LG.Philips LCD Co., Ltd.
Form 20-F
April 11, 2007
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As filed with the Securities and Exchange Commission on April 11, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2006

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 1-32238

LG.Philips LCD Co., Ltd.

(Exact name of Registrant as specified in its charter)

LG.Philips LCD Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu

Seoul, Republic of Korea 150-721

(Address of principal executive offices)

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

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

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

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

None

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

None

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

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

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

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

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

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

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

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms we, us and our refer to LG.Philips LCD Co., Ltd. and its subsidiaries unless the context otherwise requires.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

All references to Won or (Won) in this annual report are to the currency of the Republic of Korea, all references to U.S. dollars or US$ are to th currency of the United States, all references to Yen or ¥ are to the currency of Japan, all references to RMB or Renminbi are to the currency of the People s Republic of China, all references to NT$ are to the currency of Taiwan, all references to HK$ are to the currency of the Hong Kong Special Administrative Region of the People s Republic of China, all references to PLN are to the currency of the Republic of Poland and all references to Euro or are to the currency of the European Union. Unless otherwise indicated, all references to our common stock have been adjusted to give effect to the 2-for-1 stock split which became effective on May 25, 2004. As a result of the stock split, the par value of our common stock decreased from (Won)10,000 per share to (Won)5,000 per share.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 29, 2006, which was (Won)930.0 = US$1.00.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3.A. ***Selected Financial Data***

The selected consolidated financial and operating data set forth below have been presented on a historical cost basis for all periods presented. The balance sheet data as of December 31, 2005 and 2006 and the statement of income data for the years ended December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements and related notes included in this annual report. These audited financial statements and the related notes have been prepared under accounting principles generally accepted in the United States.

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

Consolidated income statement data

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006[10]
	(in billions of Won, except for per share data)					(in millions of US$, except for per share data)
Sales	(Won) 3,567	(Won) 6,098	(Won) 8,325	(Won) 10,076	(Won) 10,624	US$ 11,424
Cost of sales	3,139	4,741	6,246	9,070	10,910	11,731
Gross profit (loss)	428	1,357	2,079	1,006	(286)	(307)
Selling, general and administrative expenses	129	235	319	528	596	641
Operating income (loss)	299	1,122	1,760	478	(882)	(948)
Other income (expense)	67	(61)	(18)	(73)	(53)	(57)
Income (loss) before income taxes	366	1,061	1,742	405	(935)	(1,005)
Provision (benefit) for income taxes	18	54	38	(137)	(242)	(260)
Net income (loss)	348	1,007	1,704	542	(693)	(745)
Net income (loss) per share[1]	1,200	3,471	5,586	1,596	(1,936)	(2)
Diluted net income (loss) per share	1,200	3,471	5,586	1,596	(1,936)	(2)
Dividends declared per share[2]						
Number of shares as adjusted to reflect changes in capital (in millions)	290	290	325	358	358	358

Consolidated balance sheet data

	As of December 31,					
	2002	2003	2004	2005	2006	2006[10]
	(in billions of Won)					(in millions

										of US$)
Accounts receivable, net	(Won)	540	(Won)	1,160	(Won)	954	(Won)	1,333	(Won) 971	US$ 1,045
Inventories		398		336		804		690	1,052	1,131
Total current assets:		1,079		2,146		3,399		3,847	3,154	3,392
Property, plant and equipment, net		3,259		3,974		6,564		9,234	9,485	10,199
Total assets		4,573		6,343		10,262		13,617	13,496	14,512
Short-term borrowings		274		159		483		309	250	269
Trade accounts and notes payable		251		404		583		694	949	1,021
Other accounts payable[(3)]		780		1,023		1,016		1,475	1,249	1,343
Long-term debt, including current portion		1,427		1,785		2,206		3,293	3,856	4,146
Long-term obligation under capital lease, including current portion										
Total liabilities		2,833		3,592		4,599		6,043	6,622	7,121
Capital stock		1,450		1,450		1,627		1,789	1,789	1,924
Total stockholders equity		1,740		2,751		5,663		7,574	6,874	7,391

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Other Financial Data

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006[10]
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)
Gross margin[4]	12.0%	22.3%	25.0%	10.0%	(2.7)%	(2.7)%
Operating margin[5]	8.4%	18.4%	21.1%	4.7%	(8.3)%	(8.3)%
Net margin[6]	9.8%	16.5%	20.5%	5.4%	(6.5)%	(6.5)%
EBITDA[7]	(Won) 1,382	(Won) 2,106	(Won) 3,014	(Won) 2,223	(Won) 1,814	US$ 1,951
Capital expenditures	1,117	1,438	3,886	4,166	3,076	3,308
Depreciation and amortization[8]	958	966	1,235	1,761	2,609	2,805
Net cash provided by operating activities[9]	1,053	1,672	2,743	2,109	1,866	2,006
Net cash used in investing activities	(1,126)	(1,453)	(3,893)	(4,198)	(3,067)	(3,298)
Net cash provided by (used in) financing activities	90	215	2,009	2,308	577	620

(1) Net income (loss) per share is calculated by dividing net income (loss) by the average number of shares outstanding during the period, as adjusted to give effect to a 2-for-1 stock split of our common stock on May 25, 2004.

(2) Dividends declared per share are calculated by dividing total dividends by the number of shares outstanding at the end of the relevant fiscal year, as adjusted to give effect to a 2-for-1 stock split of our common stock on May 25, 2004.

(3) Other accounts payable primarily consist of accounts payable relating to the purchase of fixed assets.

(4) Gross margin represents gross profit (loss) divided by sales.

(5) Operating margin represents operating income (loss) divided by sales.

(6) Net margin represents net income (loss) divided by sales.

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

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006[10]
	(in billions of Won)					(in millions of US$)
Net income (loss)	(Won) 348	(Won) 1,007	(Won) 1,704	(Won) 542	(Won) (693)	US$ (745)
Interest expense	62	84	58	108	169	182
Interest income	(4)	(6)	(20)	(51)	(29)	(31)
Provision (benefit) for income taxes	18	55	38	(137)	(242)	(260)
Depreciation of property, plant and equipment	949	957	1,224	1,748	2,597	2,793
Amortization of intangible assets	5	5	6	7	7	7
Amortization of debt issuance cost	4	4	4	6	5	5

EBITDA	(Won) 1,382	(Won) 2,106	(Won) 3,014	(Won) 2,223	(Won) 1,814	US$ 1,951

(8) Depreciation and amortization includes depreciation of property, plant and equipment, amortization of intangible assets and amortization of debt issuance cost.
(9) Effect of exchange rate change on cash and cash equivalents has been excluded from net cash provided by operating activities.
(10) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

	Year Ended December 31,		
	2004	**2005**	**2006[1]**
	(in thousands)		
Operating Data:			
Number of panels sold by product category:			
Televisions	2,401	6,168	12,649
Notebook computers	9,125	13,933	21,089
Desktop monitors	15,391	23,787	20,125
Other applications[2]	25,330	54,933	69,723
Total	52,247	98,821	123,586

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	Year Ended December 31,			
	2004	2005	2006	2006[4]
		(in billions of Won)		(in millions of US$)
Revenue by category:				
Televisions	(Won) 1,163	(Won) 2,805	(Won) 4,939	US$ 5,311
Notebook computers	2,119	2,114	2,167	2,330
Desktop monitors	4,662	4,740	2,907	3,126
Other applications[2] [3]	381	417	611	657
Total	(Won) 8,325	(Won) 10,076	(Won) 10,624	US$ 11,424

(1) Includes only finished goods sold. Sales of semi-finished goods which require additional processing have been excluded.
(2) Includes, among others, panels for handheld application products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.
(3) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which were minimal for the years ended December 31, 2004 and December 31, 2005, respectively, but amounted to (Won)171.1 billion (US$184.0 million), or 1.6% of total revenue, for the year ended December 31, 2006.
(4) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won, expressed in Korean Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Korean Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 29, 2006, which was (Won)930.0 to US$1.00. We do not intend to imply that the Korean Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Korean Won, as the case may be, at any particular rate, or at all. On April 10, 2007, the noon buying rate was (Won)933.6 = US$1.00.

Fluctuation in the exchange rate between the Korean Won and the U.S. dollar will affect the amount of U.S. dollars received in respect of cash dividends or other distributions paid in Korean Won by us on, and the Korean Won proceeds received from any sales of, our common stock.

Year Ended December 31,	At End of Period	Average Rate[1]	High	Low
		(Korean Won per US$1.00)		
2002	(Won) 1,186.3	(Won) 1,242.0	(Won) 1,332.0	(Won) 1,160.6
2003	1,192.0	1,183.0	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.7	1,059.8	997.0
2006	930.0	950.1	1,002.9	913.7
October	942.2	952.6	959.3	942.2
November	929.0	935.4	942.1	929.0
December	930.0	925.0	931.6	913.7
2007 (through April 10)	933.6	939.5	949.1	925.4
January	941.0	936.8	942.2	925.4
February	942.3	936.9	942.3	932.5
March	941.1	942.9	949.1	937.2
April (through April 10)	933.6	934.2	937.0	931.6

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

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

Not applicable

Item 3.C. ***Reasons For the Offer and Use of Proceeds***

Not applicable

Item 3.D. ***Risk Factors***

You should carefully consider the risks described below.

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Risks Relating to Our Industry

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

The average selling prices of display panels have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technological advancements and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced in the market, such prices decline over time, and in certain cases, very rapidly, as a result of market competition or otherwise. For example, our gross margin declined from 25.0% in 2004 to 10.0% in 2005 and (2.7)% in 2006. If we are unable to effectively anticipate and counter the price erosion that accompanies our products, or if the average selling prices of our display panels decrease faster than the speed at which we are able to reduce our manufacturing costs, our gross margins would decrease and our results of operations and financial condition may be materially adversely affected.

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

The TFT-LCD industry is highly competitive. We have experienced pressure on the prices and margins of our major products due largely to additional industry capacity from panel makers in Korea, Taiwan, China and Japan. Our main competitors in the industry include Samsung Electronics, BOE-Hydis, AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar, SVA-NEC, BOE-OT, Sharp and IPS-Alpha. Some of our competitors may currently, or at some point in the future, have greater financial, sales and marketing, manufacturing, research and development or technological resources than we do. In addition, our competitors may be able to manufacture panels on a larger scale or with greater cost efficiencies than we do and we anticipate increases in production capacity in the near future by other TFT-LCD manufacturers. Any price erosion resulting from strong global competition or additional industry capacity may materially adversely affect our financial condition and results of operations.

We and our competitors each seek to establish our own products as the industry standards. For example, in the growing large-sized television panel market, we currently manufacture 32-inch, 37-inch, 42-inch, 47-inch, 52-inch and 55-inch television panels. Other TFT-LCD manufacturers produce competitive large-sized television panels in slightly different dimensions. If our competitors panels become the standard market size, we may lose market share, which may have a material adverse effect on our financial condition and results of operations.

Our ability to compete successfully also depends on factors both within and outside our control, including product pricing, performance and reliability, successful and timely investment and product development, success or failure of our end-brand customers in marketing their brands and products, component and raw material supply costs, and general economic and industry conditions. We cannot provide assurance that we will be able to compete successfully with our competitors on these fronts and, as a result, we may be unable to sustain our current market position.

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

TFT-LCD manufacturers are vulnerable to cyclical market conditions. Intense competition and demand growth expectations may result in panel manufacturers investing in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities. During such surges in capacity growth, our customers can exert and have exerted strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in our gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases. For example, the overall average selling price of our display panels (including small panel applications) per panel, which is derived by dividing total sales revenues by total number of panels sold, decreased by 36.0% from (Won)159,332 per panel in 2004 to (Won)101,958 in 2005 and further decreased by 15.7% to (Won)85,966 in 2006. The overall average selling price of our display panels (including small panel applications) per square meter of net display area, which is derived by dividing total sales revenues by total square meters of net display area shipped, decreased by 29.7% from US$2,984 per square meter of net display area in 2004 to US$2,097 in 2005 and further decreased by 25.8% to US$1,555 in 2006.

Our gross margins have also fluctuated from period to period, from 25.0% in 2004 to 10.0% in 2005 to (2.7)% in 2006. Principal factors affecting our gross margins include declines in the average selling prices of our display panels, as well as our ability to maintain or increase unit sales volume and market share, minimize the impact of fluctuations in prices and foreign exchange rates and the supply and demand for principal components and raw materials, reduce unit manufacturing costs and introduce new products with higher margins in a timely manner. We anticipate continued capacity expansion in the TFT-LCD industry due to scheduled ramp-up

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of new fabrication facilities, and any large increases in capacity that this may create may further drive down the average selling prices of our panels, which would affect our gross margins. Any decline in prices may be further compounded by a seasonal weakening in demand growth for personal computer products, consumer electronics products and our other application products. We cannot assure you that any future downturns resulting from any large increases in capacity or other factors affecting the industry would not have a material adverse effect on our business, financial condition and results of operations.

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

The TFT-LCD industry is affected by market conditions that are often outside the control of manufacturers. Our results of operations may fluctuate significantly from period to period due to a number of factors, including seasonal variations in consumer demand, capacity ramp-up by competitors, industry-wide technological changes, the loss of a key customer and the postponement, rescheduling or cancellation of large orders by a key customer. As a result of these factors and other risks discussed in this section, you should not rely on period-to-period comparisons to predict our future performance.

Risks Relating to Our Company

Our financial condition may be adversely affected if we cannot introduce new products to adapt to rapidly evolving customer needs on a timely basis.

New products are developed in anticipation of future demand. Our success will depend greatly on our ability to respond quickly to emerging customer requirements and to develop new products in anticipation of future demand. Any delay in our development of commercially successful products with reliable quality and advanced features may adversely affect our business.

Success of a new product also depends on other factors such as close cooperation with our customers to gain insights into their product needs and to understand general trends in the market. When developing new products, we often work with equipment suppliers to design equipment that will make our production processes for such new products more efficient. If we are unable to work together with our customers and equipment suppliers, or to sufficiently understand their respective needs and capabilities, we may not be able to introduce new products in a timely manner, which may have a material adverse effect on our financial situation.

We plan to continue to expand our operations to meet the growing demand for new applications in consumer electronics and other markets. Because these products, such as televisions, mobile phones and personal digital assistants, are expected to be marketed to a diverse group of end users with different specifications, functions and prices, we have developed different sales and marketing strategies to promote our panels for these products. We cannot provide assurance that our expansion strategy for these panels will be successful.

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

Our products are manufactured using advanced and often new technology and must meet stringent quality requirements. Products manufactured using advanced and new technology such as ours may contain undetected errors or defects, especially when first introduced. For example, our TFT-LCD panels may contain defects that are not detected until after they are shipped or installed because we cannot test for all possible scenarios.

Such defects could cause us to incur significant re-designing costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation. In addition, future product failures could cause us to incur substantial expense to repair or replace defective products. If we deliver TFT-LCD panels with errors or defects, or if there is a perception that our TFT-LCD panels contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Widespread product failures may damage our market reputation and reduce our market share and cause our sales to decline.

We sell our products to a select group of key customers, including our two principal shareholders, who may no longer rely on us as a strategic supplier of TFT-LCD products, and any significant decrease in their order levels will negatively affect our financial condition and results of operations.

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. Sales attributed to our end-brand customers are for their end-brand products and do not include sales to these customers

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for their system integration activities for other end-brand products, if any. Our top ten end-brand customers, including our two principal shareholders, together accounted for 77.4% of our sales in 2004, 73.0% in 2005 and 71.3% in 2006. Our top three end-brand customers together accounted for 42.9% of our sales in 2004, 40.1% in 2005 and 42.0% in 2006. In 2006, three end-brand customers, LG Electronics (excluding its purchases made as a system integrator), Philips Electronics and Dell, each contributed to 10% or more of our sales.

We benefit from the strong collaborative relationships we maintain with our end-brand customers by participating in the development of their products and gaining insights about levels of future demand for our products and other industry trends. Customers look to us for a dependable supply of quality products, even during downturns in the industry, and we benefit from the brand recognition of our customers end products. The loss of these end-brand customers, as a result of customers entering into strategic supplier arrangements with our competitors or otherwise, would thus result not only in reduced sales, but also in the loss of these benefits.

We cannot provide assurance that these customers, including our two principal shareholders, will continue to place orders with us in the future at the same levels as in prior periods, or at all.

Any material deterioration in the financial condition of our key end-brand customers, their system integrators or our affiliated trading company will have an adverse effect on our results of operations.

Our top ten end-brand customers accounted for 77.4% of our sales in 2004, 73.0% in 2005 and 71.3% in 2006, on an aggregate basis. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, we typically invoice their designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through our affiliated trading company, LG International Corp. and its subsidiaries. As a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the sales we make to our affiliated trading company and its subsidiaries, we are exposed to credit risks associated with these entities.

Changes at our end-brand customers could cause sales of our products to decline.

Mergers, acquisitions, divestments or consolidations involving our end-brand customers can present risks to our business, as management at the new entity may change the way they do business, including their transactions with us, or may decide not to use us as one of their suppliers of TFT-LCD products. In addition, we cannot provide assurance that a combined entity resulting from a merger, acquisition or consolidation will continue to purchase TFT-LCD panels from us at the same level as each entity purchased in the aggregate when they were separate companies or that a divested company will purchase panels from us at all.

Our results of operations depend on our ability to keep pace with changes in technology.

Advances in technology typically lead to rapid declines in sales volumes for products made with older technologies and may lead to these products becoming less competitive in the marketplace, or even obsolete. As a result, we will likely be required to make significant expenditures to develop or acquire new process and product technologies. Also, our ability to manufacture our products by utilizing advanced process technologies to increase production yields at low production cost will be critical to our sustained competitiveness. We cannot provide assurance that we will be able to continue to successfully develop new products through our research and development efforts or through obtaining technology licenses, or that we will keep pace with technological changes in the marketplace.

Our revenues depend on continuing demand for televisions, notebook computers, desktop monitors and other application products with TFT-LCD panels. Our sales may not grow at the rate we expect if consumers do not purchase these products.

Currently, our total sales are derived principally from customers using our products in televisions, notebook computers, desktop monitors and other application products with display devices. In particular, a substantial percentage of our sales is increasingly derived from end-brand customers, or their designated system integrators, who use our panels in their televisions, which accounted for 14.0%, 27.8% and 46.5% of our total sales revenues in 2004, 2005 and 2006, respectively. A substantial portion of our sales is also derived from end-brand customers, or their designated system integrators, who use our TFT-LCD panels in their desktop monitors, which accounted for 56.0%, 47.0% and 27.4% of our total sales revenues in 2004, 2005 and 2006, respectively, and those who use our panels in their notebook computers, which accounted for 25.5%, 21.0% and 20.4% of our total sales revenues in 2004, 2005 and 2006, respectively. We will continue to be dependent on the growth in the television industry as well as the personal computer industry for a substantial portion of our sales, and any downturn in the television and personal computer industry would result in reduced demand for our products, reduced revenues, lower average selling prices and/or reduced margins.

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In addition, we anticipate that there will be increasing migration from conventional cathode ray tube, or CRT, televisions to TFT-LCD televisions. We have installed, and we expect to continue to install, capacity in anticipation of increased television demand generated by this trend. However, we may be unable to successfully execute our strategy or sustain our growth and profitability if this migration to TFT-LCD televisions does not take place as we anticipated. Moreover, we can offer no assurance that threats from competing technologies will not significantly affect and alter our strategy for and competitive position in the television market. If our current strategy to address the expected growth in the television market, in part by increasing our production capacity, fails, our business, financial condition and results of operations would be materially adversely affected.

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

New display technologies being developed by other panel makers, such as organic light emitting diode, or OLED, which is a technology that we are also developing, may gain wider market acceptance than TFT-LCD technology for use in certain products, such as mobile phones. In addition, alternative display technologies, such as plasma display panel, or PDP, may gain wider market acceptance than TFT-LCD technology for use in certain products, such as in televisions, which generally command higher prices due to their larger panel sizes. If consumers do not purchase products utilizing TFT-LCD panels as we expect, or if TFT-LCD technology itself is rendered obsolete, this would have a material adverse effect on our financial condition and results of operations to the extent we cannot offset such loss in demand for TFT-LCD products by selling products using other display technologies.

