reserve	5,980	3,516	12,573	4,826
Provision for severance benefits	15,747	14,796	31,385	26,555
Stock compensation cost	(11)	239		239
	568,790	426,251	1,179,940	853,977
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable 248,028	(43,991)	84,270	(303,476)	
(Increase) decrease in inventories	(156,335)	(10,172)	(358,112)	10,418
(Increase) decrease in other accounts receivable	(2,102)	3,589	4,041	847
Decrease (increase) in accrued income	329	1,192	325	(786)
(Increase) decrease in advance payments	(1,687)	(2,890)	2,197	1,254
Decrease (increase) in prepaid expenses	15,391	3,681	(35,092)	365
(Increase) decrease in prepaid value added tax	(17,172)	12,271	37,739	3,984
(Increase) decrease in other current assets	(10,074)	34,334	24,409	64,853
Decrease (increase) in long-term prepaid expenses	(4,879)	3,056	(42,644)	(16,878)
Increase in current deferred income tax	(18,645)	(938)	(31,802)	(37,031)
(Decrease) increase trade accounts and notes payable (72,700)	33,041	(24,462)	43,009	
(Decrease) increase in other accounts payable	(19,617)	(4,786)	(55,050)	18,933
(Increase) decrease in advances received	236	(24)	2,932	397
(Decrease) increase in withholdings	(1,201)	163	(5,406)	812
Increase (decrease) in accrued expenses	17,920	9,250	(1,117)	(57,429)
Decrease in income tax payable	(14,256)	(39,129)	(19,499)	(74,581)
Decrease in reserve warranty	(5,338)	(3,801)	(10,221)	(6,832)
Decrease in other current liabilities		(15,070)	(2,964)	(27,974)
Accrued severance benefits transferred from affiliated company, net	976	279	31,385	557
Payments of severance benefits	(9,084)	(6,589)	(51,291)	(8,703)
Decrease in severance insurance deposit	3,976	3,049	9,801	3,485
Decrease in contribution to National Pension Fund	36	44	37	39
Increase in non-current deferred income tax	(57,787)	(39,679)	(84,815)	(87,333)

	(103,985)	(63,120)	(525,339)	(472,070)
Net cash provided by operating activities	143,285	404,197	380,599	344,143

5

LG. Philips LCD Co., Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)	For the three-month periods ended June 30, 2006	For the three-month periods ended June 30, 2005	For the six-month periods ended June 30, 2006	For the six-month periods ended June 30, 2005
Cash flows from investing activities				
Acquisition of equity-method investments				(667)
Acquisitions of available-for-sale securities	(30)	(5)	(45)	(206)
Proceeds from disposal of available-for-sale securities 349		349		
Proceeds from non-current guarantee deposits	10,716	25	10,721	25
Payments of non-current guarantee deposits	(2)	(3,799)	(4,585)	(4,961)
Acquisitions of property, plant and equipment	(936,727)	(930,481)	(1,763,331)	(1,353,906)
Proceeds from disposal of property, plant and equipment 785	813	785	2,477	
Acquisition of intangible assets	(1,919)		(3,885)	(2,309)
Net cash used in investing activities	(926,828)	(933,447)	(1,759,991)	(1,359,547)
Cash flows from financing activities				
Repayment of current portion of long-term debts			(9,783)	
Proceeds from issuance of long-term debts	94,450		244,450	101,900
Proceeds from issuance of debentures	399,600	480,662	399,600	873,684
Net cash provided by financing activities	494,050	480,662	634,267	975,584
Net decrease in cash and cash equivalents	(289,493)	(48,588)	(745,125)	(39,820)
Cash and cash equivalents				
Beginning of the period	1,009,393	1,283,757	1,465,025	1,274,989
End of the period	(Won) 719,900	(Won) 1,235,169	(Won) 719,900	(Won) 1,235,169

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

See Report of Independent Accountants

6

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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 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 proceeds of (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 proceeds of (Won)298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004 with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depositary Shares (ADSs) for proceeds of US$748,800,000.

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 same as those followed by the Company in its preparation of annual non-consolidated financial statements and 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.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 18 through 20 became applicable for the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

3. Financial Instruments

As of June 30, 2006 and December 31, 2005, long-term financial instruments represent key money deposits required to maintain checking accounts and, accordingly, the withdrawal of such deposits is restricted.

4. Inventories

Inventories as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)	**2006**	**2005**
Finished products	(Won) 529,420	(Won) 191,918
Work-in-process	286,702	131,483
Raw materials	146,262	124,999
Supplies	64,229	59,750
	1,026,613	508,150
Less : Valuation loss	(196,736)	(36,385)
	(Won) 829,877	(Won) 471,765

For the six-month period ended June 30, 2006, the Company recorded ramp-up costs of (Won)18,043 million to counter the unusually low volume of production.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

5. Current Maturities of Long-Term Debts

Current maturities of long-term debts as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)

Type of borrowing	Creditor	Annual interest rates (%) as of June 30, 2006	2006	2005
Long-term Korean won loans	Korea Export-Import Bank	5.9-6.1	(Won) 39,267	(Won) 29,417
Long-term Korean won debentures		6.0	200,000	200,000
Long-term foreign currency loans of US$ 6 million	Korea Export-Import Bank	6M Libor + 1.2	5,716	
Long-term foreign currency loans of US$ 17.5 million	Woori Bank	3M Libor + 1.0	16,670	17,727
Long-term foreign currency debentures of US$ 182.5 million		3M Libor + 1.0	173,850	184,872
		435,503	432,016	
Less : Discounts on debentures			(695)	(2,664)
			(Won) 434,808	(Won) 429,352

See Report of Independent Accountants

9

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

6. Long-Term Debts

Long-term debts as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)

Type of borrowing	Annual interest rates (%) as of June 30, 2006	2006	2005
Won currency debentures			
Non-guaranteed, payable through 2010	3.5 6.0	(Won) 1,750,000	(Won) 1,750,000
Private debentures, payable through 2011	5.3 5.9	600,000	200,000
Less : Current maturities		(200,000)	(200,000)
Discounts on debentures		(24,014)	(28,120)
		2,125,986	1,721,880
Foreign currency debentures			
Floating rate notes, payable through 2007	3M Libor + 0.6 - 3M Libor + 1.0	286,733	304,913
Term notes, payable through 2006	3M Libor +1.0	77,637	82,559
		364,370	387,472
Less : Current maturities		(173,850)	(184,872)
Discount on debentures		(1,417)	(1,960)
		189,103	200,640
Convertible bonds[1]			
US dollar-denominated bonds, payable through 2010		483,780	483,780
Add : Call premium		84,613	84,613
Less : Current maturities			
Discount on debentures		(2,436)	(2,724)
Conversion adjustment		(92,040)	(102,917)
		473,917	462,752
Total debentures		(Won) 2,789,006	(Won) 2,385,272
Won currency loans			
General loans	3.75 6.1	(Won) 266,637	(Won) 126,420
Less : Current maturities		(39,267)	(29,417)
		227,370	97,003

Foreign currency loans					
General loans	3M Libor+.099, 3M Libor+1.0, 3M Libor+1.35, 6M Libor+0.41, 6M Libor+1.2		300,545		218,301
Less : Current maturities			(22,386)		(17,727)
			278,159		200,574
Total long-term loans		(Won)	505,529	(Won)	297,577

See Report of Independent Accountants

10

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

---

[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 June 30, 2006, the number of non-converted common shares is 8,276,681.

As of June 30, 2006, foreign currency debentures denominated in U.S. dollars amount to US$ 383 million (December 31, 2005 : US$ 383 million) and foreign currency loans denominated in U.S. dollars amount to US$ 315 million (December 31, 2005 : US$ 215 million).

7. 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 has been subsequently adjusted 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 since April 7, 2005 is as follows:

		Number of shares under SARs
Option granted as of April, 7, 2005		450,000
Options canceled [1]		40,000
Balance, June 30, 2006		410,000
Exercise price	(Won)	44,050

---

[1] Options canceled due to the retirement of an executive officer in 2005.

The Company did not recognize any compensation costs as market price is below the exercise price as of June 30, 2006.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

8. Commitments and Contingencies

As of June 30, 2006, the Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of June 30, 2006, the Company has revolving credit facility agreements with several banks totaling (Won)300,000 million and US$100 million (December 31, 2005 : (Won)450,000 million and US$100 million).

As of June 30, 2006, the Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities for up to an aggregate of US$1,150 million. The Company has agreements with several banks in relation to the opening of letters of credit amounting to (Won)90,000 million and US$145 million. The amount of negotiated foreign currency receivables outstanding as of June 30, 2006, is (Won)278,785 million (December 31, 2005 : (Won)303,904 million).

As of June 30, 2006, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others, and has trademark license agreements with LG Corporation and Philips Electronics.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

The Company entered 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 these contracts follows :

(in millions)

Contracting party	Selling position		Buying position		Contract foreign exchange rate	Maturity date
HSBC and others	US$	3,091	(Won)	3,017,525	(Won)925.22:US$1-(Won)1,050.70:US$1	July 3, 2006 - June 12, 2007
Citibank and others	EUR	272	(Won)	326,678	(Won)1,156.54:EUR1-(Won)1,279.28:EUR1	July 6, 2006 - June 13, 2007
ABN AMRO and others	(Won)	478,337	JP¥	55,600	(Won)8.1720:JP¥1- (Won)9.5480:JP¥1	July 3, 2006 - June 12, 2007
KEB and others	US$	188	JP¥	21,200	JP¥109.32:US$1- JP¥116.53:US$1	July 12, 2006 - September 29, 2006

As of June 30, 2006, the Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of (Won)95,096 million and (Won)28,175 million, respectively. Total unrealized gains and losses of (Won)2,623 million and (Won)8,329 million, respectively, were charged to operations for the six-month period ended June 30, 2006, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, incurred relating to cash flow hedges from forecasted exports, were recorded as capital adjustments.

The forecasted hedged transactions are expected to occur on June 13, 2007. The aggregate amount of all deferred gains and losses of (Won)92,473 million and (Won)19,846 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 June 30, 2006.

For the six-month period ended June 30, 2006, the Company recorded realized gains of (Won)149,897 million (2005: (Won)65,481 million) on foreign currency forward contracts upon settlement, and realized losses of (Won)34,503 million (2005: (Won)14,166 million).

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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 these contracts follows :

(in millions)

Contracting party	Buying position	Selling position	Contract foreign exchange rate	Maturity date
ABN AMRO and others	US$ 300	(Won) 310,590	3M Libor 3.65% - 4.40%	July 12, 2006 - December 8, 2006

As of June 30, 2006, unrealized losses of (Won)18,432 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

For the six-month period ended June 30, 2006, the Company recorded realized gains of (Won)(620) million (2005 : (Won)10 million) and realized losses of (Won)5,810 million (2005: (Won)8,751 million) on cross-currency swap contracts upon settlement.

The Company entered into option contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. These transactions do not meet the requirements for hedge accounting for financial statement purposes. 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 these contracts follows :

(in millions)

Contracting party	USD Put buying	USD Call selling	Strike price	Maturity date
KDB and others	US$ 50	US$ 100	(Won)957.30:US$1- (Won)966.50:US$1	May 21, 2007 - June 21, 2007

As of June 30, 2006, unrealized losses of (Won)291 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

See Report of Independent Accountants

14

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

The Company entered into interest rate swap contracts 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 these contracts follows :

(in millions)

Contracting party	Contract Amount	Contract foreign exchange rate		Maturity date
SC First Bank	US$150	Accept floating rate	6M Libor	May 21, 2009 - May 24, 2010
		Pay fix rate	5.375% -5.644%	

As of June 30, 2006, unrealized gains of (Won)293 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

The Company is facing several legal proceedings and claims arising from 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 the 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 under 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 June 2006, the American Arbitration Association decided in favor of the Company.

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. On March 13, 2006, the Company appealed the decision at the Court of Appeals.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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 under 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.

9. Deferred income tax assets (liabilities)

Deferred income tax assets (liabilities) as of June 30, 2006 and December 31, 2005, consist of the following :

(in millions of Korean won)	**2006**	**2005**
Inventories	(Won) 28,083	(Won) 8,354
Investments	(8,002)	7,584
Other current assets (liabilities)	6,637	(4,133)
Property, plant and equipment	35,621	34,403
Tax credit carryforwards	396,114	292,976
Deferred income taxes added to shareholders equity	(29,098)	(4,631)
Deficit carryforwards	99,940	
Others	14,757	9,715
	544,052	344,268
Less: Valuation allowance	(107,636)	
	(Won) 436,416	(Won) 344,268

As the Company anticipates that all tax benefits from the loss carryforwards and tax credits would not be fully realized, a valuation allowance amounting to (Won)107,636 million has been provided as of June 30, 2006.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

10. Earnings Per Share

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

Earnings (loss) per share for the three-month and six-month periods ended June 30, 2006 and 2005, is calculated as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
(in millions, except for per share amount)	**2006**	**2005**	**2006**	**2005**
Net income (loss) as reported on the statements of operations	(Won) (321,520)	(Won) 41,066	(Won) (274,002)	(Won) (37,764)
Weighted-average number of common shares outstanding	358	325	358	325
Earnings (loss) per share	(Won) (899)	(Won) 126	(Won) (766)	(Won) (116)

The Company has issued no diluted securities until convertible bonds were issued on April 19, 2005. Diluted loss per share is identical to basic loss per share and diluted ordinary loss per share to basic ordinary loss per share as the Company recorded net loss and ordinary loss during the three-month period and six-month periods ended June 30, 2006, and six-month period ended June 30, 2005. Additionally, diluted earnings per share is identical to basic earnings per share and diluted ordinary income per share to basic ordinary income per share as convertible bonds have no dilutive effect for the three-month period ended June 30, 2005.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Dilutive effect for the three-month period ended June 30, 2005, is as follows:

(in millions, except for per share amount)	**For the three-month period ended June 30, 2005**	
Net income allocated to common stock	(Won)	41,066
Add : Interest expense on convertible bonds[1]		3,623
Diluted net income allocated to common stock		44,689
Weighted average number of common shares and diluted securities outstanding during the year		332
Diluted earnings per share [2]	(Won)	135

[1] Net of (Won)680 million tax effect.

[2] Convertible bonds have no dilutive effect as these amounts exceed basic earning per share.

Additionally, earnings per share for the three-month period ended March 31, 2006 and for the year ended December 31, 2005, are as follows:

	March 31, 2006		**December 31, 2005**	
Basic earnings per share	(Won)	133	(Won)	1,523
Diluted earnings per share	(Won)	133	(Won)	1,523

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

11. Related Party Transactions

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

Significant transactions which occurred in the ordinary course of business with related companies for the six-month periods ended June 30, 2006 and 2005, and the related account balances outstanding as of June 30, 2006 and December 31, 2005, are summarized as follows:

(in millions of Korean won)	Sales [1]		Purchases [1]	
	2006	2005	2006	2005
Parent companies				
LG Electronics Inc.-domestic	(Won) 222,736	(Won) 187,681	(Won) 97,080	(Won) 73,254
LG Electronics Inc.-overseas	204,511	50,041		2
Philips-domestic			11,714	77
Philips-overseas			17,637	26,067
Company that has significant influence over the Company				
LG Corporation			5,853	5,042
Overseas subsidiaries				
LG.Philips LCD America, Inc.	406,065	377,299	3	6
LG.Philips LCD Taiwan Co., Ltd.	465,622	335,167	47	
LG.Philips LCD Japan Co., Ltd.	628,360	377,427		
LG.Philips LCD Germany GmbH.	740,260	427,023	13,698	8,085
LG.Philips LCD Nanjing Co., Ltd.	987,820	1,264,446	25,740	907
LG.Philips LCD Shanghai Co.,Ltd.	315,778	360,035	15	
LG.Philips LCD Hongkong Co., Ltd.	222,360	212,448	2	
LG.Philips LCD Poland Sp. zo.o.	47			
Equity-method investee				
Paju Electric Glass Co., Ltd.	6		54,864	
Other related parties				
LG Chem Ltd.			267,731	174,345
LG International domestic		392	3,280	1,360
LG International overseas	47,200	12,501	700,858	476,021
Serveone	263		89,419	48,443
Micron Ltd.	91		53,837	55,577
LG CNS	5		57,894	56,294
Others	14,597	37,449	55,553	28,846
Total	(Won) 4,255,721	(Won) 3,641,909	(Won) 1,455,225	(Won) 954,326

[1] Includes sales of (Won)788 million and purchases of property, plant and equipment of (Won)726,720 million.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