We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.

In connection with our strategy to expand the diversity and capacity of our TFT-LCD production, we estimate that we will incur significant expenditures for the expansion of existing production lines, construction of new facilities and strategic investments, such as the development of our Paju Display Cluster, construction of a new module production plant in Guangzhou, China and equipping of our new module production plant in Wroclaw, Poland.

In Paju, we built our seventh fabrication facility, or P7, in 2005. We commenced mass production at P7 in January 2006. During the fourth quarter of 2006, the average production capacity of P7 was 78,000 input glass sheets per month. P7 is expected to reach an initial design capacity of 90,000 input glass sheets per month in the first half of 2007 and an expanded capacity of 110,000 input glass sheets per month in the third quarter of 2007. We currently estimate that the construction and build-out of P7, at an expanded capacity of 110,000 input glass sheets per month, will cost approximately (Won)5.3 trillion in total. Our total capital expenditure for 2006 on a delivery basis, or capital expenditures accounted for at the time of delivery of property, plant and equipment, was approximately (Won)2.8 trillion (US$3.0 billion), of which approximately (Won)1.2 trillion was attributable to capital expenditure for P7. We expect our capital expenditures for P7 on a delivery basis to be approximately (Won)0.2 trillion in 2007. In addition, we are currently constructing our eighth fabrication facility, or P8, in our Paju Display Cluster and we also broke ground on the new module production plant in Wroclaw, Poland in June 2006, which commenced mass production in March 2007. The Polish plant is expected to reach an initial production capacity of 3 million modules per year by the end of 2007. Currently, we are also constructing our new module production plant in Guangzhou, China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG.Philips LCD Guangzhou Co., Ltd., in June 2006. We expect our capital expenditures for construction of new production facilities on a delivery basis to be approximately (Won)0.6 trillion in 2007. Such amount is subject to periodic assessment, and we cannot provide any assurance that such amount may not change materially after assessment.

We estimate our total capital expenditures on a delivery basis to be approximately (Won)1.0 trillion and our cash outflows for capital expenditures to be approximately (Won)1.7 trillion in 2007. These capital expenditures will be made well in advance of any additional sales that will be generated from these expenditures. However, in the event of adverse market conditions, or if our actual expenditures far exceed our planned expenditures, our external financing activities combined with our internal sources of liquidity may not be sufficient to effect our current and future operational plans, and we may decide not to expand the capacity of certain of our facilities, including P7, or to continue construction of P8 or our Guangzhou plant or equipping of our Polish plant.

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The failure to obtain sufficient financing on commercially reasonable terms to complete our expansion plans could delay or derail our ability to pursue our business strategy, which could materially and adversely affect our business and results of operations.

Our manufacturing processes are complex and periodic improvements to increase efficiency can expose us to potential disruptions in operations.

The manufacturing process for TFT-LCD products is highly complex, requiring sophisticated and costly equipment that is periodically modified and updated to improve manufacturing yields and product performance, and reduce unit manufacturing costs. These updates expose us to the risk that from time to time production difficulties will arise that could cause delivery delays, reduced output or both. We cannot provide assurance that we will not experience manufacturing problems in achieving acceptable output, product delivery delays or both as a result of, among other factors, construction delays, difficulties in upgrading or modifying existing production lines or ramping up new plants, difficulties in changing manufacturing line technologies or delays in equipment deliveries, any of which could constrain our capacity and adversely affect our results of operations.

We may be unable to successfully execute our expansion strategy or manage and sustain our growth on a timely basis, if at all, and, as a result, our business may be harmed.

We have experienced, and expect to continue to experience, rapid growth in the scope and complexity of our operations. For example, we expanded our capacity by commencing mass production at our third fabrication facility, P3, in July 2000, our fourth fabrication facility, P4, in March 2002, our fifth fabrication facility, P5, in May 2003, our sixth fabrication facility, P6, in August 2004 and at our seventh fabrication facility, P7, in January 2006. We also commenced production at a new module assembly facility in Nanjing, China, in May 2003. In addition, we are currently expanding the production capacity of P7 and other existing facilities and equipping the new module production plant in Wroclaw, Poland, while constructing new facilities, including P8 in our Paju Display Cluster and the new module production plant in Guangzhou, China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG.Philips LCD Guangzhou Co., Ltd., in June 2006. See We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans above.

This sustained growth may strain our managerial, financial, manufacturing and other resources. We may experience manufacturing difficulties in starting new production lines, upgrading existing facilities or ramping up new plants, including P7 and P8, as a result of cost overruns, construction delays or shortages of, or quality problems with, materials, labor or equipment, any of which could result in a loss of future revenues. In addition, failure to keep up with our competitors in future investments in next generation fabrication facilities or in the manufacturing capacity of existing facilities would impair our ability to effectively compete within the TFT-LCD industry. Failure to obtain intended economic benefits from expansion projects could adversely affect our business, financial condition and results of operations.

Under Korean law, the construction of factories exceeding a certain size is prohibited in designated areas around Seoul, such as Paju. We have been able to construct the facilities in our Paju complex pursuant to an exemption available to companies whose foreign equity interest equals or exceeds 30%. Foreign equity interest includes any equity invested by a foreigner pursuant to the Foreign Investment Promotion Act, and Philips Electronics equity interest in us qualifies for this purpose. If the aggregate equity interest held by Philips Electronics or other qualifying foreign investors were to fall below 30% and the relevant requirements for the exemption are not relaxed, we would no longer be eligible for this exemption with regard to any future production lines. This may, in turn, have a material adverse effect on our ability to construct additional facilities in Paju.

If we cannot maintain high capacity utilization rates, our profitability will be adversely affected.

The production of TFT-LCD panels entails high fixed costs resulting from considerable expenditures for the construction of complex fabrication and assembly facilities and the purchase of costly equipment. We aim to maintain high capacity utilization rates so that we can allocate these fixed costs over a greater number of panels produced and realize higher gross margins. However, we cannot provide assurance that we will be able to sustain our capacity utilization rates in the future.

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We depend on a limited number of third party suppliers for key raw materials, components and manufacturing equipment, and any disruption in their supply will negatively affect our business.

Our production operations depend on obtaining adequate supplies of quality raw materials and components on a timely basis. As a result, it is important for us to control our component and raw material costs and reduce the effects of fluctuations in price and availability. In general, we source most of our raw materials as well as key components of TFT-LCD products such as backlight units, glass substrates, driver integrated circuits and polarizers, from two or more suppliers for each key component. We may experience shortages in the supply of these and other components or raw materials as a result of, among other things, anticipated capacity expansion in the TFT-LCD industry. Our results of operations would be adversely affected if we were unable to obtain adequate supplies of high quality raw materials or components in a timely manner or make alternative arrangements for such supplies, or if there were significant increases in the costs of raw materials or components that we could not pass on to our customers.

In addition, we have purchased, and expect to purchase, a substantial portion of our equipment from a limited number of qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by the equipment vendors. The unavailability of equipment, delays in the delivery of equipment, or the delivery of equipment that does not meet our specifications, could delay implementation of our expansion plans and impair our ability to meet customer orders. This could result in a loss of revenues and cause financial stress on our operations.

Purchase orders from our customers, which are placed generally one month in advance of delivery, vary in volume from period to period, and we operate with a modest inventory, which may make it difficult for us to efficiently allocate capacity on a timely basis in response to changes in demand.

Our major customers and their designated system integrators provide us with three- to six-month rolling forecasts of their product requirements. However, firm orders are not placed until one month before delivery when negotiations on purchase prices are also finalized. Firm orders may be less than anticipated based on these three- to six-month forecasts. Due to the cyclicality of the TFT-LCD industry, purchase order levels from our customers have varied from period to period. Although we typically operate with a two- to four-week inventory, it may be difficult for us to adjust production costs or to allocate production capacity in a timely manner to compensate for any such volatility in order volumes. Our inability to respond quickly to changes in overall demand for TFT-LCD products as well as changes in product mix and specifications may result in lost revenues, which would adversely affect our results of operations.

We may experience losses on inventories.

Frequent new product introductions in the computer and consumer electronics industries can result in a decline in the average selling prices of our TFT-LCD panels and the obsolescence of our existing TFT-LCD panel inventory. This can result in a decrease in the stated value of our TFT-LCD panel inventory, which we value at the lower of cost or market value.

We manage our inventory based on our customers and our own forecasts. Although adjustments are regularly made based on market conditions, we typically deliver our goods to the customers one month after a firm order has been placed. While we maintain open channels of communication with our major customers to avoid unexpected decreases in firm orders or subsequent changes to placed orders, and try to minimize our inventory levels, such actions by our customers may have an adverse effect on our inventory management.

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

In December 2006, we received notice that we were under investigation by the Korean Fair Trade Commission, the Japanese Fair Trade Commission, the Antitrust Division of the U.S. Department of Justice and regulatory bodies of other competitive markets with respect to possible anti-competitive activities in the TFT-LCD industry. We are cooperating fully with the investigations, which remain preliminary.

Subsequent to the commencement of the U.S. Department of Justice investigation, a number of purported class action lawsuits were filed against us and other TFT-LCD panel manufacturers in various federal district courts, alleging violation of U.S. antitrust laws and other related laws. In addition, purported class action lawsuits have been brought against us, and certain of our officers and directors, in the United States District Court for the Southern District of New York in 2007, alleging, among other things, that we and certain of our officers and directors violated the U.S. Securities Exchange Act of 1934, or the Exchange Act, in connection with possible anti-competitive activities in the TFT-LCD industry. While we intend to defend these suits vigorously, it is too early in the proceedings to evaluate the probability of a favorable or unfavorable outcome of the actions, or to estimate the potential loss, if any.

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An adverse final resolution of the U.S. Department of Justice or other regulators investigations or the civil claims described above would result in significant financial liability to, and other adverse effects upon, us, which would have a material adverse effect on our business, results of operations and financial condition. Furthermore, irrespective of the validity or the successful assertion of the above-referenced claims, we could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on our results of operations or financial condition or cash flows. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a description of these matters.

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

We have issued floating rate notes and debentures which contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants include debt-to-equity ratios, debt-coverage ratios, interest-coverage ratios and total debt limits. The documentation for such debt also contains negative pledges as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt.

Our results of operations are subject to exchange rate fluctuations.

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

Our sales of display panels and purchases of raw materials and expenditures on capital equipment are denominated mainly in U.S. dollars, Japanese Yen and Korean Won, and, in the case of our sales, also in Euros. In 2006, 93.2% of our sales were denominated in U.S. dollars, 4.5% in Euros, 1.3% in Japanese Yen and 1.0% in Korean Won. During the same period, 53.2% of our purchases of raw materials were denominated in U.S. dollars, 37.2% in Japanese Yen and 9.6% in Korean Won. In addition, 18.6%, 15.3% and 65.1% of our equipment purchases and construction costs, which represented almost all of our total capital expenditures in 2006, were denominated in U.S. dollars, Japanese Yen and Korean Won, respectively.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won, affect our gross profits and pre-tax income. In general, an appreciation in the Korean Won against the U.S. dollar has a net negative impact on such results, although it causes a foreign currency translation gain on our foreign currency debt and currency forward contracts. In recent years, the Korean Won has appreciated against the value of the U.S. dollar. See Item 3.A. Selected Financial Data Exchange Rates. Appreciation of the Korean Won may materially and adversely affect the results of our operations because, among other things, it reduces the Korean Won value of our export sales or causes our export products to be less competitive by raising our prices in U.S. dollar terms.

Although the impact of exchange rate fluctuations has in the past been partially mitigated by the natural offset of our foreign currency receivables with our payables, our foreign-currency debt and our use of foreign exchange forward contracts, under our current operating and capital structure, appreciation of the Korean Won on balance generally has a negative impact on our results of operations and we cannot provide assurance that such offsets and hedges will reduce the overall impact of any exchange rate fluctuations in the future.

We will lose a portion of the income tax exemption currently available to us under the foreign direct investment laws of Korea if Philips Electronics reduces its ownership in us.

Philips Electronics investment in us upon the formation of the joint venture was characterized as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Accordingly, we are entitled to an exemption from income taxes on income generated from our TFT-LCD business pursuant to the Special Tax Treatment Control Law of Korea in an amount proportional to the percentage of foreign direct equity investment in us for the first seven taxable years following the registration of such investment, which for us was in August 1999, and at one-half of that percentage for the subsequent three taxable years. In 2006, as we recorded a

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net loss, we did not receive an income tax benefit as a result of Philips Electronics 32.87% weighted average ownership in us in 2006. Until 2008, we will lose 0.1375% of the tax exemption benefit in respect of net income generated from our TFT-LCD business for each 1% reduction in Philips Electronics ownership in us, assuming that the income tax rate applicable to us is the same as that in 2006. After 2008, we will no longer be eligible to receive this income tax exemption. Losses of portions of this tax exemption could negatively affect our results of operations.

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

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

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

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

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

On August 29, 2002, we filed a complaint in the United States District Court for the Central District of California against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, Inc. We believe that these companies have infringed on six of our United States patents relating to liquid crystal displays and the manufacturing processes for thin-film transistors and liquid crystal displays by selling TFT-LCD products into the United States covered by these patents. We sought, among other things, treble damages for past infringement of these patents and for an injunction against future infringement. On November 21, 2006, in a trial by jury, the defendants were found to have willfully infringed a patent owned by us and we were awarded US$53.5 million in damages. We also filed a complaint in the United States District Court for the Central District of California against customers of Chunghwa Picture Tubes, including ViewSonic Corp., Jean Co., Lite-On Technology Corp., Lite-On Technology International, Inc., TPV Technology and Invision Peripheral Inc. On May 24, 2004, we sought declaratory relief in the United States District Court for the District of Massachusetts to determine the inventorship of four of these patents. The case was dismissed, and the inventorship issue was ordered to be decided in the lawsuit before the Central District of California. On June 21, 2004, Chunghwa Picture Tubes filed a counter-claim against us in the United States District Court for the Central District of California for alleged infringement of Chunghwa Picture Tubes intellectual property and violation of U.S. antitrust laws. On August 3, 2004, we demanded arbitration of the counter-claims filed by Chunghwa Picture Tubes. On June 20, 2006, an arbitration panel appointed by the American Arbitration Association decided in our favor and ruled that we hold exclusive ownership rights to the patents.

On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Co. and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear mountable liquid crystal display devices. We are seeking damages for past infringement and an injunction against future infringement. We also filed a parallel complaint with the Patents County Court in the United Kingdom claiming infringement on one of our U.K. patents relating to the same technology. Tatung Co. is a major shareholder in Chunghwa Picture Tubes. The Patents County Court ruled in favor of the defendants, and we appealed the ruling. On December 20, 2006, the appellate court dismissed the case.

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On January 10, 2005, Chunghwa Picture Tubes filed a complaint in the United States District Court for the Central District of California against LG Electronics and us for alleged infringement of one of its U.S. patents relating to flat panel display mounting systems. On April 25, 2005, we filed our answer to Chunghwa Picture Tubes infringement claim, together with a counter-claim in the United States District Court for the Central District of California for the correction of the legal title of the subject patent. On March 20, 2007, Chunghwa Picture Tubes and we stipulated to the dismissal of Chunghwa Picture Tubes infringement claim as well as the dismissal of all pending claims and counterclaims against each other without prejudice. On March 29, 2007, the United States District Court for the Central District of California dismissed the case without prejudice.

On May 13, 2005, we filed a separate complaint in the United States District Court for the District of Delaware against Chunghwa Picture Tubes, Tatung Company, Tatung Co. of America and ViewSonic Corporation claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. We sought, among other things, monetary damages for past infringement and an injunction against future infringement. On July 27, 2006, in a trial by jury, the defendants were found to have infringed a patent owned by us and we were awarded US$52.4 million in damages.

On January 9, 2006, New Medium Technology LLC, AV Technologies LLC, IP Innovation LLC and Technology Licensing Corporation filed a complaint in the United States District Court for the Northern District of Illinois against us for alleged patent infringement, seeking, among other things, monetary damages for past infringement.

On December 1, 2006, we filed a complaint in the United States District Court for the District of Delaware against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement. On March 8, 2007, AU Optronics Corp. filed a counter-claim against us in the United States District Court for the Western District of Wisconsin for alleged infringement of patents related to the manufacturing processes for TFT-LCDs.

On February 2, 2007, Anvik Corporation filed a complaint in the United States District Court for the Southern District of New York against us, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of the photo-masking equipments manufactured by Nikon Corporation and the patented methods performed by such system in producing TFT-LCD panels. Anvik is seeking monetary damages for past infringement and an injunction against future infringement.

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of our customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. and Toshiba America, Inc., for alleged infringement of two of its patents relating to LCD displays. Positive Technologies, Inc. is seeking, among other things, damages for past infringement. On March 7, 2007, the United States District Court for the Eastern District of Texas granted our motion to intervene in the patent infringement case brought by Positive Technologies, Inc.

Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

Our rapid introduction of new technologies and products may increase the likelihood that third parties will assert claims that our products infringe upon their proprietary rights.

Although we take and will continue to take steps to ensure that our new products do not infringe upon third party rights, the rapid technological changes that characterize our industry require that we quickly implement new processes and components with respect to our products. Often with respect to recently developed processes and components, a degree of uncertainty exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims alleging that such components or processes infringe upon third party rights may be brought against us. If our products or manufacturing processes are found to infringe upon third party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.

We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although patent and other intellectual property disputes in our industry have often been settled through licensing or similar arrangements, such

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defense could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to develop or make certain products or require us to pay monetary damages or royalties to license proprietary rights from third parties. Furthermore, we cannot be certain that the necessary licenses would be available to us on acceptable terms, if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling certain of our products. Any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could adversely affect our business.

We rely on technology provided by third parties and our business will suffer if we are unable to renew our licensing arrangements with them.

From time to time, we have obtained licenses for patent, copyright, trademark and other intellectual property rights to process and device technologies used in the production of our display panels. We have entered into key licensing arrangements with third parties, for which we have made, and continue to make, periodic license fee payments. In addition, we also have cross-license agreements with certain other third parties. These agreements terminate upon the expiration of the respective terms of the patents.

If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the processes we employ to manufacture our products and be prohibited from using those processes, which may prevent us from manufacturing and selling certain of our products, including our key products. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do.

In the future, we may also need to obtain additional patent licenses for new or existing technologies. We cannot provide assurance that these license agreements can be obtained or renewed on acceptable terms or at all, and if not, our business and operating results could be adversely affected.

We rely upon trade secrets and other unpatented proprietary know-how to maintain our competitive position in the TFT-LCD industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could negatively affect our business.

We also rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of our confidentiality agreements, and there can be no assurance that any such disputes would be resolved in our favor. Further, others may acquire or independently develop similar technology, or if patents are not issued with respect to products arising from research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the TFT-LCD industry.

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

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

In addition, as a joint venture between LG Electronics and Philips Electronics, we have in the past relied on our affiliation with LG Electronics and Philips Electronics to recruit and retain important research and development personnel. We can offer no assurance that we will be able to realize these advantages if our affiliation with LG Electronics and Philips Electronics is significantly reduced in the future.

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We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, or at all. We also employ highly skilled line operators at our various production facilities.

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

Our two principal shareholders, LG Electronics and Philips Electronics, which together currently own approximately 70.8% of our voting stock, have significant influence over corporate decisions.

LG Electronics and Philips Electronics together have control of all matters submitted to our shareholders for approval, including electing certain of our directors, amending our articles of incorporation and approving changes of control that may impact you as a minority shareholder. The directors elected by these shareholders are able to make decisions affecting our capital structure, including decisions to issue additional capital stock, implement stock repurchase programs and incur indebtedness.

In addition, we engage in a variety of related party transactions with our two principal shareholders and their respective affiliates:

- Purchases from LG Electronics and its affiliates — purchases of materials, equipment, components and services from LG Electronics and its affiliates, excluding LG International and its subsidiaries, amounted to 21.2%, 13.7% and 16.5% (excluding services purchased from GS Engineering & Construction which, as of January 2005, is no longer an affiliated company of the LG Group) of our total purchases of materials, equipment, components and services in 2004, 2005 and 2006, respectively.