(in millions of Korean won)	Receivables		Payables	
	2006	**2005**	**2006**	**2005**
Parent companies				
LG Electronics Inc.-domestic	(Won) 59,257	(Won) 27,383	(Won) 81,594	(Won) 66,251
LG Electronics Inc.-overseas	145,719	40,773	2,510	370
Philips-domestic			4,697	291
Philips-overseas	582	171	2,264	4,244
Company that has significant influence over the Company				
LG Corporation	2,649	10,970		1,692
Overseas subsidiaries				
LG.Philips LCD America, Inc.	53,567	22,683		
LG.Philips LCD Taiwan Co., Ltd.	107,117	53,521	26	1
LG.Philips LCD Japan Co., Ltd.	76,343	130,090	3	1
LG.Philips LCD Germany GmbH.	140,930	103,637	13,718	8,886
LG.Philips LCD Nanjing Co., Ltd.	206,220	375,158	24,192	3,068
LG.Philips LCD Shanghai Co.,Ltd.	60,065	202,329		
LG.Philips LCD Hongkong Co., Ltd.	56,893	45,863	50	48
LG.Philips LCD Poland Sp. zo.o.	325	1		
Equity-method investee				
Paju Electric Glass Co., Ltd.			11,822	
Other related parties				
LG Chem Ltd.			44,320	44,602
LG International domestic		11	1,053	986
LG International overseas	21,498	3,114	212,207	191,252
Serveone	2,373		29,827	36,792
Micron Ltd.			38,774	55,234
LG CNS			17,123	32,127
Others	10,273	21,409	8,338	9,791
Total	(Won) 943,811	(Won) 1,037,113	(Won) 492,518	(Won) 455,636

Significant management[1] compensation costs for the six-month period ended June 30, 2006, are as follows:

(in millions of Korean won)	
Short-term employee salaries	(Won) 791
Post-retirement benefits	228
	(Won) 1,019

[1] Management refers to the directors who have significant control and responsibilities on the Company s operations and business. Total ceiling for compensation for such directors in 2006 is (Won)13.4 billion.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

12. Segment Information

The Company operates only one segment, the TFT-LCD division where export sales represents 91 % of total sales.

The following is a summary of operations by country based on the location of the customers for the six-month periods ended June 30, 2006 and 2005.

(in millions of Korean won)

Sales	Domestic	Taiwan	Japan	America	China	Europe	Others	Total
2006	(Won) 413,961	(Won) 465,642	(Won) 632,187	(Won) 406,284	(Won) 1,557,279	(Won) 815,976	(Won) 212,706	(Won) 4,504,035
2005	(Won) 363,261	(Won) 334,992	(Won) 376,857	(Won) 377,613	(Won) 1,824,175	(Won) 445,155	(Won) 76,793	(Won) 3,798,846

See Report of Independent Accountants

21

LG. Philips LCD Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

June 30, 2006 and December 31, 2005

(Unaudited)

(in millions of Korean won)	**2006**	**2005**
Assets		
Current assets		
Cash and cash equivalents	(Won) 778,877	(Won) 1,579,452
Available-for-sale securities	15	354
Trade accounts and notes receivable, net (Notes 8 and 11)	985,798	1,266,899
Inventories, net (Note 4)	1,270,899	690,785
Other accounts receivable, net (Note 11)	78,462	66,203
Accrued income, net	1,044	1,369
Advance payments, net	4,019	5,994
Prepaid expenses	65,360	21,603
Prepaid value added tax	99,240	131,230
Deferred income tax assets (Note 9)	20,730	5,373
Other current assets	109,337	76,806
Total current assets	3,413,781	3,846,068
Property, plant and equipment, net	9,702,000	9,199,599
Long-term financial instruments (Note 3)	16	16
Available-for-sale securities	1	1
Equity method investments	16,592	14,156
Non-current guarantee deposits	23,191	28,070
Long-term prepaid expenses	116,933	83,112
Deferred income tax assets (Note 9)	422,213	343,754
Intangible assets, net	190,984	159,306
Total assets	(Won) 13,885,711	(Won) 13,674,082
Liabilities and Shareholders Equity		
Current liabilities		
Short-term borrowings (Note 5)	(Won) 342,272	(Won) 308,969
Trade accounts and notes payable (Note 11)	632,011	693,588
Other accounts payable (Note 11)	1,353,075	1,474,556
Advances received	56,387	58,431
Withholdings	7,674	12,055
Accrued expenses	62,362	69,968
Income taxes payable	4,549	21,788
Current maturities of long-term debt (Note 6)	445,573	440,840
Warranty reserve	26,268	24,947
Other current liabilities	53,094	33,693
Total current liabilities	2,983,265	3,138,835
Debentures, net of current maturities and discounts on debentures (Note 6)	2,789,006	2,385,272
Long-term debt, net of current maturities (Note 6)	624,989	430,697
Accrued severance benefits, net	64,534	43,206
Long-term accrued expenses	210	
Deferred income tax liabilities	26	475

Total liabilities	6,462,030	5,998,485
Commitments and contingencies (Note 8)		
Shareholders equity		
Capital stock		
Common stock, (Won)5,000 par value per share;		
400 million shares authorized ;		
358 million shares issued and outstanding (2005 : 358 million)	1,789,079	1,789,079
Capital Surplus	2,275,172	2,279,250
Retained earnings	3,334,684	3,608,686
Capital adjustments	24,746	(1,418)
Total shareholders equity	7,423,681	7,675,597
Total liabilities and shareholders equity	(Won) 13,885,711	(Won) 13,674,082

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

See Report of Independent Accountants

22

LG. Philips LCD Co., Ltd. and Subsidiaries

Consolidated Statements of Operations

For the Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won, except per share amounts)	**2006**	**2005**
Sales (Notes 11 and 12)	(Won) 4,786,132	(Won) 4,372,376
Cost of sales (Note 11)	4,823,308	4,270,897
Gross profit (loss)	(37,176)	101,479
Selling and administrative expenses	283,210	206,569
Operating loss	320,386	105,090
Non-operating income		
Interest income	18,385	21,041
Rental income	4,043	
Foreign exchange gains	187,984	90,186
Gain on foreign currency translation	52,832	39,845
Gain on valuation of investments using the equity method of accounting	2,509	
Gain on disposal of property, plant and equipment	92	33
Others	15,538	6,239
	281,383	157,344
Non-operating expenses		
Interest expense	74,944	50,721
Foreign exchange losses	206,745	110,800
Loss on foreign currency translation	36,483	38,215
Donations	1,260	93
Loss on disposal of accounts receivable	9,811	9,001
Loss on disposal of available-for-sale securities	35	
Loss on valuation of investments using the equity method of accounting		11
Loss on disposal of property, plant and equipment	1,052	32
Ramp up cost	18,043	
Others	273	197
	348,646	209,070
Loss before income taxes	387,649	156,816
Income tax benefit	113,647	119,030
Net loss	(Won) 274,002	(Won) 37,786
Ordinary loss per share (Note 10)	(Won) 766	(Won) 116
Loss per share (Note 10)	(Won) 766	(Won) 116
Diluted ordinary loss per share (Note 10)	(Won) 766	(Won) 116

Diluted loss per share (Note 10)	(Won)	766	(Won)	116

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

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)	**2006**	**2005**
Cash flows from operating activities		
Net Loss	(Won) 274,002	(Won) 37,786
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,219,053	814,200
Amortization of intangible assets	25,221	23,127
Provision for severance benefits	31,402	26,574
Loss (gain) on foreign currency translation, net	(19,593)	1,765
Loss on disposal of available-for-sale securities	35	
Loss (gain) on disposal of property, plant and equipment, net	960	(1)
Amortization of discount on debentures	18,184	11,370
Loss (gain) on valuation of investments using the equity-method of accounting, net	(2,509)	11
Stock compensation cost		239
Others	22,204	9,155
	1,294,957	886,440
Changes in operating assets and liabilities		
Decrease (increase) in trade accounts and notes receivable	281,576	(309,121)
(Increase) decrease in inventories	(580,114)	84,063
(Increase) decrease in other accounts receivable	(12,265)	1,739
Decrease (increase) in accrued income	325	(786)
Decrease in advance payments	1,974	1,074
Increase in prepaid expenses	(34,943)	(138)
Decrease (increase) in prepaid value added tax	31,990	(6,252)
Decrease in other current assets	25,012	65,616
Increase in current deferred income tax assets	(32,307)	(36,924)
Increase in long-term accrued expenses	210	
Increase in long-term prepaid expenses	(42,635)	(16,878)
Increase in non-current deferred income tax assets	(85,978)	(88,251)
(Decrease) increase in trade accounts and notes payable	(60,271)	67,412
(Decrease) increase in other accounts payable	(55,493)	15,485
Decrease in advances received	(1,940)	(50)
(Decrease) increase in withholdings	(4,381)	2,414
Decrease in accrued expenses	(7,606)	(57,492)
Decrease in income taxes payable	(17,240)	(72,440)
Decrease in warranty reserve	(20,883)	(8,819)
Decrease in other current liabilities	(2,952)	(27,961)
(Decrease) increase in deferred income tax liablities	(448)	23
Accrued severance benefits transferred from affiliated company, net 31,385	557	
Payment of severance benefits	(51,297)	(8,722)
Decrease in severance insurance deposits	9,801	3,485
Decrease in contributions to the National Pension Fund	37	39
Decrease (increase) in consolidation adjustments, net	(20,612)	(1,396)
	(649,055)	(393,323)