- Sales to LG Electronics — sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics both as an end-brand customer and a system integrator, amounted to 19.3%, 18.1% and 16.3% of our sales in 2004, 2005 and 2006, respectively.

- Sales to Philips Electronics and its affiliates — sales to Philips Electronics and its affiliates on an invoiced basis, which include sales to Philips Electronics both as an end-brand customer and a system integrator, amounted to 14.5%, 13.1% and 12.5% of our sales in 2004, 2005 and 2006, respectively.

- Purchases from LG International — purchases of materials, equipment, components and services from LG International and its subsidiaries amounted to 22.4%, 16.7% and 10.7% of our total purchases of materials, equipment, components and services in 2004, 2005 and 2006, respectively.

- Sales to LG International — sales to LG International and its subsidiaries on an aggregate basis amounted to 5.5%, 7.4% and 9.0% of our sales in 2004, 2005 and 2006, respectively.

- Purchases from Philips Electronics — purchases of materials, including backlight units and driver integrated circuits, from Philips Electronics, as well as other services, amounted to 0.6%, 0.6% and 0.8% (including purchases from Philips Electronics semiconductor division until September 2006, which, as of October 2006, is no longer a division of Philips Electronics) of our total purchases of materials, equipment, components and services in 2004, 2005 and 2006, respectively.

Pursuant to our articles of incorporation and the terms of a shareholders agreement entered into between LG Electronics and Philips Electronics in July 2004, we have a nine-member board of directors which is composed of two outside directors selected by each of LG Electronics and Philips Electronics, one outside director jointly selected by them and four non-outside directors. In March 2005, we established the Outside Director Nomination and Corporate Governance Committee which will nominate our future outside directors. The right to nominate the four non-outside directors depends on the respective ownership interest in us of each of LG Electronics and Philips Electronics. The two shareholders have also agreed to a co-voting arrangement under which each party is obligated to vote in favor of the non-outside director candidates selected by the other party as well as the non-outside candidate jointly selected by the two shareholders. Subject to minimum shareholding requirements, LG Electronics and Philips Electronics are able to nominate our chief executive officer and chief financial officer, respectively, who as our two

joint representative directors, must act in concert in order for their actions to bind us. See Item 6.A. Directors and Senior Management for a description of the composition of our board and the joint representative director system under Korean law. Consequently, persons with ties to LG Electronics and Philips Electronics may account for as many as four directors on our board and will continue to exert substantial influence over the operation of our business.

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The interests of LG Electronics and Philips Electronics, and the directors and officers nominated by them, may differ from or conflict with those of us or our other shareholders.

When exercising their rights as our shareholders, either alone or in concert, LG Electronics and Philips Electronics may take into account not only our interests but also their interests and the interests of their affiliates. The interests of display businesses of LG Electronics and Philips Electronics may at times conflict with ours since the growth of our business depends, in part, on successful competition with other display technologies. For example, LG Electronics manufactures plasma display panels, or PDPs, which is an alternative display technology to TFT-LCDs. In recent years, LG Electronics has invested in a PDP production facility in Gumi, Korea, as well as overseas PDP module plants in Mexico, Poland and China. These conflicts may result in alternative display technologies gaining wider market acceptance than TFT-LCDs or a decision by our principal shareholders to sell products using other display technologies.

Various other conflicts of interest between our two principal shareholders and us may arise in the future in a number of areas relating to our business and relationships, including potential acquisitions of businesses or properties, incurrence of indebtedness, financial commitments, sales and marketing functions, indemnity arrangements, service arrangements and the exercise by LG Electronics and Philips Electronics of control over our management and affairs. Our board is currently composed of directors and officers who have been selected by our two principal shareholders and certain of our directors continue to hold positions at LG Electronics or Philips Electronics. See Our two principal shareholders, LG Electronics and Philips Electronics, which together currently own approximately 70.8% of our voting stock, have, and will continue to have significant influence over corporate decisions above and Item 6.A. Directors and Senior Management for a description of the composition of our current board of directors.

Labor unrest may disrupt our operations.

As of December 31, 2006, approximately 63% of our total employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. If our relationship with our employees deteriorates and there is labor unrest resulting in a work stoppage or strike, our production facilities will not be able to continue operations and this will have a material adverse effect on our financial condition and results of operations.

We are subject to strict environmental regulations and we may be subject to fines or restrictions that could cause our operations to be interrupted.

Our manufacturing processes generate chemical waste, waste water and other industrial waste at various stages in the manufacturing process, and we are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of such chemical by-products and waste substances. We have installed various types of anti-pollution equipment, consistent with industry standards, for the treatment of chemical waste and equipment for the recycling of treated waste water at our various facilities. However, we cannot provide assurance that environmental claims will not be brought against us or that the local or national governments will not take steps toward adopting more stringent environmental standards.

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

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

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

Philips Electronics, one of our two principal shareholders and which owned 32.9% of our voting stock as of December 31, 2006, has announced its intent to sell a portion of its ownership interest in us. The shareholders agreement between LG Electronics and Philips Electronics requires LG Electronics and Philips Electronics, among other things, to not effect any sale or transfer of our shares that would decrease their respective ownership interests in us to lower than 30% prior to July 23, 2007 without the prior written consent of the other party. Following July 23, 2007, subject to certain transfer restrictions pursuant to the shareholders agreement, Philips Electronics may sell its holdings in us without the prior written consent of LG Electronics. See Item 6.E. Share Ownership Shareholders Agreement below for a description of certain transfer restrictions.

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If we or either of our current principal shareholders, LG Electronics and Philips Electronics, sell substantial amounts of our common stock in the public principal market, or if there is a perception that these sales may occur, the market price of our common stock could decline.

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

Our corporate affairs are governed by our articles of incorporation and by the laws governing Korean corporations. The rights and responsibilities of our shareholders and members of our board of directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. In the case of public companies, a shareholder must own, individually or collectively with other shareholders, at least 0.01% of our common stock for at least six months in order to file a derivative suit on behalf of us. While the facts and circumstances of each case will differ, the duty of care required of a director under Korean law may not be the same as the fiduciary duty of a director of a U.S. corporation. Holders of our common stock or our ADSs may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

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

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

- the aggregate number of shares of common stock we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and
- the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

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

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. The current limit on the number of shares that may be deposited into our ADR facility is 68,095,700 as of April 10, 2007. The number of shares issued or sold in any subsequent offering by us or our principal shareholders, subject to government authorization, raises the limit on the number of shares that may be deposited into the ADR facility, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation, or we determine with the ADR depositary to limit the number of shares of common stock so offered that would be eligible for deposit under the deposit agreement in order to maintain liquidity for the shares in Korea as may be requested by the relevant Korean authorities. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the common stock again to obtain ADSs.

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

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

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

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

Other than our registration rights agreement with each of LG Electronics and Philips Electronics as described in Item 7.A. Major Shareholders, we are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

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

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. A holder of ADSs will not be able to exercise dissenter s rights unless such holder has withdrawn the underlying common stock and become our direct shareholder.

Dividend payments and the amount you may realize upon a sale of our common stock or ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Korean Won.

Cash dividends, if any, in respect of the shares represented by our ADSs will be paid to the depositary in Korean Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Korean Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

Risks Relating to Korea

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

We are incorporated in Korea, and substantially all of our operations and assets are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a large extent. However, the economic indicators in recent years have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to the terrorist attacks in the United States on September 11, 2001, recent developments in the Middle East, including the war in Iraq, higher oil prices, the general weakness of the global economy and the sporadic occurrence of avian flu in Asia and other parts of the world and the risk of its widespread outbreak have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy. Any future deterioration of the Korean and global economy could adversely affect our business, financial condition and results of operations.

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

financial problems or lack of progress in restructuring of Korean conglomerates called chaebols, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;

a slowdown in consumer spending and the overall economy;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including an increase in oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen or revaluation of the Chinese RMB), interest rates and stock markets;

deterioration of economic or market conditions in other emerging markets;

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adverse developments in the economies of countries that are important export and import markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

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

social and labor unrest;

substantial decreases in the market prices of Korean real estate;

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

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

the recurrence of severe acute respiratory syndrome, or SARS, or an outbreak of avian flu in Asia and other parts of the world;

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

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

hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community.

In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six-party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North

Korea, imposes an asset freeze and travel ban on persons associated with North Korea s weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications. In return, the other five parties in the six-party talks agreed to provide emergency energy assistance of 50,000 tons of heavy fuel oil to North Korea in the initial phase.

There can be no assurance that the February 2007 accord will be implemented as agreed or the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, including a breakdown of high-level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our operations and the market value of our common stock.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact the Korean economy and our business and cause the price of our securities to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea.

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A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on the market value of our common stock.

Item 4. INFORMATION ON THE COMPANY

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

We are the world s largest merchant supplier, or supplier to third parties, of large-size TFT-LCD panels. According to DisplaySearch, one of the leading independent industry research firms, we have been the world s leading merchant supplier based on total units sold since 2002. We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors and other applications.

The origin of our TFT-LCD business can be traced to the TFT-LCD research that began in 1987 at the Goldstar R&D Center, which was then part of LG Electronics. TFT-LCD research continued at a new research and development center established by LG Electronics in 1990 in Anyang, Korea, which today continues to lead our technology innovation efforts. In 1993, the TFT-LCD business division was launched within LG Electronics, and in September 1995 mass production of TFT-LCD panels began at P1, its first fabrication facility, producing mainly 10.4-inch, 12.1-inch and 14.1-inch TFT-LCD panels for notebook computers and other applications. In December 1997, LG Semicon Inc., a subsidiary of LG Electronics, began mass production at P2, producing mainly 13.3-inch panels for notebook computers.

We were incorporated in 1985 under the laws of the Republic of Korea under the original name of LG Soft, Ltd., a subsidiary of LG Electronics whose main business was the development and marketing of software. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, Ltd., which, as part of the business transfer, changed its name to LG LCD Co., Ltd.

In July 1999, LG Electronics entered into a joint venture agreement with Philips Electronics pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In connection with this transaction, LG LCD transferred its existing software-related business to LG Electronics in order to focus solely on the TFT-LCD business. In addition to the contribution of TFT-LCD-related businesses from LG Electronics and LG Semicon, the joint venture also benefited from Philips Electronics management skills, brand recognition and experience in research and development relating to TFT-LCD products. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in August 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange and our ADSs on the New York Stock Exchange. Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders agreement to reflect new arrangements between them as controlling shareholders. See Item 7.A. Major Shareholders for a more detailed discussion of the shareholding structure and arrangements between our two principal shareholders.

We continued to develop our manufacturing process technologies and expand production facilities after the formation of the joint venture. Each of our new fabs has been designed to process increasingly larger-size glass substrates, which allows us to cut a larger number of panels, sometimes with larger sizes, from each glass substrate. The ability to process larger glass substrates allows us to produce a larger variety of display sizes to accommodate evolving business and consumer demands. In July 2000, we began mass production at P3, which was the first of a new glass-size and equipment generation for the industry. We designed P3 to process 680 x 880 mm glass substrates to focus on 15-inch displays, which at the time was our mainstream product, while enabling us to transition into larger, higher-margin premium products such as 20-inch displays. We further improved our manufacturing productivity in March 2002 with mass production at P4, the world s first fabrication facility to process glass substrate sizes greater than one square meter and to use one-drop-fill technology, which significantly reduces manufacturing time. The large size of the glass substrate that P4 uses enabled us to efficiently manufacture 15-inch, 18-inch and 19-inch display panels, as well as wide-format panels such as 17-inch wide-format, for both desktop monitors and televisions. We followed P4 with P5, which began mass production in May 2003, in response to business and consumer demands for 17-inch and larger desktop monitors and televisions. In August 2004, we commenced mass production at P6, which is designed to process 1,500 x 1,850 mm glass substrates and to optimize the production of 17-inch wide-format display panels for large desktop monitors and 32-inch and 37-inch wide format display panels for high-definition televisions. In January 2006, we commenced mass production at P7, which processes 1,950 x 2,250 mm glass substrates. P7 is optimized to produce 42-inch and 47-inch wide-format display panels for televisions.

In addition, we are currently expanding the production capacity of P7 and other existing facilities and equipping the new module production plant in Wroclaw, Poland, while constructing new facilities, including P8 in our Paju Display Cluster and the new module

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production plant in Guangzhou, China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG.Philips LCD Guangzhou Co., Ltd., in June 2006. See Item 3.D. Risk Factors Risks Relating to Our Company We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.

From 1995 to early 2003, we assembled all panels in our Gumi assembly facility adjacent to our P1 facility. In May 2003, we commenced operations at a new assembly facility in Nanjing, China, which we built and have since expanded, in order to manage our expanding display capacity and better serve the growing needs of our global customers with manufacturing facilities in China. In November 2005, we commenced operations at a new assembly facility in Paju, Korea. We broke ground on the new module production plant in Wroclaw, Poland in June 2006 and commenced mass production in March 2007. We anticipate that the Polish plant will help better serve our European customers and further expand our global production capabilities.

Our principal executive offices are located at West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu, Seoul, Republic of Korea, 150-721, and our telephone number at that address is +82-2-3777-1010.

Item 4.B. ***Business Overview***

Overview

We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers and desktop monitors, and we are one of the world s leading suppliers of high-definition television panels. We also manufacture TFT-LCDs for handheld application products, such as mobile phones and personal digital assistants, as well as for industrial and other applications, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. In 2006, we sold a total of 54.2 million large-size (10-inch or larger) TFT-LCD panels. According to DisplaySearch, we had a global market share for large-size display panels of approximately 20.5% based on sales revenue in 2006.

We were formed in August 1999 as a 50-50 joint venture between LG Electronics and Philips Electronics. In July 2004, we completed our initial public offering of shares and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL. We currently operate seven fabrication facilities, called P1, P2, P3, P4, P5, P6 and P7, located in Gumi and Paju, Korea, and six assembly facilities located in Gumi and Paju, Korea, Nanjing, China and Wroclaw, Poland. In addition, we are currently expanding the production capacity of P7 and other existing facilities and equipping the new module production plant in Wroclaw, Poland, while constructing new facilities, including P8 in our Paju Display Cluster and the new module production plant in Guangzhou, China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG.Philips LCD Guangzhou Co., Ltd., in June 2006.

We seek to build our market position based on collaborative customer relationships, a focus on high-end display products and manufacturing productivity. Our end-brand customers include many of the world s leading manufacturers of televisions, notebook computers and desktop monitors. In 2006, for example, our display panels were included in products sold by LG Electronics, Philips Electronics, Dell, Hewlett-Packard, Toshiba, Apple and Acer, among others. LG Electronics and Philips Electronics are our two principal shareholders, and terms of our sales to them are substantially the same as those of our sales to non-affiliated end-brand customers. Our dedication to customers has helped us win the DisplaySearch Customer Satisfaction Award for fiscal years 2002, 2003 and 2004. DisplaySearch discontinued awarding the prize in 2005.

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

Our sales were (Won)8,324.8 billion in 2004, (Won)10,075.6 billion in 2005 and (Won)10,624.2 billion (US$11,423.9 million) in 2006.

Strategy

We believe that the primary market for TFT-LCD products today includes televisions, notebook computers, desktop monitors and other applications. We believe that the TFT-LCD market will continue to expand as consumers are drawn to replace conventional

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CRT-based display products with TFT-LCD products due to their superior performance features. We believe that the market for TFT-LCD products will also expand in scope as new applications for this technology continue to be designed and developed.

We aim to maintain and build upon our current position as the world s largest merchant supplier of large-size TFT-LCD products by strengthening our collaborative relationships with our end-brand customers, focusing on high-end display products, including high-definition television panels, and continuing to enhance our manufacturing productivity. We believe that our technology leadership enables us to make timely investments in advanced manufacturing facilities and process technology migrations and improvements, which in turn positions us to deliver a broad and advanced product portfolio in high volumes and in a cost competitive manner to our customers.

Build strong collaborative relationships with end-brand customers

We plan to continue to focus our resources on expanding our strong collaborative relationships with our key end-brand customers. Our principal end-brand customers include many of the leading consumer electronics producers, such as LG Electronics, Philips Electronics and Toshiba, as well as the world s leading manufacturers of computer products, such as Dell, Hewlett-Packard, Apple and Acer. These customers represent a large portion of the global demand for TFT-LCD products, and we believe they value our product and design innovations as well as our ability to provide a reliable and high-quality supply of a wide range of TFT-LCD products in high volumes.

We seek to collaborate with our end-brand customers in the design and development stages of their new products. The close interactions with our end-brand customers allow us to gain insights into their product development strategies and market trends, and enable us to anticipate customer needs and tailor our research, development and manufacturing activities to take advantage of emerging market opportunities. Our strong customer relationships also mean that we enjoy relatively stable demand from these high-volume customers.

Make timely investments in advanced and flexible manufacturing facilities

Our strategy is to time our investments in next-generation manufacturing facilities that enable us to support a wide range of products. As a result of our investment strategy, our production facilities are among the most advanced in the industry, and our portfolio of seven fabrication facilities can produce a wide variety of products at high volumes to provide critical scale and flexibility in serving our customers needs.

In the past, our timely investment strategy, along with faster fab ramp-up, has allowed us to establish a leading position in emerging product categories with high growth potential. We have benefited from the higher margins available early in the life cycles of such products. For example, we built P3 and P4, the world s first fourth- and fifth-generation fabrication facilities optimized for desktop monitor panel production, and have since established ourselves as the one of the largest merchant suppliers in terms of both units sold and sales revenue in this category in 2004, 2005 and 2006 based on data from DisplaySearch. Our P5, also a fifth-generation fabrication facility, is optimized for production of larger-size panels for desktop monitors and televisions. Our P6, a sixth-generation fabrication facility, is designed to capitalize on opportunities in the large-size desktop monitor category, such as 17-inch and 20-inch wide-format panels, and in the television category, such as 32-inch wide-format and 37-inch and 37-inch wide-format panels, all of which are high-definition television panels. P7, our first seventh-generation fabrication facility, is, among other things, optimized for the production of 42-inch and 47-inch wide-format television panels. The flexibility of our operations also allows us to shift our production to the most attractive product market at any given time. For example, as the demand for larger and better monitors continues to grow, we have shifted part of the production in our P3 facility from 15-inch desktop monitor panels to 20-inch UXGA high-resolution desktop monitor panels, thereby realizing higher margins. Currently in our Paju Display Cluster, we are constructing our eighth fabrication facility, or P8, the timing of equipping and capacity of which are currently under review.

The advanced nature and scale of our facilities is a key driver of our cost competitiveness. We believe it also enables us to better meet the volume, product variety and turnaround time requirements of our customers.

Leverage technology leadership to deliver high-performance products and enhance manufacturing productivity

We plan to continue focusing on our product and manufacturing technology in order to maintain our position as an industry leader in delivering a broad and advanced product portfolio in high volumes and in a cost competitive manner.

In the area of product technology, we plan to continue leading the market in the commercial application of technologies with superior performance characteristics. For example, we were one of the first TFT-LCD manufacturers to apply Super In Plane Switching, or S-IPS, technology, which increases viewing angles for large-size desktop monitor and television products, in

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commercial production. We were also the first to develop copper bus lines, which achieve faster video frame rates and brighter displays in larger-size panels, and integrated column spacers, which improve panel ruggedness and enhance viewing uniformity.

We plan to continue focusing our development efforts on design and process innovations. Our advanced design and process technology capabilities have enabled us to deliver substantial improvements in manufacturing productivity, often with only marginal capital investments. For example, our one-drop-fill technology allowed us to significantly reduce the time required to deposit liquid crystal materials into our panels. We were one of the first TFT-LCD manufacturers to reduce the number of mask processes in the TFT array process from five to four. We were also able to improve the input capacity in P1 from its originally designed monthly input capacity of 30,000 substrates to its actual input capacity as of December 2006 of 114,000 substrates per month, resulting in significant increases in unit output, with only marginal capital investments. Our technology capabilities have also enabled us to enhance process efficiencies, thereby increasing our effective capacity. For example, we were able to increase the number of 15-inch panels we manufacture in P4 from 12 per glass substrate to 15, with no change to substrate size. Our ability to ramp-up P4, P5, P6 and P7 in a short time span with minimal technical difficulties is also an example of our process technology capability.

Focus on televisions and large and wide desktop monitors and notebook computers while maintaining a broad product portfolio

Our strategy is to leverage our product technology, timely investments and advanced manufacturing capabilities to lead emerging large-size product categories that offer higher growth potential and higher margins and help shape industry standards in product features such as size and resolution.

Currently the TFT-LCD television market is experiencing strong growth. We began shipping television products in 2001 with 15-inch panels and have since broadened our product portfolio with the addition of 20-inch conventional format as well as 17-inch, 23-inch, 26-inch, 30-inch, 32-inch, 37-inch, 42-inch, 47-inch and 55-inch wide-format panels. We were the largest merchant supplier in the television category in terms of both units sold and sales revenues in 2004, 2005 and 2006, based on data from DisplaySearch, and we continued to lead the market in introducing larger and higher-performance panels for televisions. For example, we were the first to develop 42-inch wide-format and 55-inch wide-format high-definition television panels and 100-inch wide-format full high-definition television panels.

The desktop monitor market is currently transitioning from 15-inch and 17-inch to larger panel sizes such as 19-inch and 20-inch, and we believe we are well positioned to capitalize on this opportunity with our full product line-up. In addition, we plan to maintain our leadership position in the premium 20-inch and above desktop monitor category, where we were the first-to-market with products such as 20-inch UXGA, 22-inch WSXGA, 23-inch WUXGA and 30-inch WQXGA+.

The notebook computer market is also transitioning to larger and wider panel sizes, which command higher margins, and we believe we have the flexibility to increase the production and sales of larger and wider panel sizes as demand grows for such sizes. For example, beginning in 2001, there has been a greater demand for notebook computers with bigger screens, which led us to change our product mix to include more 15.0-inch panels and fewer 13.3-inch panels for notebook computers. In 2006, we increased the production and sales of 15.4-inch wide-format notebook panels in line with the market trend toward larger wide-format screens.

We believe that our product range across the television, notebook computer, desktop monitor and other application markets is one of the broadest in the industry and that it enables us to strengthen our relationships with our end-brand customers.

Continually reduce costs

We focus on continually lowering our cost structure through:

Component cost reductions we leverage our scale and leading industry position to obtain lower prices for components. Our strategy is to increase volume purchasing while implementing a cost reduction strategy at the product planning level by reducing the number of components used in our products, standardizing components across products and setting up platform-based design, which are important drivers of our cost competitiveness;

Customer collaboration we plan to achieve cost reduction by reinforcing our strong collaborative relationship with our customer base. We plan to involve our customers in the design process in order to better align new product development and manufacturing goals and

thereby achieve cost reduction from, among other things, elimination of redundant materials, accelerated product development and reduction in the weight and thickness of our display panels. In addition, we plan to move our production close to our customers so as to reinforce our collaborative relationship with our customers and enjoy lower logistics costs and more timely and efficient delivery of our products to customers.

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Larger, more advanced manufacturing base we plan to build fabrication facilities that provide us with overhead cost advantages and that produce higher volumes of products, enabling us to enjoy economies of scale;

High glass conversion efficiency we have been able to reduce our costs of production by maximizing glass conversion efficiency, a function of production yield and panel design, allowing us to convert a high proportion of our input glass area into saleable display area. We are also able to optimize production allocation across our multiple fabs to maximize glass conversion efficiency; and

Process innovation and research and development our process technology innovations, such as one-drop-fill technology and mask reduction initiatives, have consistently enabled us to improve the throughput of our fabs often with minimal capital investment, thereby resulting in lower costs per panel. Our other research and development initiatives, including the introduction of new technologies, component standardization and reduction in the number of requisite components, have also contributed to lower manufacturing costs.

Technology Description

TFT-LCD Technology

TFT-LCD consists of two thin glass substrates and polarizer films between which a layer of liquid crystals is deposited and behind which a light source called a backlight unit is mounted. The front glass substrate is fitted with a color filter, while the back glass substrate, also called a TFT array, has a thin film of transistors, or TFT, formed on its surface. The liquid crystals are normally aligned to allow the polarized light from the backlight unit to pass through the two glass panels to form a picture element, or pixel. When voltage is applied to the transistors on the TFT array, the liquid crystals change their alignment and alter the amount of light that passes through them. Meanwhile, the color filter on the front glass substrate gives each pixel its own color. The combination of these pixels in different colors and levels of brightness forms the image on the panel.

Manufacturing Process

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

TFT array process involves fabricating a large number of thin film transistors on the back glass substrate. The number of transistors corresponds to the number of pixels on the screen. The process is similar to the process for manufacturing semiconductor chips, except that transistors are fabricated on large glass substrates instead of silicon wafers. Unlike in the semiconductor industry, however, the number of transistors per glass substrate is not a primary driver of the manufacturing costs for TFT-LCDs. Once the TFT array process on glass substrates is completed, the substrates are cut into panel-sized pieces;

Color filter process involves fabricating a large number of color regions on the front glass substrate that overlays the TFT array in the cell process. The colored dots of red, green and blue combine to form various colors. The process is similar to the TFT array process but involves depositing colored dyes instead of transistors;

Cell process involves joining together the back glass substrate that is arrayed with transistors and the front glass substrate that is patterned with a color filter. The space between the two glass substrates is filled with liquid crystal materials. The resulting panel is called a cell; and

Module assembly process involves connecting additional components, such as driver integrated circuits and backlight units, to the cell formed by combining the glass substrates and liquid crystal materials.

The TFT array, color filter and cell processes are capital-intensive and require highly automated production equipment and are the primary determinants of fixed manufacturing cost. In contrast, the module assembly process involves semi-automated production equipment and manual labor to assemble the various components. Materials are the primary drivers of variable manufacturing cost.

We are also developing active matrix OLED display technology, or AMOLED. AMOLED is considered a next generation flat panel display technology particularly because it is able to display clearer images of fast moving objects than conventional technology. In February 2006, we entered into an evaluation agreement for AMOLED development with Eastman Kodak Company, or Kodak. Pursuant to this agreement, we and Kodak will jointly evaluate display technologies for mobile displays and consider other opportunities, including the development and supply of AMOLED technology and products.

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Products

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

- Televisions, which currently utilize large-size display panels ranging from 15 inches to 55-inch wide-format, including full high-definition television panels;
- Notebook computers, which typically utilize large-size display panels ranging from 12.1 inches to 20.1-inch wide-format;
- Desktop monitors, which typically utilize large-size display panels ranging from 15 inches to 30-inch wide-format; and
- Other applications, which utilize a wide array of display panel sizes, ranging from small to medium-size display panels, including handheld application products such as mobile phones, digital cameras and personal digital assistants, to large-size display panels, including industrial applications such as entertainment systems and medical diagnostic equipment.

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

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

Televisions

Our television panels range from 15 inches to 55-inch wide-format in size. We began mass production of television display panels in 2001. In 2006, our principal products in the television category were 32-inch wide-format, 37-inch wide-format and 42-inch wide format panels. Our sales of display panels for televisions were (Won)1,162.8 billion, or 14.0% of sales, in 2004 and (Won)2,805.0 billion, or 27.8% of sales, in 2005 and (Won)4,938.9 billion (US$5,310.6 million), or 46.5% of sales, in 2006.

The market for large-size televisions developed later than that for notebook computers and desktop monitors, but we have experienced significant growth in recent years for our television panels and it has become our primary market as consumer demand grew for larger-size televisions. We believe that we can leverage our experience in the notebook computer and desktop monitor markets to take advantage of the growth potential in the market for large-size televisions. We began mass production with 15-inch panels and added 17-inch wide-format, 20-inch and 30-inch wide-format panels to our product portfolio in 2002. In 2003, we added 23-inch wide format, 26-inch wide-format and 42-inch wide-format as well as high-definition television panels to meet growing market demand and, in 2004, we added 32-inch wide-format, 37-inch wide-format and 55-inch wide-format to our television panel product portfolio. Currently, 32-inch and 42-inch wide-format panels comprise our principal products in this category in terms of sales revenue and 32-inch and 37-inch wide-format panels in terms of sales volume. In addition, in March 2006, we succeeded in developing a 100-inch panel for televisions, the largest TFT-LCD panel in the world at the time.

Brand manufacturers of televisions and their distribution channels prefer long-term arrangements with a limited number of display panel suppliers that can offer a full product line, and we believe that we are well positioned to meet their requirements with our strengths in technology, manufacturing scale and efficiency as well as the breadth of our product portfolio.

We employ S-IPS technology on certain television panels to significantly increase the viewing angle. We also apply our Over Driving Circuit (ODC) technology to certain categories of larger-size panels to increase response time and decrease motion blurring. We are also further developing our copper bus technology to achieve faster video frame rates and brighter displays in larger-size panels.

Notebook Computers

Our display panels for notebook computers range from 12.1 inches to 20.1-inch wide-format in size in a variety of display formats. In 2006, our principal products in the notebook computer category were 14.1-inch, 15.0-inch,15.4-inch and 17.1-inch panels. Our sales of display panels for notebook computers were (Won)2,119.1 billion, or 25.5% of sales, in 2004, (Won)2,113.4 billion, or 21.0% of sales, in 2005 and (Won)2,166.9 billion (US$2,330.0 million), or 20.4% of sales, in 2006.

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Notebook computer display panels were our principal product from our formation until 2001, when desktop monitor display panels surpassed notebook computer display panels in terms of revenues. Sales volume for 14.1-inch panels, which we first introduced to the market in 1997, continued to increase through 2002. From 2003 to 2005, 15.0-inch panels grew at a fast rate and became the largest component in the notebook category, while in 2006, 15.4-inch panels far outpaced the increase in 15.0-inch panels and became the largest component in terms of sales revenue and volume in the category of notebook computer display panels.

One of the features of notebook computer display panels that we pioneered is our patented side mounting technology, which shifts the screws mounting a TFT-LCD panel on a display from the front to the side, thereby allowing for much thinner borders, or bezels, around the display and allowing product designers to utilize larger screens without increasing a product s overall size.

Desktop Monitors

Our desktop monitor display panels range from 15 inches to 30-inch wide-format in size in a variety of display resolutions and formats. We began mass production of desktop monitor display panels in 1999. In 2006, our principal products in the desktop monitor category were 17-inch, 19-inch panels and 20.1-inch panels. Our sales of display panels for desktop monitors were (Won)4,662.1 billion, or 56.0% of sales, in 2004, (Won)4,740.4 billion, or 47.0% of sales, in 2005 and (Won)2,906.9 billion (US$3,125.7 million), or 27.4% of sales, in 2006.

Desktop monitor display panels have grown to become our second largest product category, supplanting notebook computer display panels in terms of revenues in 2001, and in terms of volume units in 2002. The weighted average size of our desktop monitor display panels has steadily grown in recent years, with a significant increase in the production and sale of 17-inch and 17-inch wide-format and larger panels from 2002 to 2005. Until 2005, we had also significantly increased production and sale of 19-inch and 20.1-inch panels. In 2006, however, the overall sales of desktop monitors, in terms of volume and revenue, have declined compared to the previous year.

In addition to our side mounting technology, we employ S-IPS technology on certain desktop monitor display panels to achieve significantly increased viewing angles.

Other Applications

Our product portfolio also includes small- and medium-size TFT-LCD panels for use in handheld application products, including mobile phones, digital cameras and personal digital assistants, and large-size panels for industrial and other products, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. TFT-LCD panels that are ten inches and smaller are referred to as small and medium-size panels, with those smaller than 4 inches being considered small-size panels. In 2006, our principal products in the other applications category were the 7-inch and 2-inch panels in terms of sales revenue and volume.

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

Our sales of display panels for other applications were (Won)380.8 billion, or 4.6% of sales, in 2004, (Won)416.7 billion, or 4.1% of sales, in 2005 and (Won)611.4 billion (US$657.5 million), or 5.7% of sales, in 2006.

Sales and Marketing

Customer Profile

Our display panels are included primarily in televisions, notebook computers, desktop monitors and industrial and other applications sold by our global end-brand customers. In 2006, our top ten end-brand customers included LG Electronics, Philips Electronics, Dell, Hewlett-Packard, Toshiba, Apple, Matsushita, Acer, AmTRAN and Skyworth. LG Electronics and Philips Electronics are our two principal shareholders, and the terms of our sales to them are conducted on an arm s-length basis and are substantially the same as those of our sales to non-affiliated end-brand customers.

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

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers, including our two principal shareholders, together accounted for 77.4% of our sales in 2004, 73.0% in 2005 and 71.3% in 2006. Our top five end-brand customers together accounted for 58.0% of our sales in 2004, 56.2% in 2005 and 56.6% in 2006. In 2006, three end-brand customers, LG Electronics (excluding its purchases made as a system integrator), Philips Electronics and Dell, each contributed to 10% or more of our sales.

The following table presents our top five end-brand customers based on sales in our principal product categories for 2006:

	Computer Products		
Televisions	**Notebook Computers**	**Desktop Monitors**	**Other Applications**
Philips Electronics	Hewlett-Packard	Dell	Seiko Instrument Inc.
LG Electronics	Dell	LG Electronics	LG Electronics
Toshiba	Toshiba	Apple	LG Innotech
Matsushita	Acer	Philips Electronics	Panasonic Automotive Systems
AmTRAN	Apple	Hewlett-Packard	Shinco

In addition to our top ten end-brand customers, we sell our TFT-LCD panels to a variety of other manufacturers of computers and electronic products. Sales to these manufacturers constituted 22.6% of our sales in 2004, 27.0% in 2005 and 28.7% in 2006.

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

	Year Ended December 31,								
	2004		2005		2006				
	Sales	%	Sales	%	Sales		Sales		%
	(in billions of Won, except for percentages)						(in millions of US$, except for percentages)		
Korea	(Won) 890	11%	(Won) 991	10%	(Won) 805		US$ 866		8%
Asia	5,673	68	6,689	66	6,534		7,026		61
America	753	9	1,062	11	1,034		1,112		10
Europe	1,009	12	1,330	13	1,754		1,886		16
Others[1][2]			3		497		534		5
Total	(Won) 8,325	100%	(Won) 10,075	100%	(Won) 10,624		US$ 11,424		100%

(1) Sales to other regions (i.e., regions excluding Korea, Asia, America and Europe) amounted to (Won)202 million in 2004 and represented 0.002% and 0.03% of aggregate sales in 2004 and 2005, respectively.

(2) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which were minimal for the years ended December 31, 2004 and December 31, 2005, respectively, but amounted to (Won)171.1 billion (US$184.0 million), or 1.6% of total revenue, for the year ended December 31, 2006.

Sales

Our sales and marketing departments seek to maintain and strengthen relationships with our current customers in existing markets as well as expand our business in new markets and with new customers. We currently have wholly-owned sales subsidiaries in the United States, Japan, Germany, Taiwan, Hong Kong and China and a sales branch office in Singapore. As of December 31, 2006, our sales and marketing force employed a total of 444 employees in regional offices in these countries and in our head office in Korea.

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The focus of our sales activities is on strengthening our relationships with large end-brand customers, with whom we maintain strong collaborative relationships. Customers look to us for a reliable supply of a wide range of TFT-LCD products. We believe our reliability and scale as a supplier helps support our customers product positions. We view our relationships with our end-brand customers as important to their product development strategies, and we collaborate with our end-brand customers in the design and development stages of their new products. In addition, our sales teams coordinate closely with our end-brand customers designated system integrators to ensure timely delivery. For each key customer, we appoint an account manager who is primarily responsible for our relationship with that specific customer, complemented by a product development team consisting of engineers who participate in meetings with that customer to understand the customer s specific needs. Our dedication to our customers has helped us win the overall DisplaySearch Customer Satisfaction Award for fiscal years 2002, 2003 and 2004. DisplaySearch discontinued awarding the prize in 2005.

We do not typically enter into binding long-term contracts with our customers. However, we have in place long-term supply and purchase agreements with certain major end-brand customers, whereby we and our end-brand customers agree on general volume parameters and, in some cases, product specifications and delivery terms. These agreements serve as an indication of the size and key components of a customer s order, and neither party is committed to supply or purchase any products until a firm purchase order is issued. For instance, in June 2005 we entered into a non-binding supply contract with a renewable three-year term with Hewlett-Packard for the supply of TFT-LCD displays.

Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. Our sales subsidiaries procure purchase orders from and distribute our products to system integrators and end-brand customers located in their region. In regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices, we sell our products to LG International and its subsidiaries. These subsidiaries of LG International process orders from and distribute products to customers located in their region. In particular, we have sold a significant amount of our products to LG International Japan, Ltd. and LG International (HK) Ltd. Sales to LG International and its subsidiaries on an aggregate basis amounted to 5.5%, 7.4% and 9.0% in 2004, 2005 and 2006, respectively. See Item 7.B. Related Party Transactions for further discussion of these sales arrangements.

We establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of utilizing our affiliated trading company, LG International, or its subsidiaries, and where local market practice permits. Based on this approach, we established sales subsidiaries in Hong Kong and Shanghai, China, in January 2003, to replace LG International (HK) in conducting sales to system integrators located in China. We expect to continue to utilize LG International Japan, consistent with local market practices there, to conduct our sales to end-brand customers in Japan, but may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

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

Prices for our products are generally determined based on negotiations with our end-brand customers. Pricing of our display panel products is generally market-driven, based on the complexity of the product specifications and the labor and technology involved in the design or production processes. Purchase prices and payment terms for our sales to our two principal shareholders are substantially the same as those for our non-affiliated end-brand customers.

We generally provide a limited warranty to our end-brand customers, including the provision of replacement parts and after-sale services for our products. Costs incurred under our warranty liabilities consist primarily of repairs. We set aside a warranty reserve based on our historical experience and future expectations as to the rate and cost of claims under our warranties.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have been collected within 65 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements, to protect us from excessive exposure to credit risks. To date we have not experienced any material problems relating to customer payments.

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Competition

The TFT-LCD industry is highly competitive. Due to the capital intensive nature of the display industry and the high production volumes required to achieve economies of scale, the international market for display devices is characterized by significant barriers to entry, but the competition among the relatively small number of major producers is intense. Currently almost all TFT-LCD manufacturers are located in Asia, and we compete principally with manufacturers from Korea, Taiwan, China and Japan.

The principal elements of competition for customers in the TFT-LCD market include:

- product portfolio range and availability;
- product specifications and performance;
- price;
- capacity allocation and reliability;
- customer service, including product design support; and
- logistics support and proximity of regional stocking facilities.

Our principal competitors are:

- Samsung Electronics (including the joint venture formed by Samsung Electronics and Sony Corporation in April 2004) and BOE-Hydis in Korea;
- AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar and Innolux in Taiwan;
- Sharp and IPS-Alpha in Japan; and
- SVA-NEC and BOE-OT in China.

According to DisplaySearch, in 2006, Korean TFT-LCD manufacturers had a market share of 44% of the 10.0-inch or larger panel market based on revenue, Taiwanese manufacturers had 43% and Japanese manufacturers had 9%.

Components, Raw Materials and Suppliers

Components and raw materials accounted for 64.1% of our cost of sales in 2004, 62.6% in 2005 and 58.9% in 2006. The key components and raw materials of our TFT-LCD products include backlight units, glass substrates, driver integrated circuits, polarizers, color filters and liquid crystal materials. We source these components and raw materials from outside sources, although, unlike many other TFT-LCD manufacturers, we produce a substantial portion of the color filters we use.

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

In order to reduce our component and raw material costs and our dependence on any one supplier, we generally develop compatible components and raw materials and purchase our components and raw materials from more than one source. However, we source the key components and raw materials from a limited group of suppliers in order to ensure timely supply and consistent quality. Also, in order to facilitate implementation of our cost reduction strategies, we continually review and weigh the reduction in logistics and transportation costs we may achieve by sourcing our components and raw materials from suppliers based in Korea against the price reduction we may achieve by sourcing from suppliers based abroad that are price competitive. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and price of the components, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

In addition, in February 2005, we entered into a strategic joint venture agreement with Nippon Electric Glass Co., Ltd., or NEG, to form a new joint venture company, named Paju Electric Glass Co., Ltd., which is located in Paju. Paju Electric Glass provides us with a stable supply of glass substrates critical to the production of our display panels at competitive prices. In 2005, we and NEG made a total capital investment of (Won)36 billion in the joint venture, of which we and NEG own 40% and 60%, respectively. Paju Electric Glass began construction of the glass back-end facility in the third quarter of 2005 and commenced mass production in February 2006. See Item 10.C. Material Contracts.