Net cash provided by operating activities	(Won) 371,900	(Won) 455,331

LG. Philips LCD Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the Six-Month Periods Ended June 30, 2006 and 2005

(Unaudited)

(in millions of Korean won)		**2006**		**2005**
Cash flows from investing activities				
Acquistion of equity-method investments	(Won)			(667)
Acquisition of available-for-sale securities		(45)		(206)
Proceeds from disposal of available-for-sale securities		349		
Proceeds from non-current guarantee deposits		9,464		81
Payment of non-current guarantee deposits		(4,584)		(4,960)
Acquisition of property, plant and equipment		(1,837,279)		(1,415,708)
Proceeds from disposal of property, plant and equipment		789		2,504
Acquisition of intangible assets		(3,393)		(2,428)
Increase of short-term loan		(5)		(7)
Net cash used in investing activities		(1,834,704)		(1,421,391)
Cash flows from financing activities				
Repayment of short-term borrowings				(77,323)
Repayment of current portion of long-term debt		(15,248)		(5,872)
Proceeds from issuance of debentures		399,600		873,684
Proceeds from issuance of long-term debt		277,877		145,305
Net cash provided by financing activities		662,229		935,794
Net increase (decrease) in cash and cash equivalents		(800,575)		(30,266)
Cash and cash equivalents				
Beginning of the period		1,579,452		1,361,239
End of the period	(Won)	778,877	(Won)	1,330,973

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

See Report of Independent Accountants

25

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

1. The Companies

The accompanying consolidated financial statements include the accounts of LG. Philips LCD Co., Ltd. (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 proceeds of (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 proceeds of (Won)298,080 million. Concurrently, pursuant to a Form F-1 registration statement filed on July 15, 2004, with the U.S. Securities and Exchange Commission, the Company sold 24,960,000 shares of common stock in the form of American Depositary Shares (ADSs) for proceeds of US$ 748,800 thousand.

Consolidated Subsidiaries

Consolidated subsidiaries as of June 30, 2006, are as follows:

	Total issued and outstanding shares	No. of shares owned by the Controlling Company	Percentage of Ownership (%)
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 LCD Nanjing Co., Ltd.	[1]	[1]	100
LG.Philips LCD Hong Kong Co., Ltd.	115,000	115,000	100
LG.Philips LCD Shanghai Co., Ltd.	[1]	[1]	100
LG.Philips LCD Poland Sp.zo.o.	500	500	100

[1] No shares have been issued in accordance with the local laws and regulations.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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 June 30, 2006 and December 31, 2005, its capital stock amounted to US$ 5 million and is wholly owned by LG.Philips LCD Co., Ltd.

(2) LG.Philips LCD Japan Co., Ltd. (LPLJ)
LPLJ was incorporated in Tokyo, Japan in October 1999, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of June 30, 2006 and December 31, 2005, its capital stock amounted to JP? 95 million and is wholly owned by LG.Philips LCD Co., Ltd.

(3) LG.Philips LCD Germany GmbH (LPLG)
LPLG was incorporated in Düsseldorf, Germany in November 1999, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of June 30, 2006 and December 31, 2005, its capital stock amounted to EUR 1 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 June 30, 2006 and December 31, 2005, its capital stock amounted to NTD 116 million and is wholly owned by LG.Philips LCD Co., Ltd.

(5) LG.Philips LCD Nanjing Co., Ltd. (LPLNJ)
LPLNJ was incorporated in Nanjing, China in July 2002, to manufacture and sell TFT-LCD products. As of June 30, 2006 and December 31, 2005, its capital stock amounted to CNY 1,069 million and is wholly owned by LG. Philips LCD Co., Ltd.

(6) LG.Philips LCD Hong Kong Co., Ltd. (LPLHK)
LPLHK was incorporated in Hong Kong in January 2003, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of June 30, 2006 and December 31, 2005, its capital stock amounted to HK$ 12 million and is wholly owned by LG.Philips LCD Co., Ltd.

(7) LG.Philips LCD Shanghai Co., Ltd. (LPLSH)
LPLSH was incorporated in Shanghai, China in January 2003, to sell the TFT-LCD products of LG.Philips LCD Co., Ltd. As of June 30, 2006 and December 31, 2005, its capital stock amounted to CNY 4 million and is wholly owned by LG.Philips LCD Co., Ltd.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

(8) LG.Philips LCD Poland Sp. zo.o. (LPLWR)

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 June 30, 2006 and December 31, 2005, its capital stock amounted to (Won)16 million and is 100% owned by LG. Philips LCD Co., Ltd.

Equity-method investment

The primary business activity of the equity-method investment follows:

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

PEG was incorporated in Paju, Korea in January 2005, to produce electric glass. As of June 30, 2006 and December 31, 2005, its capital stock amounted to (Won)36,000 million and 40% shares of PEG are owned by LG.Philips LCD Co., Ltd.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Consolidated Subsidiaries

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

Condensed Balance Sheets

(in millions of Korean won)	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.
Current assets	(Won) 121,869	(Won) 288,058	(Won) 116,215	(Won) 322,763	(Won) 553,433
Non-current assets	1,521	1,327	1,025	3,471	302,090
Total assets	(Won) 123,390	(Won) 289,385	(Won) 117,240	(Won) 326,234	(Won) 855,523
Current liabilities	(Won) 112,803	(Won) 286,142	(Won) 112,850	(Won) 313,996	(Won) 539,720
Non-current liabilities			29		119,460
Total liabilities	112,803	286,142	112,879	313,996	659,180
Capital stock	6,082	1,252	1,088	4,189	140,212
Retained earnings	6,639	2,319	4,358	10,407	76,900
Capital adjustments	(2,134)	(328)	(1,085)	(2,358)	(20,769)
Total shareholders equity	10,587	3,243	4,361	12,238	196,343
Total liabilities and shareholders equity	(Won) 123,390	(Won) 289,385	(Won) 117,240	(Won) 326,234	(Won) 855,523

(in millions of Korean won)	LG. Philips LCD HongKong Co., Ltd.	LG. Philips LCD Shanghai Co., Ltd.	LG. Philips LCD Poland Sp. zo.o.	Total
Current assets	(Won) 181,508	(Won) 192,555	(Won) 2,936	(Won) 1,779,337
Non-current assets	435	267	18,674	328,810
Total assets	(Won) 181,943	(Won) 192,822	(Won) 21,610	(Won) 2,108,147
Current liabilities	(Won) 175,988	(Won) 189,967	(Won) 23,446	(Won) 1,754,912
Non-current liabilities	26		210	119,725
Total liabilities	176,014	189,967	23,656	1,874,637
Capital stock	1,736	596	16	155,171
Retained earnings	4,846	2,824	(2,123)	106,170

Capital adjustments	(653)	(565)	61	(27,831)
Total shareholders equity	5,929	2,855	(2,046)	233,510
Total liabilities and shareholders equity	(Won) 181,943	(Won) 192,822	(Won) 21,610	(Won) 2,108,147

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Condensed Statements of Income

(in millions of Korean won)	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) 461,509	(Won) 644,582	(Won) 658,802	(Won) 1,202,828	(Won) 1,570,903
Cost of sales	451,547	638,423	653,777	1,195,184	1,535,037
Gross profit	9,962	6,159	5,025	7,644	35,866
Selling and administrative expenses	5,581	4,636	3,500	3,574	32,296
Operating income (loss)	4,381	1,523	1,525	4,070	3,570
Non-operating income (expense)	(873)	(1,273)	(702)	(3,171)	429
Ordinary income (loss)	3,508	250	823	899	3,999
Income tax expense	1,314	284	406	251	103
Net income (loss)	(Won) 2,194	(Won) (34)	(Won) 417	(Won) 648	(Won) 3,896

(in millions of Korean won)	LG. Philips LCD HongKong Co., Ltd.	LG. Philips LCD Shanghai Co., Ltd.	LG. Philips LCD Poland Sp. zo.o.	Total
Sales	(Won) 457,415	(Won) 422,428	(Won) 1	(Won) 5,418,468
Cost of sales	451,069	418,331		5,343,368
Gross profit	6,346	4,097	1	75,100
Selling and administrative expenses	3,620	4,013	1,993	59,213
Operating income (loss)	2,726	84	(1,992)	15,887
Non-operating income (expense)	314	357	(125)	(5,044)
Ordinary income (loss)	3,040	441	(2,117)	10,843
Income tax expense	461	151		2,970
Net income (loss)	(Won) 2,579	(Won) 290	(Won) (2,117)	(Won) 7,873

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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 same as those followed by the company in its preparation of annual consolidated financial statements and 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. 15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2005.