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We maintain a strategic relationship with many of our key material suppliers, and we generally maintain a component and raw material inventory sufficient for approximately 10 days, or 20 days for driver integrated circuits as a safeguard against potential disruptions in supply.

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

Equipment and Suppliers

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

We purchase equipment from a small number of qualified vendors to ensure consistent quality, timely delivery and performance. We purchase a large majority of our equipment from overseas vendors, mostly Japanese. We maintain strategic relationships with many equipment manufacturers as part of our efforts to reduce costs and we aggressively negotiate prices and other terms with our vendors. In the procurement of equipment from Japan, we also use LG International s subsidiary in Japan in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. See Item 7.B. Related Party Transactions. In addition, in recent years we have substituted a portion of our equipment purchased from foreign vendors with purchases from local suppliers. In 2006, we purchased approximately 69% of our equipment from local suppliers on an invoiced basis, and we plan to continue this localization effort to diversify our supply source and reduce costs.

Our engineers begin discussions with equipment manufacturers far in advance of the planned installation of equipment in a new fab, and we typically execute a letter of intent with the vendors in advance of our planned installation to ensure timely delivery of main equipment with long-term delivery schedules. Engineers from our vendors typically accompany the new equipment to our fabs to assist in the installation process to ensure proper operation. To date, we have not experienced any material problems with our equipment supplies or after-delivery services.

Quality Control

We believe that our advanced production capabilities and our reputation for high quality and reliable products have been important factors in attracting and retaining key customers. We have implemented quality inspection and testing procedures at all of our fabs and assembly facilities. Our quality control procedures are carried out at three stages of the manufacturing process:

- incoming quality control with respect to components and raw materials;
- in-process quality control, which is conducted at a series of control points in the manufacturing process; and
- outgoing quality control, which focuses on packaging, delivery and post-delivery services to customers.

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

Our quality assurance team works not only to ensure effective and consistent application of our quality control procedures, but also to introduce new methodologies, including six-sigma quality control. Our quality assurance programs have received accredited ISO/TS 16949 certifications. The ISO/TS certification process involves subjecting our manufacturing processes and quality management systems to reviews and observation

for various fixed periods. ISO/TS certification is required by certain European countries and the United States in connection with sales of industrial products in those countries, and provides independent verification to our customers regarding the quality control measures employed in our manufacturing and assembly processes.

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Insurance

We currently have insurance coverage for our production facilities in Gumi and Paju, Korea, and our research and development center in Anyang, Korea, for up to (Won)2.0 trillion per claim, which includes business interruption coverage. We also have insurance coverage for work-related injuries to our employees, accidents during overseas business travel, damage during construction, damage to products and equipment during shipment, damage to equipment during installation at our fabs, automobile accidents, bodily injury and property damage from gas accidents, as well as mandatory unemployment insurance for our workers and director and officer liability insurance. In addition, we maintain general and product liability, employment practice liability and aviation product liability insurance. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment, cargo insurance and life and disability insurance for their employees. Our subsidiaries in Nanjing, China and Wroclaw, Poland also carry property insurance, business interruption insurance and commercial general liability insurance. Our subsidiary in Guangzhou, China carries insurance coverage for construction risks.

Environmental Matters

Our production processes generate various forms of chemical waste, waste water and other industrial waste at various stages in the manufacturing process. We have installed various types of anti-pollution equipment for the treatment of chemical waste and waste water and equipment for the recycling of treated waste water in our facilities in Korea. We have also voluntarily agreed to reduce gases responsible for global warming, including per fluoro compounds, or PFCs, and sulfur hexafluoride, or SF6, gases, by installing PFC abatement systems to meet voluntary emissions targets for the TFT-LCD industry by 2010. We installed such an abatement system in P1 in April 2005 and we intend to install similar abatement systems in our other production facilities. In addition, as of December 31, 2006, we were party to voluntary agreements, which reflect a coordinated energy conservation initiative between government and industry, with respect to our operation of P1, P2, P3, P4, P5, P6 and the Gumi module production plant. We also intend to become party to such voluntary agreements with respect to our operations at P7 and the Paju module production plant in 2007. In accordance with such agreements, we have implemented a variety of energy-saving measures in those facilities, including installation of energy saving devices, consulting with energy conservation specialists and energy monitoring in Gumi.

Operations at our manufacturing plants are subject to regulation and periodic monitoring by the Korean Ministry of Environment and local environmental protection authorities. We consult on an annual basis with the LG Environment Strategy Institute with respect to our environmental compliance measures. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with local industry practice, and that we are in compliance in all material respects with the applicable environmental laws and regulations in Korea. Expenditures related to such compliance may be substantial. Such expenditures are generally included in capital expenditures. As required by Korean law, we employ licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation. We currently have ISO 14001 certifications with respect to the environmental record for P1, P2, P3, P4, P5, P6 and the Gumi module production plant, as well as our module production plant in Nanjing, China. We also intend to apply for ISO 14001 certifications for our Paju production and assembly facilities in 2007.

We have been certified by the Korean Ministry of Environment as an Environmentally Friendly Company since 1997 with respect to our environmental record for P1 and our module production plant in Gumi and since 2006, with respect to our operations at P2 and P3. We also intend to apply for certification as an Environmentally Friendly Company with respect to P4, P5 and P6.

We also have an internal monitoring system to control the use of hazardous substances in the manufacture of our products as we are committed to compliance with all applicable environmental laws and regulations, including European Union Restriction of Hazardous Substances (RoHS) Directive 2002/95/EC, which took effect on July 1, 2006 in the European Union and Japan and restricts the use of certain hazardous substances in the manufacture of electrical and electronic equipment. In June 2005, we became the first TFT-LCD company in the world to receive Environmental Product Declaration, or EPD, certifications from the Swedish government for nine of our panel models. In June 2006, we became the first TFT-LCD panel manufacturer to be recognized as an internationally accredited RoHS testing laboratory by the European Union s German accreditation organization, EU TÜV SÜD.

Furthermore, we are operating a green purchasing system, which excludes the hazardous materials at the purchasing stage. This system has enabled us to comply with various environmental legislations of hazardous substances, from European Union RoHS to China RoHS.

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In addition, we have been issuing an environment, safety and health report, or ESH Report, since 2004. The annual ESH Report is a vehicle through which information concerning our overall environment, safety and heath performance and related key activities, as well as sustainable growth management, is communicated to interested parties, including shareholders, customers and communities.

Subsidiaries

The following table sets forth summary information for our subsidiaries as of December 31, 2006:

Subsidiary	Main Activities	Jurisdiction of Incorporation	Date of Incorporation	Total Paid-in Capital		Percentage of Our Ownership Interest	Percentage of Our Voting Power
LG.Philips LCD Taiwan Co., Ltd.	Sales	Taiwan	April 1999	NT$	115,500,000	100%	100%
LG.Philips LCD America, Inc.	Sales	U.S.A.	September 1999	US$	5,000,000	100%	100%
LG.Philips LCD Japan Co., Ltd.	Sales	Japan	October 1999	¥	95,000,000	100%	100%
LG.Philips LCD Germany GmbH	Sales	Germany	November 1999		960,000	100%	100%
LG.Philips LCD Nanjing Co., Ltd.	Manufacturing and sales	China	July 2002	RMB	1,379,828,600	100%	100%
LG.Philips LCD Hong Kong Co., Ltd.	Sales	Hong Kong	January 2003	HK$	11,500,000	100%	100%
LG.Philips LCD Shanghai Co., Ltd.	Sales	China	January 2003	RMB	4,138,650	100%	100%
LG.Philips LCD Poland Sp. z o.o.	Manufacturing and sales	Poland	September 2005	PLN	238,590,000	100%	100%
LG.Philips LCD Guangzhou Co., Ltd.	Manufacturing and sales	China	June 2006	RMB	317,862,600	100%	100%

Item 4.C. ***Organizational Structure***

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

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

Current Facilities

We currently operate seven fabrication facilities, P1, P2, P3, P4, P5, P6 and P7, located in Gumi and Paju, Korea, and six assembly facilities located in Gumi and Paju, Korea, Nanjing, China and Wroclaw, Poland. We are currently constructing P8 in Paju, Korea. In addition, we installed equipment that enables the manufacture of display panels using low temperature polysilicon technology in a new facility, AP1, located in previously unused space in our P6 facility. We began mass production at AP1 in August 2005.

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The following table sets forth the size, primary use and capacity of our fabrication facilities, research and development facility and assembly facilities:

Facility	Generation[1]	Gross Floor Area (in square meters)	Input Substrates Size (in mm)/Mass Production Commencement	Nominal TFT Capacity as of December 31, 2006 (in input substrates per month)[2]	Primary Size of Panels Produced or Other Activity
P1	2	38,838	370 x 470 September 1995	114,000	15.4 small and medium-size panels
P2	3	70,872	590 x 670 December 1997	112,000	13.3 , 14.0 , 15,0
P3	4	70,872	680 x 880 July 2000	124,000	14.1 , 15.4 , 20.1
P4	5	84,820	1,000 x 1,200 March 2002	112,000	15.0 , 17.1 , 19.0
P5	5	84,820	1,100 x 1,250 May 2003	130,000	15.4 , 17.0 , 26.0
P6	6	288,415	1,500 x 1,850 August 2004	139,000	20.0 , 32.0 , 37.0
P7	7	310,134	1,950 x 2,250 January 2006	78,000	19.0 , 20.1 , 42.0 , 47.0
AP1	4		730 x 920 August 2005	6,000	LTPS[4] panels
Anyang R&D		8,646	300 x 350 100 x 100	500	
Gumi assembly facility		54,897			
Nanjing assembly facility		149,283			
Paju assembly facility		218,931			
Wroclaw assembly facility[3]		106,928			

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

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

LG.Philips LCD

P1	370 x 470
P2	590 x 670
P3	680 x 880
P4	1,000 x 1,200
P5	1,100 x 1,250
P6	1,500 x 1,850
P7	1,950 x 2,250

(2) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 have the capacity to process both TFT and color filter substrates.
(3) Began mass production in March 2007.
(4) Low temperature polysilicon technology.

Expansion Projects

We are building additional production and research and development facilities to meet forecasted increases in demand for our products. In 2005, we built our seventh fabrication facility, or P7. We commenced mass production at P7 in January 2006. During the fourth quarter of 2006, the average production capacity of P7 was 78,000 input glass sheets per month. P7 is expected to reach an initial design capacity of 90,000 input glass sheets per month in the first half of 2007 and an expanded capacity of 110,000 input glass sheets per month in the third quarter of 2007. We currently estimate that the construction and build-out of P7, at an expanded capacity of 110,000 input glass sheets per month, will cost approximately (Won)5.3 trillion in total. Our total capital expenditure on a delivery basis was (Won)2.8 trillion (US$3.0 billion) in 2006, of which (Won)1.2 trillion was attributable to capital expenditure for P7. We expect our capital expenditures for P7 on a delivery basis to be approximately (Won)0.2 trillion in 2007. In addition, we are currently building our eighth fabrication facility, or P8, in our Paju Display Cluster and

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we also broke ground on the new module production plant in Wroclaw, Poland in June 2006, which commenced mass production in March 2007. The Polish plant is expected to reach an initial production capacity of 3 million modules per year by the end of 2007. Currently, we are also constructing our new module production plant in Guangzhou, China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG.Philips LCD Guangzhou Co., Ltd., in June 2006. We expect our capital expenditures for construction of new production facilities on a delivery basis to be approximately (Won)0.6 trillion in 2007. Such amount is subject to periodic assessment, and we cannot provide any assurance that such amount may not change materially after assessment. We may undertake further expansion projects in the future with respect to our existing facilities as our overall business strategy may require.

Item 4A. UNRESOLVED STAFF COMMENTS

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5.A. ***Operating Results***

Overview

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

Market Conditions

The TFT-LCD industry is affected by market conditions that are often outside the control of individual manufacturers. Our results of operations might fluctuate significantly from period to period due to market factors, such as seasonal variations in consumer demand, surges in production capacity by competitors and changes in technology. Our industry has grown significantly in recent years as a result of cost reductions and product improvements that stimulated consumer demand and supported the technology substitution of traditional CRT-based personal computer displays for TFT-LCD displays. According to DisplaySearch, unit sales across the TFT-LCD industry grew from 70 million units in 1999 to 1,300 million units in 2006. Market revenues grew from US$14 billion to US$70 billion during the same period, showing a compounded annual growth rate of 26.3%, according to the same source.

While the industry has grown rapidly, it has also experienced business cycles with significant and rapid price declines from time to time. Historically, TFT-LCD manufacturers typically increased display area fabrication capacity by about 50% year on year. Capacity expansion above this growth rate can occur when several manufacturers ramp-up new factories at the same time. For example, several Taiwanese companies entered the TFT-LCD industry in 1999 and 2000. The industry s display area capacity (or the total display surface area of all assembled panel products) more than doubled from 1999 to 2001, based on data from DisplaySearch. The above-average rate of supply growth combined with a decline in PC demand reduced average selling prices for large-size TFT-LCD panels, or panels that are ten inches or larger, by approximately 49% from 1999 to 2001, based on data from DisplaySearch. During such surges in the rate of supply growth, resulting primarily from new plant investments by Korean and Taiwanese manufacturers, our customers are able to exert downward pricing pressure, leading to sharp declines in average selling prices and significant fluctuations in our gross margins. In addition, regardless of relative capacity expansion, we expect average selling prices for our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, cost reductions, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for TFT-LCD displays in some past periods, most recently in 2004. The entire TFT-LCD industry was able to supply approximately one-half of the total display area demand in 2003 as consumers sought to substitute CRT-based personal computer displays with TFT-LCD displays. Thus, despite significant increases in total production capacity as competing fabrication plants commenced mass production on similar schedules, consumer demand for flat-panel displays of larger average size absorbed the increased areal output. According to DisplaySearch, the average selling price for large-size TFT-LCD panels, or panels that are ten inches or larger, decreased by approximately 6.9% from US$200 in 2005 to US$186 in 2006 as a result of TFT-LCD manufacturers increased production capacity, which resulted in an increased supply of TFT-LCD panels in 2006, despite increased sales of large-size television panels.

Our product cost and price vary with the product display area to a significant extent. Therefore, the average selling price of our products can vary over time as a result of business cycles and the choices we make in capacity allocation for specific products. The overall average selling price of our display panels, including small panels for applications other than computers or televisions, can

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fluctuate significantly. Our average selling price per panel for panels used in televisions, notebook computers and desktop monitors decreased by 25.4% from (Won)295,120 per panel in 2004 to (Won)220,077 in 2005 and further decreased by 15.5% to (Won)185,893 (US$200) in 2006. We anticipate an increased capacity output in 2007, as competing panel manufacturers, including us, commence production in new fabrication facilities. In line with historical trends in our industry, we anticipate that temporary surges in capacity might put downward pressure on prices for our panels, but we expect that consumer demand for CRT substitutes will persist in the personal computer market and will continue to increase in the television market. During the initial stage of market development for TFT-LCD desktop monitors we were able to capture price premiums for desktop monitor panels until we reduced prices in order to stimulate wider demand. In order to grow the TFT-LCD television market, we plan to follow a similar strategy to reduce prices, fuel consumer demand and mitigate anticipated increases in capacity in the TFT-LCD industry. This strategy may result in a decrease in the overall average selling prices of our panels.

We strive to mitigate the effect of industry cyclicality and the resulting price fluctuations by planning capacity expansions and capacity allocations, or shifting our product mix, to capture premium prices in specific emerging product categories. Since the formation of the joint venture in August 1999, we expanded capacity and applied technology to take advantage of new demand for desktop monitors, which offered premium prices. More recently, we have expanded capacity and design capability toward high-definition television displays, which offer premium prices. In the more developed market for portable computer displays, we shifted our focus to the emerging 15.0-inch category in early 2002 as revenue growth in the 12.1-inch, 13.3-inch and 14.1-inch categories slowed. Our P3 and P4 panel factories are optimized for the efficient fabrication of 20.1-inch panels for desktop monitors and televisions, as well as 19-inch panels for desktop monitors, which have become fast-growing product categories. Our P5 factory is optimal for producing 17-inch monitor panels. Our P6 factory, which began mass production in August 2004, processes 1,500 x 1,850 mm glass substrates to fabricate large and wide monitor and television displays. Our P7 factory, which began mass production in January 2006, processes 1,950 x 2,250 mm glass substrates and will be optimal for producing even larger-sized monitors and television displays, including 42-inch and 47-inch wide-format display panels. Currently in our Paju Display Cluster, we are constructing our P8 factory, the timing of equipping and capacity of which are currently under review.

Manufacturing Productivity and Costs

We seek to continually enhance our manufacturing productivity and thereby reduce the cost of producing each panel. We have significantly expanded our production capacity since the official launch of the joint venture by investing in fabs that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and actual input capacity as a result of ramp-up for each of our fabs as of the dates indicated:

			Initial Design Capacity	Actual Input Capacity as of December 31,		
Fabrication Facility	**Mass Production Commencement**	**Input Substrates Size (in millimeters)**	**(in input substrates per month)**	**2004**	**2005**	**2006**
				(in input substrates per month)[1]		
P1	September 1995	370x470	30,000	105,000	114,000	114,000
P2	December 1997	590x670	40,000	100,000	107,000	112,000
P3	July 2000	680x880	60,000	105,000	124,000	124,000
P4	March 2002	1,000x1,200	60,000	90,000	104,000	112,000
P5	May 2003	1,100x1,250	60,000	100,000	120,000	130,000
P6	August 2004	1,500x1,850	90,000	47,000	117,000	139,000
P7	January 2006	1,950x2,250	90,000	N/A[2]	N/A[2]	78,000

(1) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 have the capacity to process both TFT and color filter substrates.
(2) N/A = Not applicable. P7 began mass production in January 2006.

Our cash outflows for capital expenditures, which relate mainly to the construction of new fabs, including the construction and equipping of P6 and P7, and the acquisition of new equipment, amounted to (Won)3,885.7 billion in 2004, (Won)4,166.2 billion in 2005 and (Won)3,076.0 billion (US$3,307.5 million) in 2006. Our depreciation expense as a percentage of sales increased from 14.7% in 2004 to 17.4% in 2005 and 24.4% in 2006 primarily due to depreciation of P6 and P7, which began mass production in August 2004 and January 2006, respectively. We do not expect our capital expenditures to increase significantly in 2007 as P7 is expected to reach an expanded capacity of 110,000 input glass

sheets per month in the third quarter of 2007, for which most of the required capital expenditure has been made in 2006, and the new module production plant in Wroclaw, Poland has already commenced mass production in March 2007. We are currently constructing P8 in our Paju Display Cluster and our new module production plant in Guangzhou,

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China. In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, a city in southern China, and established our subsidiary, LG. Philips LCD Guangzhou Co., Ltd., in June 2006. We expect our capital expenditures for construction of new production facilities on a delivery basis to be approximately (Won)0.6 trillion in 2007. Such amount is subject to periodic assessment, and we cannot provide any assurance that such amount may not change materially after assessment.

Since inception we have designed our fabs in-house and co-developed most equipment sets with our suppliers. These efforts have enabled us to gain valuable experience in designing and operating next generation fabs capable of processing increasingly larger-size glass substrates. We have been able to leverage this experience to achieve and maintain high production output and yields at our fabs, thereby lowering costs. For example, P4, the world s first fifth-generation fab, began mass production in March 2002 and reached its initial design capacity of 60,000 input glass sheets per month by June 2003. Similarly, P5, also a fifth-generation fab, began mass production in May 2003 and reached its initial design capacity of 60,000 input glass sheets per month by December 2003. P6, a sixth-generation fab which began mass production in August 2004, reached its initial design capacity of 90,000 input glass sheets per month in August 2005. P7, a seventh-generation fab which began mass production in January 2006, is expected to reach an initial design capacity of 90,000 input glass sheets per month in the first half of 2007 and an expanded capacity of 110,000 input glass sheets per month in the third quarter of 2007. In addition, in recent years we have substituted a portion of our equipment purchased from overseas suppliers with purchases from domestic vendors as part of our ongoing efforts to reduce our reliance on overseas suppliers for key components and equipment. In 2006, we purchased approximately 69% of our equipment from local suppliers on an invoiced basis, and we plan to continue this localization effort to diversify our supply source and reduce costs. We aim to actively facilitate the development of a domestic vendor base to take advantage of lower prices and to reduce our vulnerability to possible component shortages during times of surplus demand. We also fabricate certain components internally, such as color filters, which are one of the industry s higher-cost components.

We also continue to make various process improvements at our fabs, including enhancing the performance of process equipment, efficiency of material flows and quality of process and product designs. For example, we have reduced the number of mask steps in the TFT process from five to four, thereby enabling us to process a higher number of substrates in a given period of time. Such process improvements result in increased unit output of our fabs without significant capital investment, thus enabling us to reduce fixed costs on a per panel basis.

Raw materials comprise the largest component of our costs. Over the past several years we have consistently increased the proportion of our raw material purchases from local suppliers, who have typically offered lower prices compared to overseas suppliers. We plan to diversify our supplier base to overseas suppliers who are price competitive. In 2006, approximately 85% of our raw materials were sourced from local suppliers. We have also been able to leverage our scale and leading industry position to obtain competitive prices from our suppliers. Certain strategic decisions, such as fabricating our own color filters, one of the higher cost components, have also been important drivers of our cost control.

The size of our operations has also expanded considerably from 2002 to date, enabling us to benefit from economies of scale. As a result of the above factors, our cost of sales per panel (including small and medium-size display panels, or panels smaller than 10 inches in size), which is derived by dividing total cost of sales by total number of panels sold, decreased from (Won)119,552 per panel in 2004 to (Won)91,780 in 2005 and (Won)88,280 (US$95) in 2006. Our cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased from US$2,268 per square meter of net display area in 2004 to US$1,904 in 2005 and US$1,627 in 2006.

Product Mix

Our product mix reflects our strategic capacity allocation among various TFT-LCD product markets, and is continually reviewed and adjusted based on the demand for, and our assessment of the profitability of, display panels in different market and size categories. For example, beginning in 2001, there has been a greater demand for notebook computers with bigger screens, which led us to change our product mix to include more 15.0-inch panels and fewer 13.3-inch panels for notebook computers. We increased our sales of 18-inch panels for desktop monitors significantly beginning in 2002 to capture the emerging market for larger-size desktop monitors and now we offer 19-inch, 20-inch, 20-inch wide-format XGA and 30-inch WQXGA+ panels for desktop monitors. In addition to increases in sales of panels for computer products, we increased our sales of panels for televisions in 2004, 2005 and 2006 in response to a notable rise in consumer acceptance and demand for televisions using TFT-LCD panels. We have the flexibility to increase the production and sales of 17-inch wide-format, 19-inch, 32-inch wide-format, 37-inch wide-format and 42-inch wide-format panels as demand grows for these larger sizes. As a result of our product mix shift to target larger-size panels that command higher prices as well as an increase in overall sales, we were able to alleviate to a large extent the negative effect of price declines in 2004, 2005 and 2006 in most of our product categories. Our average selling price per panel for panels used in televisions, notebook computers and desktop monitors decreased by 25.4% from (Won)295,120 per panel in 2004 to (Won)220,077 in 2005 and further decreased by 15.5% to (Won)185,893 (US$200) in 2006.

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Our product portfolio also includes small-size display panels for handheld application products, such as mobile phones and personal digital assistants, and large-size display panels for industrial and other products, such as entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Sales of our small and medium-size display panels, or panels smaller than ten inches, for these applications increased from 25.1 million in 2004 to 51.0 million in 2005 and 69.4 million in 2006, principally as a result of increased demand for handheld application products, portable DVD players and automobile navigation systems.

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

	Year Ended December 31,							
	2004		2005		2006			
Panels for	Sales	%	Sales	%	Sales		Sales	%
	(in billions of Won, except for percentages)				(in millions of US$)			
Televisions	(Won) 1,163	14%	(Won) 2,805	28%	(Won) 4,939	US$	5,311	47%
Notebook Computers	2,119	25	2,114	21	2,167		2,330	20
Desktop Monitors	4,662	56	4,740	47	2,907		3,126	27
Other Applications[1] [2]	381	5	417	4	611		657	6
Total	(Won) 8,325	100%	(Won) 10,076	100%	(Won) 10,624	US$	11,424	100%

(1) Includes, among others, panels for handheld application products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

(2) Includes sales adjustments from gains and losses incurred from foreign exchange hedging activities, which were minimal for the years ended December 31, 2004 and December 31, 2005, respectively, but amounted to (Won)171.1 billion (US$184.0 million), or 1.6% of total revenue, for the year ended December 31, 2006.

The following table sets forth our sales volume by product category for the periods indicated and as a percentage of our total panels sold:

	Year Ended December 31,					
	2004		2005		2006	
	Number of		Number of		Number of	
Panels for	Panels	%	Panels	%	Panels[2]	%
	(in thousands, except for percentages)					
Televisions	2,401	5%	6,168	6%	12,649	10%
Notebook Computers	9,125	17	13,933	14	21,089	17
Desktop Monitors	15,391	29	23,787	24	20,125	16
Other Applications[1]	25,330	49	54,933	56	69,723	57
Total	52,247	100%	98,821	100%	123,586	100%

(1) Includes, among others, panels for handheld application products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment. Also includes sales of parts and accessories.

(2) Includes only finished goods sold. Sales of semi-finished goods which require additional processing have been excluded.

The following table sets forth our average selling price per panel by markets for the periods indicated:

	Average Selling Price[1]

	Year Ended December 31,			
	2004	2005	2006	2006
Televisions	(Won) 484,382	(Won) 454,748	(Won) 390,457	US$ 420
Notebook Computers	232,219	151,687	102,752	110
Desktop Monitors	302,904	199,283	144,444	155
Other Applications[2]	15,042	7,585	8,769	9

(1) Average selling price for each market represents sales per market divided by unit sales per market.

(2) Includes, among others, panels for handheld application products, including mobile phones and personal digital assistants, and industrial and other applications, including entertainment systems, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment.

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The overall average selling price of our display panels (including small panel applications) per square meter of net display area, which is derived by dividing total sales revenues by total square meters of net display area shipped, decreased by 29.7% from US$2,984 per square meter of net display area in 2004 to US$2,097 in 2005 and further decreased by 25.8% to US$1,555 in 2006.

Critical Accounting Policies

The preparation of our financial statements and related disclosures in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements and related disclosures. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions, and they require our management to make the most difficult, subjective or complex judgments.

Income Taxes

We currently have significant deferred income tax assets, including tax credits, that may be used to offset taxable income in future periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income sufficient to utilize these tax credits before their expiration. In our evaluation of future utilization of income tax assets, if current results suggest that it is more likely than not that a portion or all of the deferred income tax assets will not be realized before their expiration, a valuation allowance will be recognized. The change in the valuation allowance in any period is included in the calculation of income tax provision. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and expiration of tax credits. If we continue to operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if our operations were to become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. During the year ended December 31, 2006, we recorded a valuation allowance of (Won)159.5 billion (US$171.5 million), which relates to tax credits that are expected to expire based on our future taxable income projections. Previously, we did not record any valuation allowance relating to our deferred income tax assets.

Changes in our evaluation of our deferred income tax assets from period to period could have a significant effect on our net results and financial condition.

Allowance for Accounts Receivable

We evaluate our outstanding accounts receivable balance on a regular basis to determine whether to record an allowance for doubtful accounts. Our evaluation includes an analysis of the number of days outstanding for each outstanding account receivable and our historical experience. We provide an allowance for doubtful accounts based on the aggregate estimated collectibility of our accounts receivable.

Warranty Reserve

We record warranty liabilities for the estimated costs that we may incur under our basic limited warranty for our products. This warranty covers defective products and is normally valid for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect our warranty liability include historical and anticipated rate of warranty claims on repairs and cost per claim to satisfy our warranty obligation. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Long-Lived Assets: Useful Lives, Valuation and Impairment

Property, plant and equipment are recorded at cost less accumulated depreciation over the estimated useful lives of the individual assets, with depreciation calculated on a straight line basis. The determination of an asset s useful life requires judgment based on our historical and anticipated use of the asset. Since 1999, all new machinery, equipment and vehicles are being depreciated on a straight-line basis over four years.

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We review our long-lived assets and intangible assets that do not have indefinite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When aggregate undiscounted future cash flows are less than the carrying value of the asset, an impairment loss is recognized based on the fair value of the asset. Fair value is determined using a variety of alternative sources, including sales to third parties, comparison to other assets with a similar use and the preparation of discounted future cash flows. The determination of undiscounted future cash flows and fair value requires our judgments and assumptions about future operations. The determination of an asset s useful life, and the potential impairment of our long-lived assets could have a material effect on our results of operations.

Description of Certain Statement of Income Items

Sales

Our sales are derived primarily from sales of TFT-LCD panels. We also derive a small amount of revenues from backlight units and other parts and accessories that we sell to third parties. Prices for our TFT-LCD panels are generally determined based on prevailing market conditions and our negotiations with end-brand customers, which take into account the complexity of the product specifications, the labor and technology involved in the design or production processes and the strength and history of our relationship with the end-brand customer.

Cost of Sales

Our cost of sales consists principally of:

- costs of raw materials, such as glass substrates, liquid crystal materials, color filters, polarizers, backlight units and driver integrated circuits;
- manufacturing and overhead costs, consisting mainly of depreciation expenses, product development costs directly associated with production at our fabrication facilities and module production plants, including salaries and bonuses, and amortization of fees related to intellectual property rights; and
- labor costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, bonuses and retirement pay to selling and administrative staff, research and development expenses, warranty expenses and shipping and handling cost. Research and development expenses consist primarily of salaries paid to research and development personnel at our research and development center in Anyang, Korea, and, to a lesser extent, expenses relating to the depreciation and maintenance of the equipment and materials used at the research and development center in Anyang, Korea.

Operating Results

TFT-LCD technology is currently the most widely used flat panel display technology and, according to DisplaySearch, TFT-LCD display products accounted for approximately 75.2% of total flat panel display market revenues in 2006. Since mass production of TFT-LCD products began in the 1990s, TFT-LCD has emerged as the dominant technology for notebook computers, captured increasing market share in desktop monitors and experienced high growth in penetrating the television market. This trend has primarily been driven by certain attractive physical (slimness, flatness, lighter weight, portability), electrical (lower power consumption, lower radiation) and visual (higher resolution, more stable picture quality, no flickering) attributes of TFT-LCD products. The increase in our sales from (Won)8,324.8 billion in 2004 to (Won)10,075.6 billion in 2005 and (Won)10,624.2 billion (US$11,423.9 million) in 2006 reflects the rapidly expanding TFT-LCD display market. Advances in TFT-LCD technology and broader applications for TFT-LCD display products continue to present new and profitable opportunities for TFT-LCD manufacturers. We continually adjust our product mix to include emerging large display area product categories which typically command higher prices. On an annual basis, our gross margin has steadily declined from 25.0% in 2004 to 10.0% in 2005 and (2.7)% in 2006 due to unfavorable market conditions, principally decreases in our average selling prices.

All of our related party transactions are conducted on an arm s-length basis. Our total purchases of materials, equipment, components and services from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to 21.2% of our total purchases of materials, equipment, components and services in 2004, 13.7% (excluding services purchased from GS Engineering & Construction which, as of January 2005, is no longer an affiliated company of the LG Group) in 2005 and 16.5% in 2006. Our purchases of materials, equipment and components from LG International and its subsidiaries amounted to 22.4% of our total material, equipment and component purchases in 2004, 16.7% in 2005 and 10.7% in 2006. Our purchases of material, equipment and components from LG International and its subsidiaries as well as unaffiliated vendors depend primarily on the level of our capital expenditures.

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The following table shows some of our results of operations data and as a percentage of our sales for the periods indicated:

	Year Ended December 31,							
	2004	%	2005	%	2006	2006	%
	(in billions of Won, except for percentages)					(in millions of US$, except for percentages)	
Sales	(Won) 8,325	100%	(Won) 10,076	100%	(Won) 10,624	US$ 11,424	100%
Cost of sales	6,246	75	9,070	90	10,910	11,731	103
Gross profit (loss)	2,079	25	1,006	10	(286)	(307)	(3)
Selling, general and administrative expenses	319	4	528	5	596	641	5
Operating income (loss)	1,760	21	478	5	(882)	(948)	(8)
Other income (expense)	(18)	0	(73)	(1)	(53)	(57)	(1)
Income (loss) before income taxes	1,742	21	405	4	(935)	(1,005)	(9)
Provision (benefit) for income taxes	38	1	(137)	(1)	(242)	(260)	(2)
Net income (loss)	(Won) 1,704	20%	(Won) 542	5%	(Won) (693)	US$ (745)	(7)%

Comparison of 2006 to 2005

Sales

Our sales increased by 5.4% from (Won)10,075.6 billion in 2005 to (Won)10,624.2 billion (US$11,423.9 million) in 2006. Increases in unit sales of our large-size panels for televisions were the primary contributing factors to this increase, offset by decreases in unit sales of our large-size panels for desktop monitors and a decrease in the average selling price of our panels. In particular:

- unit sales of 32.0-inch panels for televisions increased by more than two-fold from 1.4 million panels in 2005 to 3.5 million panels in 2006;
- unit sales of 42.0-inch panels for televisions increased by more than nine-fold from 0.2 million panels in 2005 to 1.8 million panels in 2006;
- unit sales of 37.0-inch panels for televisions increased by more than three-fold from 0.7 million panels in 2005 to 2.1 million panels in 2006;
- unit sales of 17.0-inch panels for desktop monitors decreased by 37.5% from 12.8 million panels in 2005 to 8.0 million panels in 2006; and
- unit sales of 15.0-inch panels for desktop monitors decreased by 39.3% from 2.8 million panels in 2005 to 1.7 million panels in 2006.

The total unit sales of panels for televisions increased by 105.1% from approximately 6.2 million in 2005 to 12.6 million in 2006. Total sales attributable to television panels increased by 76.1% from approximately (Won)2,805.0 billion in 2005 to (Won)4,938.9 billion in 2006. Growth in total sales of panels for televisions primarily reflected increased demand for larger- and wider-sized panels, which more than offset a decrease in the average selling price for our television panels in 2006.

While the total unit sales of panels for notebook computers increased by 51.4% from approximately 13.9 million in 2005 to 21.1 million in 2006, the total unit sales of panels for desktop monitors decreased by 15.4% from approximately 23.8 million in 2005 to 20.1 million in 2006. Total sales attributable to panels for notebook computers increased by 2.5% from approximately (Won)2,113.5 billion in 2005 to (Won)2,166.9 billion in 2006, while total sales attributable to panels for desktop monitors decreased by 38.7% from approximately (Won)4,740.4 billion in 2005 to (Won)2,906.9 billion in 2006. The increase in total sales of panels for notebook computers is due primarily to growing market demand for larger-sized panels, particularly 15.4-inch wide-format for notebook computers. The decrease in total unit sales of panels for desktop monitors primarily reflected our strategic capacity allocation among desktop monitor and notebook computer markets based on our assessment of the relative profitability of notebook computer display panels compared with display panels for desktop monitors.

The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for our major product categories from 2005 to 2006. The average selling price of panels for televisions decreased 14.1% from (Won)454,748 per panel in 2005 to (Won)390,457 (US$420) in 2006, the average selling price of panels for notebook computers decreased 32.3% from (Won)151,687 per panel in 2005 to (Won)102,752 (US$110) in 2006 and the average selling price of panels for desktop monitors decreased 27.5% from (Won)199,283 per panel to (Won)144,444 (US$155) over the same period.

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Cost of Sales

Cost of sales increased by 20.3% from (Won)9,069.8 billion in 2005 to (Won)10,910.3 billion (US$11,731.5 million) in 2006. As a percentage of sales, cost of sales increased from 90.0% in 2005 to 102.7% in 2006. The increase in our cost of sales in 2006 was attributable primarily to increases in:

- raw material costs, resulting from an overall increase in sales volume, especially of large-size panels, partially offset by our ongoing raw material cost reduction efforts;
- depreciation expenses, resulting from the commencement of depreciation of P7, which began mass production in January 2006, partially offset by lower depreciation of P1, P2, P3 and P4;
- overhead costs, primarily resulting from expenses related to expansion of existing facilities and expenses due to increased production capacity, including utility fees, supply costs and freight and insurance expenses; and
- labor costs, resulting mainly from hiring of employees for P7.

As a percentage of our total cost of sales, raw material costs, depreciation expenses, overhead costs and labor costs all increased slightly from 2005 to 2006.

Cost of sales per panel, which is derived by dividing total cost of sales by total number of panels sold, decreased by 3.8% from (Won)91,780 per panel in 2005 to (Won)88,280 (US$95) in 2006 reflecting our ongoing cost reduction efforts, particularly in managing raw material costs by procuring raw materials on a large scale at favorable prices from strategic suppliers and increases in unit sales of other small and medium-sized application products, which are generally less costly to produce than panels in our other product categories. Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 14.6% from US$1,904 per square meter of net display area in 2005 to US$1,627 in 2006. In 2006, we continued to improve production efficiency at our fabs, produce color filters in-house and reduce common components and processing steps in the manufacturing process.

Gross Profit (Loss) and Gross Margin

As a result of the cumulative effect of the reasons explained above, we recorded a gross loss of (Won)286.1 billion (US$307.6 million) in 2006 compared to a gross profit of (Won)1,005.7 billion in 2005 and our gross margin declined from 10.0% to (2.7)% in 2006 over the same period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 12.8% from (Won)528.1 billion in 2005 to (Won)595.8 billion (US$640.6 million) in 2006. As a percentage of sales, our selling, general and administrative expenses increased from 5.2% in 2005 to 5.6% in 2006. The increase in selling, general and administrative expenses in 2006 was attributable primarily to increases in:

- research and development expenses, consisting primarily of salaries paid to research and development personnel at our research and development center in Anyang, resulting from an increase in the number of research and development employees in Anyang;
- warranty expenses, resulting from providing services and replacement parts for defective products sold to customers;
- loss from disposal of accounts receivable to financial institutions;

fee and commission expenses, primarily due to increases in legal fees related to our patent litigations;

rent and lease expenses, primarily due to increases in expenses relating to office lease and office equipment lease; and

salaries, bonuses and retirement pay, resulting from an increase in the number of selling and administrative staff hired to meet the operating demands of P6 and P7.

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The following table shows selling, general and administrative expenses broken down by major components for each of the years in the two-year period ended December 31, 2006:

	Year Ended December 31,	
	2005	2006
	(in billions of Won)	
Salaries and bonus	(Won) 61.6	(Won) 67.8
Retirement allowance	4.6	5.6
Employee benefit	11.0	9.8
Transportation	187.6	188.8
Depreciation	10.5	7.0
Insurance	6.8	5.3
Travel	8.8	9.3
Fee and commission	64.6	71.8
Advertising	21.9	24.1
Sales promotion	14.7	11.3
Overseas market development	8.8	5.3
Research and development	55.4	81.2
Others	71.8	108.5
Total	(Won) 528.1	(Won) 595.8

Operating Income (Loss) and Operating Margin

As a result of the cumulative effect of the reasons explained above, we recorded an operating loss of (Won)881.8 billion (US$948.2 million) in 2006 compared to an operating income of (Won)477.6 billion in 2005. Our operating margin decreased from 4.7% to (8.3)% over the same period.

Other Income (Expense)

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). Our total other expense decreased by 27.1% from (Won)72.7 billion in 2005 to (Won)53.0 billion (US$57.0 million) in 2006, primarily due to:

- change from net foreign exchange loss of (Won)23.6 billion in 2005 to net foreign exchange gain of (Won)52.4 billion (US$56.3 million) in 2006 as a net result of a (Won)91.2 billion foreign currency translation gain in 2006 due to appreciation of the Korean Won against the U.S. dollar and our use of foreign exchange forward contracts which mitigated the impact of foreign currency gains; and
- an increase in royalty income from patent licensing arrangements.