And as SKFAS Nos. 18 through 20 became effective for the Company on January 1, 2006, the Company adopted these Standards in its financial statements for the six-month period ended June 30, 2006.

3. Financial Instruments

As of June 30, 2006 and December 31, 2005, long-term financial instruments represent key money deposits required to maintain checking accounts and, accordingly, the withdrawal of such deposits is restricted.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

4. Inventories

Inventories as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)	**2006**	**2005**
Finished products	(Won) 986,440	(Won) 355,532
Work-in-process	286,707	170,775
Raw materials	148,020	142,717
Supplies	64,403	66,142
	1,485,570	735,166
Less : Valuation loss	(214,671)	(44,381)
	(Won) 1,270,899	(Won) 690,785

For the six-month period ended June 30, 2006, the Company recorded ramp-up cost of (Won)18,043 million to counter the unusually low volume of production.

5. Short-Term Borrowings

Short-term borrowings as of June 30, 2006 and December 31, 2005, are as follows:

(in millions of Korean won)	**Creditor**	**Annual interest rates (%) as of June 30, 2006**	**2006**	**2005**
Documents against acceptance of US$ 288 million, EUR 4 million (2005 : US$ 300 million)	Woori Bank and others	3M Libor + 0.7 0.9	(Won) 278,785	(Won) 303,904
General loans of US$ 35 million, JP ¥2,375 million EUR 2 million, PLN 27 million (2005 : US$ 5 million)	Mizuho Bank and others	3M Libor + 0.5 0.8	63,487	5,065
			(Won) 342,272	(Won) 308,969

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

6. Long-Term Debts

Long-term debts as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)	Annual interest rates (%) as of June 30, 2006	2006	2005
Won currency debentures			
Non-guaranteed, payable through 2010	3.5 ~ 6.0	(Won) 1,750,000	(Won) 1,750,000
Private debentures, payable in 2011	5.3 ~ 5.9	600,000	200,000
Less: Current maturities		(200,000)	(200,000)
Discounts on debentures		(24,014)	(28,120)
		2,125,986	1,721,880
Foreign currency debentures			
Floating rate notes, payable through 2007	3ML+0.6 3ML+1.0	286,733	304,913
Term notes, payable through 2006	3ML+1.0, 6ML+1.2	77,637	82,559
		364,370	387,472
Less: Current maturities		(173,850)	(184,872)
Discount on debentures		(1,417)	(1,960)
		189,103	200,640
Convertible bonds[1]			
US dollar-denominated bonds, payable through 2010		483,780	483,780
Add : Call premium		84,613	84,613
Less : Current maturities			
Discount on debentures		(2,436)	(2,724)
Conversion adjustment		(92,040)	(102,917)
		473,917	462,752
		(Won) 2,789,006	(Won) 2,385,272
Won currency loans			
General loans	5.9 ~ 6.1	(Won) 108,017	(Won) 117,800
	5.34	150,000	
	3.75	8,620	8,620
Less : Current maturities		(39,267)	(29,417)
		227,370	97,003

Foreign currency loans					
General loans	5.3 ~ 6.2,		130,225		144,607
	3ML+1.0,		16,670		17,727
	6ML+0.41,		95,260		
	6ML+1.2,		45,725		48,624
	3ML+1.35,		95,260		101,300
	3ML+0.99		47,630		50,650
Less : Current maturities			(33,151)		(29,214)
			397,619		333,694
		(Won)	624,989	(Won)	430,697

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

[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 June 30, 2006, the number of non-converted common shares is 8,276,681.

As of June 30, 2006, the foreign currency debentures denominated in U.S. dollars amount to US$ 383 million (December 31, 2005 : US$ 383 million), while the foreign currency loans denominated in U.S. dollars and Chinese yuan renminbi amounted to US$ 419 million and CNY 260 million (December 31, 2005 : US$ 326 million and CNY 263 million), respectively.

Current maturities of long-term debts as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)

Type of borrowing	Annual interest rate (%) as of June 30, 2006	2006	2005
Long -term Korean won loans	5.9-6.1	(Won) 39,267	(Won) 29,417
Long-term Korean won debentures	6.0	200,000	200,000
Long-term foreign currency loans of US$ 34 million (2005: US$ 28 million)	3ML+1.0, 6.15	33,151	29,215
Long-term foreign currency debentures of US$ 183 million (2005: US$ 183 million)	3ML+1.0	173,850	184,872
		446,268	443,504
Less: Discount on debentures		(695)	(2,664)
		(Won) 445,573	(Won) 440,840

7. 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.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

The options activity under the SARs since April 7, 2005 is as follows:

		Number of shares under SARs
Option granted as of April, 7, 2005	(Won)	450,000
Options canceled [1]		40,000
Balance, June 30, 2006	(Won)	410,000
Exercise price	(Won)	44,050

[1] Options canceled due to the retirement of an executive officer in 2005.

The Company did not recognize any compensation costs as market price is below the exercise price as of June 30, 2006.

8. Commitments and Contingencies

As of June 30, 2006, the Controlling Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of June 30, 2006, the Controlling Company has a revolving credit facility agreement with several banks totaling (Won)300,000 million and US$100million (December 31, 2005: (Won)450,000 million and US$100 million).

LG. Philips LCD America Inc. entered into a line of credit agreement, up to US $10 million with Comerica Bank. LG. Philips LCD Japan Co., Ltd. and LG. Philips LCD Taiwan Co., Ltd. are provided with repayment guarantees from Mitsubishi UFJ Bank and ABN AMRO Bank amounting to JP ¥1,300 million and NTD40 million, respectively, relating to their local tax payments.

As of June 30, 2006, the Controlling Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities up to an aggregate of US$1,150 million. The Controlling Company has agreements with several banks in relation to the opening of letters of credit amounting to (Won)90,000 million and US$145 million. The amount of negotiated foreign currency receivables outstanding as of June 30, 2006, is (Won)278,785million (December 31, 2005: (Won)303,904 million).

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

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$450 million in eligible accounts receivables of four subsidiaries, namely, LG.Philips LCD America (LPLA), LG.Philips LCD Germany (LPLG), LG.Philips LCD Taiwan (LPLT) and LG.Philips LCD Japan (LPLJ), while retaining a subordinated interest in a portion of the receivables. The eligible receivables of LPLA and LPLG are sold without legal recourse to third party conduits through LG. Philips LCD America Finance Corporation, a qualifying bankruptcy-remote special purpose entity, which is wholly owned by LPLA but is not consolidated for financial reporting purposes. The eligible receivables of LPLT and LPLJ are sold without legal recourse to third party conduits through ABN AMRO Taipei Branch and ABN AMRO Tokyo Branch, respectively.

As of June 30, 2006, the outstanding balance of securitized accounts receivable held by the third party conduits totaled (Won)400,145 million (December 31, 2005: (Won)272,571 million), of which the Company s subordinated retained interest was (Won)78,720 million (December 31, 2005 : (Won)52,532 million). Accordingly, (Won)321,425 million (December 31, 2005: (Won)220,039 million) of accounts receivable balances, net of applicable allowances, was removed from the consolidated balance sheet at June 30, 2006. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately (Won)3,043 million for the six-month period ended June 30, 2006.

As of June 30, 2006, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others, and has trademark license agreements with LG Corporation and Philips Electronics.

The Controlling Company entered 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 these contracts follows:

(in millions)

Contracting party	**Selling position**		**Buying position**		**Contract foreign exchange rate**	**Maturity date**
HSBC and others	US$	3,091	(Won)	3,017,525	(Won)925.22:US$1-(Won)1,050.70:US$1	July 3, 2006 - June 12, 2007
Citi bank and others	EUR	272	(Won)	326,678	(Won)1,156.54:EUR1-(Won)1,279.28:EUR1	July 6, 2006 - June 13, 2007
ABN AMRO and others	(Won)	478,337	JP¥	55,600	(Won)8.1720:JP ¥ 1- (Won)9.5480:JP ¥ 1	July 3, 2006 - June 12, 2007
KEB and others	US$	188	JP¥	21,200	JP ¥ 109.32:US$1-JP ¥ 116.53:US$1	July 12, 2006 - September 29, 2006

See Report of Independent Accountants

36

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

As of June 30, 2006, the Controlling Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of (Won)95,096 million and (Won)28,175 million, respectively. Total unrealized gains and losses of (Won)2,623 million and (Won)8,329 million, respectively, were charged to operations for the six-month period ended June 30, 2006, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, incurred relating to cash flow hedges from forecasted exports, were recorded as capital adjustments.