The effect of net foreign exchange gain and an increase in royalty income was partially offset by an increase in net interest expense from (Won)56.9 billion in 2005 to (Won)140.3 billion (US$150.8 million) in 2006 primarily due to a significant increase in interest expense from (Won)107.5 billion in 2005 to (Won)169.6 billion (US$182.4 million) in 2006 reflecting increased levels of long-term debt over the same period and a decrease in capitalization of interest.

Benefit for Income Taxes

We reported income tax benefit of (Won)242.1 billion (US$260.3 million) in 2006 and (Won)136.7 billion in 2005. This change was primarily due to the loss before income taxes we recorded in 2006 compared to the income before income taxes that we generated in 2005 and the effects of our application of (Won)113.0 billion (US$121.5 million) in investment tax credit.

Net Income (Loss)

As a result of the cumulative effect of the reasons explained above, we recorded a net loss of (Won)692.8 billion (US$744.9 million) in 2006 compared to a net income of (Won)541.6 billion in 2005.

Comparison of 2005 to 2004

Sales

Our sales increased by 21.0% from (Won)8,324.8 billion in 2004 to (Won)10,075.6 billion in 2005. Significant increases in unit sales of our large-size panels for televisions were the primary contributing factors to this increase. In particular:

- unit sales of 32.0-inch panels for televisions increased by more than ten-fold from 0.1 million panels in 2004 to 1.4 million panels in 2005;

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- unit sales of 26.0-inch panels for televisions increased by more than three-fold from 0.3 million panels in 2004 to 1.1 million panels in 2005;

- unit sales of 37.0-inch panels for televisions increased by more than twenty-fold from 27,000 panels in 2004 to 0.7 million panels in 2005; and

- unit sales of 42.0-inch panels for televisions increased by more than twenty-fold from 8,000 panels in 2004 to 0.2 million panels in 2005.

The total unit sales of panels for televisions increased by 156.9% from approximately 2.4 million in 2004 to 6.2 million in 2005. Total sales attributable to television panels increased by 141.2% from approximately (Won)1,162.8 billion in 2004 to (Won)2,805.0 billion in 2005. Growth in total sales of panels for televisions primarily reflected increased demand for larger- and wider-sized panels, which more than offset a decrease in the average selling price for our television panels in 2005.

While the total unit sales of panels for notebook computers and desktop monitors increased significantly in 2005, sales attributable to panels for notebook computers were flat and sales attributable to panels for desktop monitors increased by only 1.7% due to decreases in their average selling prices. The increase in total unit sales of panels for notebook computers and desktop monitors primarily reflected growing market demand for larger-sized panels, particularly 15.0-inches or larger for notebook computers and 17.0-inches or larger for desktop monitors.

The effect of the overall increase in unit sales was partially offset by a decrease in the average selling price of panels for notebook computers and televisions from 2004 to 2005. The average selling price of panels for notebook computers decreased 34.7% from (Won)232,219 in 2004 to (Won)151,687 in 2005, the average selling price of panels for desktop monitors decreased 34.2% from (Won)302,904 in 2004 to (Won)199,283 in 2005 and the average selling price of panels for televisions decreased 6.1% from (Won)484,382 to (Won)454,748 over the same period.

Cost of Sales

Cost of sales increased by 45.2% from (Won)6,246.2 billion in 2004 to (Won)9,069.8 billion in 2005. As a percentage of sales, cost of sales increased from 75.0% in 2004 to 90.0% in 2005. The increase in our cost of sales in 2005 was attributable primarily to increases in:

- raw material costs, resulting from an overall increase in sales volume, especially of large-size panels, partially offset by our ongoing raw material cost reduction efforts;

- depreciation expenses, resulting from the commencement of depreciation of P6, which began mass production in August 2004, partially offset by lower depreciation of P1, P2 and P3;

- overhead costs, primarily resulting from expenses related to expansion of existing facilities and expenses due to increased production capacity, including utility fees, supply costs and freight and insurance expenses; and

- labor costs, resulting from an increase in the number of production employees hired to meet the operating demands of P6 and an increase in wage rates.

As a percentage of our total cost of sales, raw material costs decreased slightly from 2004 to 2005, as labor costs decreased slightly but depreciation expenses increased slightly, from 2004 to 2005.

Cost of sales per panel decreased by 23.2% from (Won)119,552 in 2004 to (Won)91,780 in 2005 reflecting our ongoing cost reduction efforts, particularly in managing raw material costs by procuring raw materials on a large scale at favorable prices from strategic suppliers and significant increases in unit sales of other small-sized application products, which are generally less costly to produce than panels in our other product categories. In 2005, we continued to improve production efficiency at our fabs, produce color filters in-house and reduce common components and processing steps in the manufacturing process.

Gross Profit (Loss) and Gross Margin

As a result of the cumulative effect of the reasons explained above, our gross profit decreased 51.6% from (Won)2,078.6 billion in 2004 to (Won)1,005.7 billion in 2005 and our gross margin declined from 25.0% to 10.0% over the same period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 65.9% from (Won)318.4 billion in 2004 to (Won)528.1 billion in 2005. As a percentage of sales, our selling, general and administrative expenses increased from 3.8% in 2004 to 5.2% in 2005. The increase in selling, general and administrative expenses in 2005 was attributable primarily to increases in:

shipping and handling cost, which is based on unit weight, resulting from increased sales volume, especially of larger size panels, and, to a lesser extent, increases in shipping rates, fuel surcharges and sales to more geographically distant markets such as Europe;

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research and development expenses, consisting primarily of salaries paid to research and development personnel at our research and development center in Anyang, resulting from an increase in the number of research and development employees in Anyang and an increase in wage rates;

salaries, bonuses and retirement pay, resulting from an increase in the number of selling and administrative staff hired to meet the operating demands of P6 and an increase in wage rates;

advertising expenses, which include fees paid to LG Corp. and Philips Electronics for the use of the LG and Philips brand logos, which we began paying in 2005; and

fee and commission expenses, primarily consisting of legal fees related to our patent litigation and arising in connection with the establishment of our Polish subsidiary.

The following table shows selling, general and administrative expenses broken down by major components for each of the years in the two-year period ended December 31, 2005:

	Year Ended December 31,	
	2004	2005
	(in billions of Won)	
Salaries and bonus	(Won) 53.7	(Won) 61.6
Retirement allowance	3.5	4.6
Employee benefit	16.9	11.0
Transportation	94.6	187.6
Depreciation	6.9	10.5
Insurance	3.6	6.8
Travel	7.6	8.8
Fee and commission	36.7	64.6
Advertising	5.5	21.9
Sales promotion	5.0	14.7
Overseas market development	7.4	8.8
Research and development	42.3	55.4
Others	34.7	71.8
Total	(Won) 318.4	(Won) 528.1

As a percentage of our total selling, general and administrative expenses, salaries, bonuses and retirement pay, as well as research and development expenses decreased from 2004 to 2005, while shipping and handling cost increased from 2004 to 2005.

Operating Income (Loss) and Operating Margin

As a result of the cumulative effect of the reasons explained above, our operating income decreased by 72.9% from (Won)1,760.1 billion in 2004 to (Won)477.6 billion in 2005. Our operating margin decreased from 21.1% to 4.7% over the same period.

Other Income (Expense)

Other income (expense) includes primarily interest income (expense) and net foreign exchange gain (loss). Our total other expense increased nearly four-fold from (Won)18.3 billion in 2004 to (Won)72.7 billion in 2005, primarily due to:

an increase in net interest expense from (Won)38.1 billion in 2004 to (Won)56.9 billion in 2005 primarily due to a significant increase in interest expense from (Won)58.0 billion in 2004 to (Won)107.5 billion in 2005 reflecting increased levels of long-term debt over the same period, which more than offset an increase in interest income from (Won)20.0 billion in 2004 to (Won)50.6 billion in 2005, which was due to increased levels of cash holdings over the same period; and

change from net foreign exchange gain of (Won)19.1 billion in 2004 to net foreign exchange loss of (Won)23.6 billion in 2005 primarily due to the decrease in foreign currency translation gain on our foreign-currency debt resulting from a deceleration in the appreciation of the Korean Won against the U.S. dollar in 2005.

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Provision (Benefit) for Income Taxes

We reported income tax benefit of (Won)136.7 billion in 2005, while in 2004 we reported a provision for income taxes of (Won)38.1 billion. This change was primarily due to the lower income before income taxes we recorded in 2005 and the effects of our application of (Won)176.0 billion in investment tax credit.

Net Income (Loss)

As a result of the cumulative effect of the reasons explained above, our net income decreased by 68.2% from (Won)1,703.7 billion in 2004 to (Won)541.6 billion in 2005.

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

Our principal sources of cash have been cash flow from our operating activities and debt and equity financing. We had cash and cash equivalents of (Won)1,361.2 billion, (Won)1,579.4 billion and (Won)954.4 billion (US$1,026.2 million) as of December 31, 2004, 2005 and 2006, respectively. Our primary use of cash has been to fund capital expenditures related to the expansion of our production capacity, including the construction and ramping-up of new fabs and the acquisition of new equipment. We also use cash flow from operations for our working capital requirements, servicing our debt payments and payment of technology license fees. We expect our cash requirements for 2007 to be primarily for capital expenditures and repayment of maturing debt.

Although we have historically been able to satisfy our cash requirements from cash flow from operations and debt and equity financing, our ability to continue to do so will be affected by our ability to maintain and improve our margins and, in the case of external financing, market conditions, which in turn may be affected by several factors outside of our control. We re-evaluate our capital requirements regularly in light of our cash flow from operations, the progress of our expansion plans and market conditions. To the extent that we do not generate sufficient cash flow from our operations to meet our capital requirements, we may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, including the issuance of equity, equity-linked and other debt securities.

Our net cash provided by operating activities amounted to (Won)2,742.9 billion in 2004, (Won)2,108.7 billion in 2005 and (Won)1,866.0 billion (US$2,006.5 million) in 2006. The decrease in net cash provided by operating activities in 2005 and 2006 was due primarily to the decrease in net income. Our net income decreased from (Won)1,703.7 billion in 2004 to (Won)541.6 billion in 2005 and we recorded a net loss of (Won)692.8 billion (US$744.9 million) in 2006. Accounts receivable increased by (Won)400.8 billion in 2005, primarily as a result of an increase in sales revenues and decreased by (Won)409.1 billion (US$439.9 million) in 2006, due primarily to a decrease in the average collection period of accounts receivable and an increase in accounts receivable sales on non-recourse basis, such as asset-backed commercial paper, accounts receivable factoring and invoice discount. Inventories decreased by (Won)114.5 billion in 2005, primarily as a result of continued improvements in inventory management coupled with increased customer demand and increased by (Won)362.0 billion (US$389.3 million) in 2006. The change in transportation method from air to sea for certain regions as a cost reduction measure contributed to the increase in inventories in 2006.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabs and our cost reduction measures, contribute to the fluctuations in our inventory levels from period to period. We began mass production at P4 in March 2002 and at P6 in August 2004 and at P7 in January 2006. In 2005, strong demand and an expanding TFT-LCD market caused a 14.2% decrease in our inventory levels from year-end 2004. In 2006, the change in transportation method from air to sea for certain regions as a cost reduction measure contributed to a 52.5% increase in our inventory levels from year-end 2005. Inventories comprised the following for the periods indicated:

	As of December 31,			
	2004	2005	2006	
	(in billions of Won and millions of US$)			
Finished Goods	(Won) 511.0	(Won) 328.8	(Won) 571.8	US$ 614.8
Work in process	124.4	166.9	264.4	284.3
Raw Materials	168.7	193.9	215.4	231.6
Total	(Won) 804.1	(Won) 689.6	(Won) 1,051.6	US$ 1,130.7

Our net cash used in investing activities amounted to (Won)3,892.8 billion in 2004, (Won)4,197.9 billion in 2005 and (Won)3,067.2 billion (US$3,298.1 million) in 2006. Net cash used in investing activities primarily reflected the substantial capital expenditures we have invested in connection with the expansion of our production capacity in recent years, mainly relating to construction of our new fabrication facilities and acquisition of new equipment. These cash outflows from capital expenditures amounted to (Won)3,885.7 billion, (Won)4,166.2 billion and (Won)3,076.0 billion (US$3,307.5 million) in 2004, 2005 and

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2006, respectively. We intend to fund our capital requirements associated with capacity expansion projects, including the expansion of production capacity of P7, the construction of P8 and our new Guangzhou plant and equipping of our new Polish plant, with cash flow from operations and other financing activities, such as external long-term borrowings or securities offerings. Through the end of 2006, we had used internally generated cash and long-term financing to fund our expansion projects, including expansion of production capacity of P7 and the construction of our new Polish plant.

We currently expect our capital expenditures on a delivery basis to be approximately (Won)1.0 trillion and our cash outflows for capital expenditures to be approximately (Won)1.7 trillion in 2007, primarily to fund capacity expansion of P7, the construction of P8 and our new Guangzhou plant, the equipping of the new module production plant in Poland and improvements to our pre-existing facilities. However, our overall expenditure levels and our allocation among projects are subject to many uncertainties. We review the amount of our capital expenditures and may make adjustments from time to time based on cash flow from operations, the progress of our expansion plans and market conditions.

Our net cash provided by financing activities amounted to (Won)2,008.8 billion in 2004, (Won)2,307.7 billion in 2005 and (Won)576.6 billion (US$620.0 million) in 2006. The net cash provided by financing activities in 2006 reflects primarily proceeds to us from the issuance of (Won)400.0 billion in domestic debentures and long-term loans of US$500.0 million and (Won)156.0 billion, respectively. The net cash provided by these financing activities was partially offset by a repayment of US$200.0 million of U.S. dollar-denominated floating rate notes, term notes and term loan, repayment of domestic debentures of (Won)200.0 billion and other long-term bank loans. We have not declared any dividends since 2001.

We had a total of (Won)483.2 billion, (Won)309.0 billion and (Won)250.1 billion (US$268.9 million) of short-term borrowings outstanding as of December 31, 2004, 2005 and 2006, respectively. The weighted average interest rate under the terms of these short-term borrowings was 5.5% as of December 31, 2006. All of our short-term borrowings are loans from local and foreign banks extended to us or our subsidiaries.

We have in place overdraft agreements with various banks in the amount of (Won)59.0 billion that are renewable on a yearly basis. There were no drawdowns under these agreements as of December 31, 2006. In March 2007, our subsidiary in Wroclaw, Poland entered into a term loan credit facility with a syndicate of banks in the amount of 140.0 million. To date, 50.0 million was drawn on the term loan credit facility. In addition, we also maintain revolving credit facilities with certain banks in the aggregate amount of approximately (Won)293.0 billion and long-term credit facilities in the aggregate amount of approximately (Won)279.0 billion. As of December 31, 2006, we had no amounts outstanding under the revolving credit facilities and the long-term credit facilities. As of March 31, 2007, we had (Won)225.8 billion outstanding under the long-term credit facilities.

As of December 31, 2006, we had outstanding long-term debt including current portion and discounts on debentures in the amount of (Won)3,855.7 billion (US$4,145.9 million), primarily consisting of (Won)2,133.8 billion of Korean Won-denominated debentures, US$475.0 million convertible bonds, US$200.0 million of U.S. dollar-denominated senior floating rate notes, US$845.0 million of U.S. dollar-denominated long-term loan, (Won)253.0 billion of Korean Won-denominated long-term loan and RMB260.0 million of RMB-denominated long-term loan.

As of December 31, 2006, US$150.0 million and US$100.0 million of our US$1,045.0 million aggregate principal amount of U.S. dollar-denominated floating rate long-term borrowings are hedged against interest rate fluctuations and foreign exchange rate and interest rate fluctuations, respectively.

We issued (Won)300 billion principal amount of five-year debentures in November 2002, (Won)250 billion principal amount of five-year debentures in October 2003, (Won)300 billion principal amount of five-year debentures in May 2004, (Won)300 billion principal amount of five-year debentures in November 2004, (Won)400 billion principal amount of five-year debentures in March 2005, (Won)200 billion principal amount of five-year debentures in December 2005, (Won)200 billion principal amount of five-year debentures in May 2006 and (Won)200 billion principal amount of five-year debentures in June 2006.

Terms of our U.S. dollar-denominated senior floating rate notes and Korean Won-denominated debentures contain provisions that would trigger a requirement for early payment. The principal and interest under these obligations may be accelerated if there is a default, including defaults triggered by failure to comply with financial covenants and cross defaults triggered under our other debt obligations.

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Our debt obligations as of December 31, 2006 are set forth below:

Short-Term Debt Obligations as of December 31, 2006

Borrower	Date of Issuance	Securities	Amount as of December 31, 2006 (in billions of Won)		Original Principal Amount (in millions of US$, millions of Japanese Yen, millions of and millions of PLN)		Principal Underwriters, Purchasers	Maturity
LG.Philips LCD Nanjing	5/29/06	Short Term Loan	(Won)	9	US$	10	Bank of China	3/28/07
LG.Philips LCD America	12/4/06	Short Term Loan	(Won)	3	US$	3	Comerica Bank	3/5/07
LG.Philips LCD Japan	12/29/06	Short Term Loan	(Won)	12	¥	1,520	Mizuho Bank and other financial institutions	1/5/07-1/31/07
LG.Philips LCD Poland	1/11/06	Overdraft Facility	(Won)	22		8	ABN AMRO and Citigroup	Renewable on a yearly basis
					PLN	39		
LG.Philips LCD	11/24/06-12/29/06	Export Bill Discount	(Won)	204	US$	219	Woori Bank and other financial institutions	1/22/07-2/20/07
Sub-total			(Won)	250				

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Long-Term Debt Obligations as of December 31, 2006

Borrower	Date of Issuance	Securities	Amount as of December 31, 2006 (in billions of Won)		Original Principal Amount (in billions of Won, millions of US$ and millions of RMB)		Principal Underwriters or Purchasers or Lender	Maturity
LG.Philips LCD	11/6/02	Debentures	(Won)	297	(Won)	300	SK Securities Co., Ltd., Korea Development Bank	11/6/07
LG.Philips LCD	10/2/03	Debentures	(Won)	248	(Won)	250	SK Securities Co., Ltd., Woori Investment & Securities	10/2/08
LG.Philips LCD	5/13/04	Debentures	(Won)	297	(Won)	300	SK Securities Co., Ltd., Woori Investment & Securities, Korea Investment & Securities Co., Ltd.	5/13/09
LG.Philips LCD	11/23/04	Debentures	(Won)	295	(Won)	300	Woori Investment & Securities, SK Securities Co., Ltd., Daewoo Securities Co., Ltd.	11/23/09
LG.Philips LCD	3/21/05	Debentures	(Won)	397	(Won)	400	Woori Investment & Securities, Hanwha Securities Co. Ltd.	3/21/10
LG.Philips LCD	12/14/05	Debentures	(Won)	200	(Won)	200	National Agricultural Cooperative Federation	12/14/10
LG.Philips LCD	5/29/06	Debentures	(Won)	200	(Won)	200	Hana Bank	5/30/11
LG.Philips LCD	6/23/06	Debentures	(Won)	200	(Won)	200	Woori Bank	6/23/11
LG.Philips LCD	8/28/03	Long Term Loan	(Won)	39	(Won)	59	Export-Import Bank of Korea	2/28/07-8/28/08 *2 year grace and 3 year installment payment
LG.Philips LCD	2/10/04	Long Term Loan	(Won)	49	(Won)	59	Export-Import Bank of Korea	2/10/07-2/10/09 *2 year grace and 3 year installment payment
LG.Philips LCD	7/28/05-10/26/06	Long Term Loan	(Won)	15	(Won)	15	Shinhan Bank	9/15/09-6/15/15 *5 year grace and 5 year installment payment for (Won)9 billion and 3 year grace and 3 year installment payment for (Won)6 billion
LG.Philips LCD	3/30/06	Long Term Loan	(Won)	150	(Won)	150	Korea Development Bank	6/30/08-3/30/13 *2 year grace and 5 year installment payment
LG.Philips LCD	10/8/04	Floating Rate Notes	(Won)	186	US$	200	ABN AMRO Bank	10/8/07
LG.Philips LCD	4/19/05-4/28/05	Convertible Bonds	(Won)	466	US$	475	Morgan Stanley, Citigroup, UBS	4/19/10 * put option on 10/19/07
LG.Philips LCD	12/14/04	Long Term Loan	(Won)	45	US$	48	Export-Import Bank of Korea	6/14/07-12/14/10 *2 year grace and 4 year installment payment
LG.Philips LCD	3/30/05-9/29/05	Long Term Loan	(Won)	139	US$	150	Korea Development Bank	7/2/07-3/30/12 *2 year grace and 5 year installment payment

LG.Philips LCD	5/19/06-7/24/06	Long Term Loan	(Won)	186	US$	200	Kookmin Bank	5/19/11
LG.Philips LCD	8/28/06	Long Term Loan	(Won)	186	US$	200	Kookmin Bank	8/29/11
LG.Philips LCD	9/28/06	Long Term Loan	(Won)	93	US$	100	Mizuho Corporate Bank	9/28/11
LG.Philips LCD Nanjing	3/14/03-8/30/06	Long Term Loan	(Won)	168	RMB US$	260 147	Bank of China, China Construction Bank and other financial institutions	3/17/07-11/22/10
Sub-total			(Won)	3,856				
Current portion of long-term debt obligation			(Won)	565				
Long-term debt, excluding current portion of long-term debt			(Won)	3,291				
Debt obligation			(Won)	4,106				

* Current portion of long-term debt

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of our subsidiaries or other third parties as of December 31, 2006. In March 2007, we entered into a guarantee agreement with a syndicate of banks in connection with a 140.0 million term loan credit facility our subsidiary in Wroclaw, Poland entered into.