The forecasted hedged transactions are expected to occur on June 13, 2007. The aggregate amount of all deferred gains and losses of (Won)92,473 million and (Won)19,846 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 June 30, 2006.

For the six-month period ended June 30, 2006, the Company recorded realized gains of (Won)149,897 million (2005: (Won)65,481 million) on foreign currency forward contracts upon settlement, and for the six-month period ended June 30, 2006, realized losses amounted to (Won)34,503 million (2005: (Won)14,166 million).

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

A summary of such contracts follows:

(in millions)

Contracting party	Buying position	Selling position	Contract foreign exchange rate	Maturity date
ABN AMRO and others	US$ 300		3M Libor	July 12, 2006 - December 8, 2006
		(Won) 310,590	3.65% - 4.40%	

As of June 30, 2006, unrealized losses of (Won)18,432 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

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

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

A summary of these contracts follows:

(in millions) **Contracting party**	**USD Put buying**	**USD Call selling**	**Strike price**	**Maturity date**
KDB and others	US$ 50	US$ 100	(Won) 957.30:US$1-(Won) 966.50:US$1	May 21, 2007 -June 21, 2007

As of June 30, 2006, unrealized losses of ?291 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

For the six-month period ended June 30, 2006, the Company recorded realized gains of ?(620) million (2005: ?10 million) and realized losses of ?5,810 million (2005: ?8,751 million) on cross-currency swap contracts upon settlement.

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

A summary of such contracts follows:

(in millions) **Contracting party**	**Contract amount**	**Contract foreign exchange rate**		**Maturity date**
SC First Bank	US$ 150	Accept floating rate	6M Libor	May 21, 2009 - May 24, 2010
		Pay fix rate	5.375% - 5.644%	

As of June 30, 2006, unrealized gains of ?293 million were charged to current operations, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

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

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

ownership of certain patents. In June 2006, the American Arbitration Association decided that the ownership of certain patents is in the Company.

In May 2004, the Controlling 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 Controlling Company lost its patent infringement case against Tatung Company and ViewSonic Corp. at first instance in Patent Country Court in United Kingdom. On March 13, 2006, the Controlling Company appealed the decision at the Court of Appeals.

In January 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against the Controlling Company. On May 13, 2005, the Controlling Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process 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 Controlling Company has revised its claim and has refilled the above complaint including the side mounting patent. The Controlling 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 Controlling Company s financial condition, results of operations or cash flows.

9. Deferred Income Tax Assets

Deferred income tax assets as of June 30, 2006 and December 31, 2005, consist of the following:

(in millions of Korean won)	**2006**	**2005**
Inventories	(Won) 29,936	(Won) 8,570
Other current assets	6,637	(4,133)
Property, plant and equipment	39,559	34,762
Tax credit carryforward	396,114	292,976
Deferred income taxes added to shareholders equity	(29,098)	(4,631)
Deficit carryforward	99,940	
Others	7,491	21,108
	550,579	348,652
Allowance for deferred income tax assets	(107,636)	
	(Won) 442,943	(Won) 348,652

The Company will not realize all benefits of the loss carryforwards and tax credits recorded. Accordingly, a valuation allowance amounting to (Won)107,636 million has been provided as of June 30, 2006.

See Report of Independent Accountants

39

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

10. Loss Per Share

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

Loss per share for the six-month periods ended June 30, 2006 and 2005, are calculated as follows:

(in millions, except per share amounts)	**2006**	**2005**
Net loss as reported on the statements of operations	274,002	37,764
Weighted-average number of common shares outstanding	358	325
Loss per share	766	116

The Company has issued no diluted securities until the Company issued convertible bonds on April 19, 2005. Diluted loss per share is identical to basic loss per share and diluted ordinary loss per share to basic ordinary loss per share as the company recorded net loss and ordinary loss during the six-month periods ended June 30, 2006 and 2005.

Additionally, earnings per share for the year ended December 31, 2005, were as follows:

	Year ended December 31, 2005	
Basic earning per share	(Won)	1,523
Diluted earnings per share	(Won)	1,523

11. Related Party

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

Significant transactions which occurred in the normal course of business with related companies for the six-month periods ended June 30, 2006 and 2005, and the related account balances outstanding as of June 30, 2006 and December 31, 2005 are summarized as follows:

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

Between LG.Philips LCD and consolidated subsidiaries

(in millions of Korean won)	**2006**	**2005**
Sales [1]	3,766,312	(Won) 3,353,845
Purchases [1]	39,505	8,998
Accounts receivable [2]	980,244	1,237,187
Accounts payable [2]	37,989	12,004

1 Includes sales and purchases of property, plant and equipment.
2 Includes other accounts receivable and other accounts payable.

Between consolidated subsidiaries

(in millions of Korean won)	**2006**	**2005**
Accounts receivable and payable	450,355	(Won) 456,379
Sales and purchases	1,373,180	1,381,305

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, for the six-month periods ended June 30, 2006 and 2005 and as of June 30, 2006 and December 31, 2005 are summarized as follows:

(in millions of Korean won)	**Sales[1]**		**Purchases [1]**	
	2006	**2005**	**2006**	**2005**
Parents companies				
LG Electronics Inc	(Won) 864,061	(Won) 908,613	(Won) 97,152	(Won) 72,256
Philips	571,133	600,934	29,351	26,144
Company that has significant influence over the Company				
LG Corporation			5,853	5,042
Equity-method investee				
Paju Electric Glass Co., Ltd.	13		54,864	
Other related parties				
LG Chem Ltd.			326,479	279,791
LG International	337,524	164,120	758,231	522,477
Serveone	263		89,419	48,443
Micron Ltd.	91		53,837	55,577
LG CNS	5		62,743	56,294
Others	21,674	37,515	54,840	31,441
Total	(Won) 1,794,764	(Won) 1,711,182	(Won) 1,532,796	(Won) 1,097,465

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

(in millions of Korean won)

	Receivables		Payables	
	2006	**2005**	**2006**	**2005**
Parent companies				
LG Electronics Inc.	(Won) 249,811	(Won) 219,327	(Won) 84,173	(Won) 66,751
Philips	63,786	176,599	6,990	4,548
Company that has significant influence over the Company				
LG Corporation	2,649	10,970		1,692
Equity-method investee				
Paju Electric Glass Co., Ltd.			11,822	
Other related parties				
LG Chem Ltd.			61,229	72,319
LG International	66,803	47,515	258,217	198,422
Serveone	2,370		29,827	36,792
Micron Ltd.			38,774	55,234
LG CNS			17,286	32,370
Others	15,811	22,320	8,336	9,790
Total	(Won) 401,230	(Won) 476,731	(Won) 516,654	(Won) 477,918

1 Includes sales of property, plant and equipment amounting to (Won)788million

1 Includes purchases of property, plant and equipment amounting to (Won)726,720million.

Significant management[1] compensation costs for the six-month period ended June 30, 2006 are as follows:

(in millions for Korean won)	
Short-term employee salaries	(Won) 791
Post-retirement benefits	228
	(Won) 1,019

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

See Report of Independent Accountants

LG. Philips LCD Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2006 and 2005, and December 31, 2005

(Unaudited)

12. Segment Information

The Company operates only one segment, the TFT-LCD division. Export sales represent about 90% of total sales for six-month period ended June 30, 2006.

The following is a summary of operations by country based on the location of the customers for the six-month periods ended June 30, 2006 and 2005:

(in millions of Korean won)

Sales	Domestic	Asia	America	Europe	Others	Total
2006	(Won) 651,534	(Won) 2,940,440	(Won) 461,202	(Won) 643,800	(Won) 89,156	(Won) 4,786,132
2005	(Won) 410,952	(Won) 2,872,611	(Won) 455,586	(Won) 632,155	(Won) 1,072	(Won) 4,372,376

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Consolidated Balance Sheets

(Unaudited)

(in millions of Korean won, and thousands of US dollars, except for share data) **(Note 2)**

	December 31, 2005	June 30, 2006	June 30, 2006
Assets			
Current assets			
Cash and cash equivalents	(Won) 1,579,452	(Won) 778,877	$ 821,168
Accounts receivable, net			
Trade, net	790,168	584,568	616,308
Due from affiliates	476,731	401,230	423,015
Others, net	66,202	78,462	82,722
Inventories	689,577	1,270,142	1,339,106
Deferred income taxes	5,414	29,633	31,242
Prepaid expense	23,467	66,565	70,179
Prepaid value added tax	131,230	99,240	104,628
Other current assets	84,524	114,413	120,625
Total current assets	3,846,765	3,423,130	3,608,993
Long-term prepaid expenses	83,112	116,933	123,282
Property, plant and equipment, net	9,234,104	9,786,667	10,318,046
Deferred income taxes	357,453	417,854	440,542
Intangibles, net	43,374	43,791	46,169
Other assets	51,746	46,790	49,331
Total assets	(Won) 13,616,554	(Won) 13,835,165	$ 14,586,363
Liabilities and Stockholders Equity			
Current liabilities			
Short-term borrowings	(Won) 308,969	(Won) 342,272	$ 360,856
Current portion of long-term debt	442,140	446,077	470,297
Trade accounts and notes payable			
Trade	577,755	500,643	527,826
Due to affiliates	115,833	131,368	138,501
Other accounts payable			
Others	1,121,042	967,789	1,020,336
Due to affiliates	353,514	385,286	406,206
Accrued expenses	69,968	62,362	65,748
Income taxes payables	21,788	4,340	4,576
Other current liabilities	133,950	149,970	158,113
Total current liabilities	3,144,959	2,990,107	3,152,459
Long-term debt, net of current portion	2,851,353	3,415,261	3,600,697
Long-term accrued expense	2,833	3,665	3,864
Accrued severance benefits, net	43,207	64,534	68,038
Total liabilities	6,042,352	6,473,567	6,825,058
Commitments and contingencies			
Stockholders equity			

Capital stock			
Common stock : (Won)5,000 par value; authorized 400 million shares; issued and outstanding 358 million shares at December 31, 2005 and June 30, 2006	1,789,078	1,789,078	1,886,218
Capital Surplus	2,243,800	2,245,558	2,367,483
Retained earnings	3,542,691	3,302,164	3,481,459
Accumulated other comprehensive income	(1,367)	24,798	26,145
Total stockholders equity	7,574,202	7,361,598	7,761,305
Total liabilities and stockholders equity	(Won) 13,616,554	(Won) 13,835,165	$ 14,586,363

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

44

LG. Philips LCD Co., Ltd.

Consolidated Statements of Operations

(Unaudited)

(in millions of Korean won, and thousands of US dollars, except for per share amount)

	For the three month periods ended June 30, 2005	For the three month periods ended June 30, 2006	For the six month periods ended June 30, 2005	For the six month periods ended June 30, 2006	2006 (Note 2)
Sales					
Related parties	(Won) 908,184	(Won) 854,066	(Won) 1,711,182	(Won) 1,794,764	(Won) 1,892,213
Others	1,400,146	1,460,930	2,661,194	2,991,368	3,153,788
	2,308,330	2,314,996	4,372,376	4,786,132	5,046,001
Cost of sales	2,159,070	2,530,336	4,249,213	4,825,652	5,087,667
Gross profit (loss)	149,260	(215,340)	123,163	(39,520)	(41,666)
Selling, general and administrative expenses	113,148	162,735	212,557	293,031	308,942
Operating income (loss)	36,112	(378,075)	(89,394)	(332,551)	(350,608)
Other income (expense)					
Interest income	12,050	7,933	21,041	18,385	19,383
Interest expense	(30,878)	(37,807)	(53,698)	(73,693)	(77,694)
Foreign exchange gain (loss), net	(14,797)	12,857	(23,448)	30,578	32,238
Rental income		2,234		4,043	4,263
Others, net	315	11,460	494	12,483	13,161
Total other income (expense)	(33,310)	(3,323)	(55,611)	(8,204)	(8,649)
Income before income taxes (loss)	2,802	(381,398)	(145,005)	(340,755)	(359,257)
Provision (benefit) for income taxes	(35,632)	(79,705)	(88,930)	(100,228)	(105,670)
Net income (loss)	(Won) 38,434	(Won) (301,693)	(Won) (56,075)	(Won) (240,527)	$ (253,587)
Net income (loss) per common share					
Basic	(Won) 118	(Won) (843)	(Won) (172)	(Won) (672)	$ (0.71)
Diluted	(Won) 118	(Won) (843)	(Won) (172)	(Won) (672)	$ (0.71)

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

LG. Philips LCD Co., Ltd.

Consolidated Statements of Changes in Stockholders Equity

(Unaudited)

(in millions of Korean won)

	Common Stock		Capital Surplus			Accumulated	
			Additional	Unearned		Other Comprehensive	
	Shares	Amount	Paid-In Capital	Compensation	Retained Earnings	Income (Loss)	Total
Balance as of December 31, 2004	325,315,700	(Won) 1,626,579	(Won) 1,012,271	(Won) (10,331)	(Won) 3,001,042	(Won) 33,740	(Won) 5,663,301
Stock compensation expense				1,860			1,860
Comprehensive income :							
Net loss					(55,611)		(55,611)
Cumulative translation adjustment, net of tax						1,185	1,185
Net unrealized gains on derivative, net of tax						(45,638)	(45,638)
Total comprehensive income							(100,064)
Balance as of June 30, 2005	325,315,700	(Won) 1,626,579	(Won) 1,012,271	(Won) (8,471)	(Won) 2,945,431	(Won) (10,713)	(Won) 5,565,097
Balance as of December 31, 2005	357,815,700	(Won) 1,789,078	(Won) 2,251,112	(Won) (7,312)	(Won) 3,542,691	(Won) (1,367)	(Won) 7,574,202
Stock compensation expense				1,758			1,758
Comprehensive income :							
Net loss					(240,527)		(240,527)
Cumulative translation adjustment, net of tax						(16,178)	(16,178)
Net unrealized gains on derivative, net of tax						42,343	42,343

Total comprehensive income							(214,362)
Balance as of June 30, 2006	357,815,700	(Won) 1,789,078	(Won) 2,251,112	(Won) (5,554)	(Won) 3,302,164	(Won) 24,798	(Won) 7,361,598

(in thousands of US dollars) (Note 2)

	Common Stock		**Capital Surplus**			**Accumulated Other Comprehensive**	
	Shares	**Amount**	**Additional Paid-In Capital**	**Unearned Compensation**	**Retained Earnings**	**Income (Loss)**	**Total**
Balance as of December 31, 2005	325,315,700	$ 1,886,218	$ 2,373,339	$ (7,709)	$ 3,735,046	$ (1,441)	$ 7,985,453
Stock compensation expense				1,853			1,853
Comprehensive income :							
Net loss					(253,587)		(253,587)
Cumulative translation adjustment, net of tax						(17,056)	(17,056)
Net unrealized gains on derivative, net of tax						44,642	44,642
Total comprehensive income							(226,001)
Balance as of June 30, 2006	325,315,700	$ 1,886,218	$ 2,373,339	$ (5,856)	$ 3,481,459	$ 26,145	$ 7,761,305

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

46

LG. Philips LCD Co., Ltd.

Consolidated Statements of Cash Flows

(Unaudited)

(in millions of Korean won and thousands of US dollars)

	For the six month periods ended June 30, 2005	2006	2006 (Note 2)
Cash flows from operating activities:			
Net income (loss)	(Won) (56,075)	(Won) (240,527)	$ (253,587)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	814,943	1,224,767	1,291,267
Provision for severance benefits	26,574	31,402	33,107
Foreign exchange loss (gain), net	1,855	(52,099)	(54,928)
Amortization of intangible assets	3,806	3,243	3,419
(Gain) loss on disposal of property, plant and equipment, net	(2)	960	1,012
Amortization of debt issuance cost	2,704	2,517	2,654
Decrease in deferred income taxes assets, net	(106,693)	(105,010)	(110,712)
Others, net	23,983	17,156	18,088
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(366,708)	281,576	296,865
(Increase) decrease in inventories	83,353	(580,565)	(612,088)
(Increase) decrease in other current assets	74,095	(34,959)	(36,857)
Increase (decrease) in trade accounts and notes payable	65,876	(60,271)	(63,543)
Increase (decrease) in other accounts payable	532,149	(55,493)	(58,506)
Decrease in accrued expenses	(57,492)	(7,606)	(8,019)
Decrease in other current liabilities	(590,910)	(53,533)	(56,440)
Net cash provided by operating activities	451,458	371,558	391,732
Cash flows from investing activities:			
Purchase of property, plant and equipment			
Purchase from related parties	(360,670)	(726,720)	(766,178)
Purchase from others	(1,055,038)	(1,110,559)	(1,170,858)
Proceeds from sales of property, plant and equipment	2,504	789	832
Purchase of intangible assets	(2,427)	(3,393)	(3,577)
Others, net	(5,761)	5,178	5,459
Net cash used in investing activities	(1,421,392)	(1,834,705)	(1,934,322)
Cash flows from financing activities:			
Proceeds (repayment on) from short-term borrowings	(77,323)	33,428	35,243
Proceeds from issuance of long-term debt	1,018,988	644,050	679,020
Repayment on long-term debt	(5,871)	(15,248)	(16,076)
Net cash provided by financing activities	935,794	662,230	698,187
Effect of exchange rate changes on cash and cash equivalents	3,874	342	361
Net increase (decrease) in cash and cash equivalents	(30,266)	(800,575)	(844,042)
Cash and cash equivalents:			

Beginning of period		1,361,239		1,579,452		1,665,210
End of period	(Won)	1,330,973	(Won)	778,877	$	821,168

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

LG. Philips LCD Co., Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2006 and 2005

1. Basis of presentation

The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the Consolidated Financial Statements of LG.Philips LCD Co., Ltd. (LPL), and its consolidated subsidiaries (hereinafter collectively referred to as the Company) and related notes thereto for the year ended December 31, 2005. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair statement of results for these interim periods. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

2. United States dollar amounts

The Company operates primarily in Korea and its financial accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of (Won)948.50: US$1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on June 30, 2006. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America, and should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollars at this or any other rate.

3. Inventories

Inventories at December 31, 2005 and June 30, 2006 comprise the following:

(in millions of Korean won)	**December 31, 2005**	**June 30, 2006**
Finished products	(Won) 328,823	(Won) 826,037
Work in process	166,839	247,177
Raw materials	193,915	196,928
	(Won) 689,577	(Won) 1,270,142

4. Derivative Instruments and Hedging Activities

Derivatives for cash flow hedge

During the six month periods ended June 30, 2005 and 2006, 361 and 415 foreign currency forward contracts were designated as cash flow hedges, respectively. During the six month periods ended June 30, 2005 and 2006, these cash flow hedges were fully effective and changes in the fair value of the derivatives, of (Won)1,220 million and (Won)72,627 million, were recorded in other comprehensive income. The deferred gains of (Won)72,627 million for derivatives designated as cash flow hedges are expected to be reclassified into earnings within the next twelve months.

See Report of Independent Accountants

LG. Philips LCD Co., Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2006 and 2005

Derivatives for trading

For the six month periods ended June 30, 2005 and 2006, the Company recorded realized exchange gains of (Won)23,309 million and (Won)61,843 million and realized exchange losses of (Won)20,177 million and (Won)11,582 million, respectively, on derivative contracts designated for trading upon settlement.

In addition, for the six month periods ended June 30, 2005 and 2006, the Company recorded unrealized gains of (Won)3,166 million and (Won)2,916 million and unrealized losses of (Won)26,931 million and (Won)27,052 million, respectively, relating to these derivative contracts designated for trading.

5. Stockholder s equity

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

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

In July 2005, pursuant to a Form F-1 registration statement filed on July 22, 2005 with the U.S. Securities and Exchange Commission, the Company sold 27,900,000 shares of common stock in the form of ADSs for gross proceed of US $1,189,656 thousands ((Won)1,220,706 million). In July 2005, pursuant to the underwriting agreement dated July 21, 2005, the Company sold 4,600,000 shares of common stock in the form of ADSs for gross proceeds of US $196,144 thousands ((Won)201,263 million).

The Company intends to use the proceeds of these sales to fund the capital expenditures associated with the construction of its seventh generation TFT-LCD fabrication plant (P7) and other LCD facility in Korea.

On May 21, 2004, employees of the Company formed an employee stock ownership association, (ESOA), which has the right to purchase on behalf of its membership up to 20% (1,728,000 shares) of shares offered publicly in Korea, pursuant to Korean Securities and Exchange Act. Employees purchased the shares through ESOA with the loan provided by the Company at the initial public offering price ((Won)34,500) and put under individual employee s account. 20% of the 20% of shares (345,600 shares) purchased by employees with loans from the Company is accounted for as a restricted stock award which vests over four years. Unearned compensation, shown as a deduction of Capital Surplus, will be amortized over the 4 year vesting period. During the six month period ended June 30, 2006, the Company recorded compensation expense of (Won)1,758 million.

LG. Philips LCD Co., Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2006 and 2005

6. Stock Appreciation Plan

Effective January 1, 2005, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) establishes accounting for stock-based awards exchanged for employee services. SFAS No. 123(R) requires that an award that is classified as a liability to be initially measured at its grant date fair value and remeasured at fair value at the end of each reporting period until the award is settled or expires. The measurement is based on the current stock price and other relevant factors. The difference between the fair value amounts is recognized as compensation expense during the requisite service period, based on the percentage of the requisite service that the employee has rendered as of that date. In accordance with SFAS No. 123(R), compensation expense is remeasured at each reporting date, based on the fair value of the award, and is recognized as expense over the employee requisite service period.

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

(in millions of Korean won)	**June 30, 2006**
Cost of goods sold	(Won) 405
Selling general and administrative	217
Income tax benefits	(308)
Total stock-based compensation expense	314

There were no capitalized stock-based compensation costs at June 30, 2006

In connection with the adoption of SFAS 123(R), the company assessed its valuation technique and related assumptions. The company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS 123(R) and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107. Key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the company s stock, the risk-free rate and the company s dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by selected managements who receive SARs, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the company under SFAS 123(R).

7. Commitments and Contingencies

The Company is subject to several legal proceedings and claims arising in the ordinary course of business. In August 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process for TFT-LCDs. Subsequently the Company filed a complaint against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jeans Co, Lite-On Technology Corp., Lite-On Technology International, Inc., TpV Technology and Invision Peripheral Inc. In June 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged infringement of

LG. Philips LCD Co., Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2006 and 2005

certain patents and violation of U.S. antitrust laws. In May 2004, the Company filed a complaint against Tatung Co., the parent company of Chunghwa Picture Tubes and ViewSonic Corp. and others, claiming patent infringement of rear mountable liquid crystal display devices in the United States District of Delaware and the Patent Country Court in the United Kingdom. The Company also filed a complaint against Chunghwa Picture Tubes with the American Arbitration Association in connection with the ownership of certain patents. In June 2006, the American Arbitration Association decided that the ownership of certain patents is in the Company. 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 relating to liquid crystal displays 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 patents.

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

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

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

The Company has bank overdraft agreements with various banks amounting to (Won)59,000 million and has a Revolving Credit Facility Agreements with Shinhan Bank and others amounting to (Won)300,000 million and US$100 million at June 30, 2006. The Company has a zero balance with respect to these facilities at June 30, 2006.

LG. Philips LCD America, Inc. has entered into a line of credit agreement, up to US $10 million with Comerica Bank. LG. Philips LCD Japan Co., Ltd. And LG.Philips LCD Taiwan Co., Ltd. are provided with repayment guarantees from Mitsubishi UFJ Bank and ABN AMRO Bank amounting to JP¥1,300 million and NTD 40 million relating to its local tax payments.

As of December 31, 2004, in relation to its TFT-LCD business, the Company has technical license agreements with Semiconductor Energy Laboratory Co., Ltd. and others. The licensing agreements generally require royalty payments based on a specific percentage of sales. Costs are accrued by the Company as the sales of the specified products are made. Royalty expenses charged to cost of sales under these licensing agreements totaled (Won)22,988million and (Won)14,327million for the six month periods ended June 30, 2005 and June 30, 2006 respectively.

LG. Philips LCD Co., Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2006 and 2005

8. Net Loss Per Share

Net loss per share for the six month periods ended June 30, 2005 and 2006 is calculated as follows:

(In millions, except for per share amount)	**2005**	**2006**
Net loss as reported on the income statements	(Won) 56,075	(Won) 240,527
Weighted-average number of common shares outstanding	325	358
Net loss per share	(Won) 172	(Won) 672

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

9. Supplemental Cash Flows Information

Supplemental cash flows information for the six month periods ended June 30, 2005 and 2006 is as follows:

(in millions of Korean won)	**2005**	**2006**
Non-cash investing and financing activities:		
Other accounts payable arising from the purchase of property, plant and equipment	(Won) 1,449,840	(Won) 1,035,452

52

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: August 14, 2006	By: /s/ Ron H. Wirahadiraksa (Signature)
	Name: Ron H. Wirahadiraksa Title: Joint Representative Director/ President & Chief Financial Officer