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Set forth below are the aggregate amounts, as of December 31, 2006, of our future contractual financing and licensing obligations under our existing debt and other contractual arrangements:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in millions of Won)		
Long-Term Debt, including current portion	(Won) 3,871,846	(Won) 567,799	(Won) 1,140,720	(Won) 2,109,813	(Won) 53,514
Operating Leases	3,670	1,549	1,690	431	
Fixed License Payment	197,713	50,022	44,527	34,388	68,776
Total Obligations	(Won) 4,073,229	(Won) 619,370	(Won) 1,186,937	(Won) 2,144,632	(Won) 122,290

In addition to fixed license payments listed above that we are obligated to make under certain technology license agreements, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amount of which are generally determined based on a percentage of sales of our TFT-LCD products.

Expenses relating to our license fees and royalty payments under existing license agreements were (Won)43.7 billion in 2004, (Won)47.1 billion in 2005 and (Won)30.1 billion (US$32.3 million) in 2006, representing 17.1% of our research and development expenses in 2004, 12.9% in 2005 and 6.9% in 2006. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

Material Related Party Transactions

We engage from time to time in a variety of transactions with related parties. See Item 7.B. Related Party Transactions.

We sell TFT-LCD panels, primarily large-size panels for televisions, notebook computers and desktop monitors and other applications, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis. Pricing and other principal terms of the sales to LG Electronics are negotiated on an arm s-length basis and are substantially the same as those for our non-affiliated end-brand customers. Sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to (Won)1,607.1 billion, or 19.3% of our sales, in 2004, (Won)1,821.5 billion, or 18.1% of our sales, in 2005 and (Won)1,729.3 billion (US$1,859.5 million), or 16.3% of our sales, in 2006.

We also sell large-size TFT-LCD panels for desktop monitors and televisions to Philips Electronics and its affiliates on a regular basis. Pricing and other principal terms of the sales are negotiated on an arm s-length basis and are substantially the same as those for our non-affiliated end-brand customers. Sales to Philips Electronics and its affiliates on an invoiced basis, which include sales to Philips Electronics as an end-brand customer and system integrator, amounted to (Won)1,210.9 billion, or 14.5% of our sales, in 2004, and (Won)1,323.6 billion, or 13.1% of our sales, in 2005 and (Won)1,331.4 billion (US$1,431.6 million), or 12.5% of our sales, in 2006.

We also purchase materials, including backlight units and driver integrated circuits, as well as other services, from Philips Electronics under a volume and price agreement. These purchases amounted to (Won)52.3 billion, (Won)52.2 billion and (Won)74.6 billion (US$80.2 million) in 2004, 2005 and 2006, respectively. These amounts include purchases from Philips Electronics semiconductor division until September 2006, which, as of October 2006, is no longer a division of Philips Electronics.

We sell our products to certain subsidiaries of LG International in regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to LG International and its subsidiaries on an aggregate basis amounted to 5.5%, 7.4% and 9.0% in 2004, 2005 and 2006, respectively. We sell our products to LG International and its subsidiaries at a market price determined on an arm s-length basis.

In addition, we procure a portion of our production materials, equipment and components from LG International s overseas subsidiaries in Japan, Europe and the United States. Purchase prices we pay to these subsidiaries and other terms of our transactions with them are determined on an arm s-length basis. Our purchases of materials, equipment and components from LG International and its subsidiaries amounted to (Won)1,652.4 billion, or 22.4% of our total material, equipment and component purchases, in 2004, (Won)1,338.1 billion, or 16.7%, in 2005 and (Won)1,006.1

billion (US$1,081.8 million), or 10.7%, in 2006. We also purchase raw materials, equipment, components and other materials or services necessary for our production process, construction materials as well as construction and engineering services from LG Electronics and its affiliated companies, including LG Chem Ltd. and GS Engineering & Construction Co., Ltd. As of January 2005, GS Engineering & Construction is no longer an affiliated company of the LG Group. Our total purchases of materials, equipment, components and services from LG Electronics and its affiliated

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companies, excluding LG International and its subsidiaries, amounted to (Won)1,747.2 billion, or 21.2% of our total purchases of materials, equipment, components and services, in 2004, (Won)1,258.6 billion, or 13.7%, in 2005 and (Won)1,551.1 billion (US$1,667.8 million), or 16.5%, in 2006.

Taxation

The effective statutory corporate income tax rate currently applicable to us is 14.3% for the first (Won)100 million of our taxable income and 27.5% for our taxable income in excess of (Won)100 million for each fiscal year beginning on or after January 1, 2005. Prior to its amendment in accordance with the Corporation Tax Law enacted in December 2003, the tax rate applicable to us was 16.5% and 29.7%, respectively. We have calculated our deferred income tax assets as of December 31, 2004 taking into consideration the change in effective tax rate beginning on January 1, 2005.

Tax Exemptions

Under the Special Tax Treatment Control Law of Korea, we are entitled, beginning in August 1999 when we registered Philips Electronics investment in us, to the following tax exemptions:

- an exemption from corporate income tax in an amount proportional to the percentage of foreign direct equity investment in us for the first seven taxable years following such investment and at one-half of that percentage for the three taxable years thereafter;

- an exemption from local taxes, such as registration tax and property tax, in an amount proportional to the percentage of foreign direct equity investment in us for the first five taxable years following such investment and at one-half of that percentage for the three taxable years thereafter (the exemption rate may be further increased and the applicable period further extended pursuant to local ordinances);

- a reduction, in an amount proportional to the percentage of the foreign direct equity investment in us for the first seven taxable years and at one-half of that percentage for three years thereafter, in withholding on dividends to foreign investors who directly acquired new shares issued by us through a foreign direct investment under the Foreign Investment Promotion Act of Korea; and

- 100% exemption for three taxable years from customs duties and value-added tax on capital equipment imported directly for use in our business, up to the amount of the foreign direct equity investment in us.

In 2006, as we recorded a net loss, we did not receive an income tax benefit as a result of Philips Electronics 32.87% weighted average ownership in us in 2006. Until 2008, we will lose 0.1375% of the tax exemption benefit with respect to net income generated from our TFT-LCD business for each 1% reduction in Philips Electronics ownership in us, assuming that the income tax rate applicable to us is the same as that in 2006. After 2008, we will no longer be eligible to receive this income tax exemption. Losses of portions of this tax exemption could negatively affect our results of operations.

Tax Credits

We are entitled to tax credits relating to certain investment and technology and human resources development under the Special Tax Treatment Control Law. Specifically, we are entitled to a tax credit of 10% for our capital investments made on or before June 30, 2003, 15% for our capital investments made on or before December 31, 2004, 10% for our capital investments made on or before December 31, 2005 and 7% for our capital investments made on or before December 31, 2007, each in proportion to the percentage of equity investment in us other than foreign direct equity investment. In addition, we are entitled to a tax credit of up to 40% of the increase in certain expenses incurred in connection with technology and human resources development over the average of such expenses during the previous four years.

Tax credits not utilized in the fiscal year during which the relevant investment was made may be carried forward over the next five years in the case of capital investments and five years in the case of investments relating to technology and human resources development. As of December 31, 2006, we had available deferred tax assets related to these credits in the amount of (Won)436.5 billion (US$469.3 million), of which (Won)159.5 billion (US$171.5 million) is unrealizable tax credits related to deferred tax assets and (Won)277.0 billion (US$297.8

million) may be utilized against future income tax liabilities through 2011.

Recognition of Deferred Income Tax Assets

We recognize deferred income tax assets (net of valuation allowance) to the extent that, in the judgment of management, utilization of the related tax benefits before their expiration is more likely than not. Our ability to utilize the future tax benefits related to our deferred tax assets depends on many factors, including an assessment of our ability to generate taxable income, the overall

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industry outlook and the outlook for the Korean economy. We value our deferred income tax assets on an ongoing basis, and make valuation allowances if, in our assessment, current results suggest that it is more likely than not that a portion or all of our deferred income tax assets will not be realized before their expiration. We determined that no valuation allowance was required as of December 31, 2004 and 2005. Conversely, we have determined that valuation allowance was required as of December 31, 2006.

As of December 31, 2006, we had (Won)610.1 billion (US$656.0 million) in net deferred income tax assets, including unused investment tax credits of (Won)436.5 billion (US$469.3 million), of which (Won)159.5 billion (US$171.5 million) consists of unrealizable tax credits related to deferred tax assets and (Won)277.0 billion (US$297.8 million) may be used to reduce tax payable through 2011.

Recent U.S. GAAP Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS No. 155), which amends FAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities* (FAS No. 133) and FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (FAS No. 140). FAS No.155 amends FAS No. 133 to narrow the scope of the exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. FAS No. 155 also amends FAS No.140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. FAS No. 155 is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006. We are currently evaluating the impact of this new standard but believe that it will not have a material impact on our financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 is applicable to all income tax positions accounted for under FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 addresses the determination of whether tax benefits (whether permanent or temporary) claimed or expected to be claimed on a tax return should be recorded in the financial statements. It provides a two-step structured approach to accounting for uncertainty in income taxes that provides specific guidance on recognition, measurement, and other aspects of reporting and disclosing uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We assess tax positions taken in the financial statements and evaluate quarterly for realizability on a more likely than not basis. We do not believe that the adoption of FIN 48 will have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating the impact of SFAS 157, but do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB No. 87, 88, 106 and 132(R)* (SFAS 158). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on the company s balance sheet, and changes in the funded status be reflected in comprehensive income, effective fiscal years ending after December 15, 2006. The standard also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for fiscal years ending after December 15, 2008. The adoption of SFAS 158 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under U.S. GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a significant impact on our consolidated financial position, results of operations or cash flows.

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

Research and Development

The TFT-LCD industry is subject to rapid technological changes. We believe that effective research and development is essential to maintaining our position as one of the industry s leading technology innovators. Our research and product development expenditures amounted to (Won)416.7 billion in 2004, (Won)564.7 billion in 2005 and (Won)737.6 billion (US$793.1 million) in 2006, representing 5.0% of our sales in 2004, 5.6% in 2005 and 6.9% in 2006. Included in these figures are product development costs directly associated with production at our fabrication facilities and module production plants, excluding depreciation expense, as well as research and development expenses, excluding depreciation expense, in the aggregate amount of (Won)244.2 billion in 2004, (Won)353.7 billion in 2005 and (Won)418.2 billion (US$450.0 million) in 2006, and capital expenditures related to research and development and manufacturing for research and development test runs in the amount of (Won)172.5 billion in 2004, (Won)211.0 billion in 2005 and (Won)319.4 billion (US$343.4 million) in 2006.

Our research and development activities primarily focus on the development of new and improved products. For example, in 2003, we successfully developed External Electrode Fluorescent Lamp, or EEFL, technology. EEFLs reduce the number of transformers required in inverter or backlight systems, thereby reducing material costs related to driver integrated circuits and making our assembly line more efficient. We also succeeded in developing the first 30-inch wide-format EEFL television panel in the world in 2004. Through the successful development of EEFL technology, we have achieved high cost reduction and greater efficiency in the production of our backlight systems. We also developed the largest 20.1-inch LTPS AMOLED in the world at the time in 2004, which was presented at FPD International 2004, an annual exhibition of flat panel displays. In addition, we developed a 15-inch display panel for notebook computers with the world s lowest power consumption and the highest brightness, as well as the world s largest 47-inch LED backlight TFT-LCD panel, at the time in 2005. We also succeeded in developing a TFT-LCD panel with 68.7 billion colors in 2005. In 2006, we developed a 100-inch panel for televisions, the largest TFT-LCD panel in the world at the time, and a 2-inch Quarter Video Graphic Array display panel with a thickness of 1.3 mm for mobile phones, the thinnest TFT-LCD panel in the world at the time.

We believe that the trends for display products in the future are the widespread use of affordable large-size flat panel products with higher performance qualities and the use of different types of display products for a variety of purposes, such as using flexible display panels in a range of products or using large-size display panels for public display or advertising. To meet the demands of the future trends, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the existing products and diversifying the use of display panels as new opportunities arise with the development of communication systems and information technology. Accordingly, we have developed long-term alternative technologies, such as LED backlight technology, which might provide improved black contrast and better color performance quality at lower cost. We have also developed copper line technology, a cutting edgy technology that takes advantage of copper s low electrical resistance to improve the transmission of video signals even across large-sized TFT-LCD screens, resulting in sharp image quality with minimal distortion. We were the first company to apply copper line technology to high resolution TFT-LCD panels. We are also further developing 120Hz driving technology based on copper line and other new circuit algorithms. 120Hz driving technology decreases motion blur by doubling the speed of the usual frame rate. In order to stay technologically ahead in the TFT-LCD industry, we are focusing on evolving our existing display panels so that they become slimmer and narrower and use less power, while developing new technology, such as multi-view TFT-LCD panels, which would allow viewers to enjoy different images from the same display panel depending on the angle each viewer is viewing from. At the same time, we plan to develop new markets for our existing display panels so that, for example, they can be used as part of interior design or for public advertising purposes. In addition, as the product lifecycle of flat panel displays is approaching maturity, we plan to further focus on developing a next generation flat panel display technology, such as AMOLED, that can replace existing liquid crystal display panels or plasma display panels.

In order to maintain our position as one of the industry s technology leaders, we believe it is important not only to increase direct spending on research and development, but also to manage our research and development capability effectively in order to successfully implement our long-term strategy. Therefore, we complement our in-house research and development capability with collaborations with universities and other third parties. For example, we provide project-based funding to both domestic and overseas universities as a means to recruit promising engineering students. We enter into joint research and development agreements from time to time with third parties for the development of technologies in specific fields. We also belong to several display industry consortia, and we receive annual government funding to support our research and development efforts. In addition to these collaborations, we may form strategic technology alliances with the research arms of LG Electronics or Philips Electronics, as well as suppliers and equipment makers in cluster industries, that is, industries related to the TFT-LCD industry, in order to enhance our capability to develop new technology. For example, we are pursuing joint development projects with LG Chem to further strengthen our competitiveness in display panel materials.

We have developed a research and development management system whereby we encourage our engineers to propose new projects freely and to implement rigorous evaluation criteria for each stage of project development. We select our projects primarily based on their feasibility and alignment with our research and development strategy, and we review the progress of all ongoing projects on a quarterly basis. As of

December 31, 2006, we employed 1,666 personnel in our research and development department.

While we primarily rely on our own capacity for the development of new technologies in the TFT-LCD design and manufacturing process, we rely on third parties for certain key technologies to enhance our technology leadership, as further described in Intellectual Property below.

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Intellectual Property

Overview

We currently hold a total of 5,285 patents, including 3,265 in Korea, 1,871 in the United States and 149 in Japan. These include patents for TFT-LCD manufacturing processes, products and applications. These patents will expire at various dates upon the expiration of their respective terms ranging from 2007 to 2022.

As part of our ongoing efforts to prevent infringements on our intellectual property rights and to keep abreast of critical technology developments by our competitors, we closely monitor patent applications in Korea, Japan and the United States. We also plan to initiate monitoring activities in China. We intend to continue to file patent applications, where appropriate, to protect our proprietary technologies.

We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship are our exclusive property.

License Agreements

We enter into license or cross-license agreements from time to time with third parties with respect to various device and process technologies to complement our in-house research and development. We engage in regular discussions with third parties to identify potential areas for additional licensing of key technologies.

Expenses relating to our license fees and royalty payments under existing license agreements were (Won)43.7 billion in 2004, (Won)47.1 billion in 2005 and (Won)30.1 billion (US$32.3 million) in 2006, representing 17.1% of our research and development expenses in 2004, 12.9% in 2005 and 6.9% in 2006. We received US$2.8 million, US$26.3 million and US$24.9 million in license fees from third parties, in 2004, 2005 and 2006, respectively, which amounts are recognized as an offset account against license-related prepaid expenses.

LG LCD, our predecessor, entered into a license agreement with the Lemelson Foundation in July 1999 for a non-exclusive, non-transferable license under certain patents owned by the Lemelson Foundation relating to the magnification process we utilize in our TFT-LCD manufacturing process. LG LCD paid a lump sum license fee, and its rights under the license agreement were assigned to us following the formation of the joint venture. Our license agreement with Lemelson Foundation will expire upon the last to expire of the patents filed by Lemelson Foundation on or before July 30, 1999. The license agreement is subject to early termination in the event of a material breach of the terms and covenants of the agreement.

We entered into a license agreement with Columbia University in July 2000 for a non-exclusive, non-transferable license under certain patents relating to low temperature polysilicon technology to develop, manufacture and sell certain TFT-LCD products. The license agreement provides for an upfront license fee and ongoing royalty payments at a percentage of our net sales of the licensed products. The agreement, which expires in October 2019, is subject to early termination upon the occurrence of certain events relating to the patents licensed under the agreement, whereby our royalty payments obligations will be reduced by 50%.

We entered into a license agreement with SEL in October 2005 for a non-exclusive and non-transferable license under certain patents relating to amorphous silicon thin film transistor technology for use in the development, manufacture and sale of certain TFT-LCD products and for a cross license under certain patents relating to LTPS AMOLED technology for use in the development, manufacture and sale of certain LTPS AMOLED products. Under the license agreement, we are obligated to make ten annual payments to SEL starting in 2006. Pursuant to this agreement, we also granted SEL a royalty-free, non-exclusive and non-transferable license under patents that we own solely or jointly with other parties. Our license agreement with SEL expires in December 2015.

We entered into a license agreement with Seiko Precision Inc. in October 2001 for an exclusive, non-transferable license, with sub-licensing rights, under certain patents relating to amorphous silicon thin film transistor array substrates to use the technology in the manufacture and sale of certain TFT-LCD products. We paid a lump sum license fee for our rights under the agreement, and are obligated to share with Seiko any sub-licensing fees and royalties we receive from third parties exceeding a certain amount. Our license with Seiko Precision expires in February 2009 and is subject to termination in the event of a material breach of the terms of the agreement.

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We entered into a license agreement with the Penn State Research Foundation in January 2003 for a non-transferable license under its patents relating to low temperature polysilicon technology and certain other technologies to use the technologies in the manufacture and sale of certain TFT-LCD products. The license agreement, which expires in October 2015, provides for an upfront license fee, a portion of which is payable upon us producing a certain volume of products using the licensed technologies. In addition, we are obligated to pay ongoing royalties equal to a percentage of our sales up to a maximum amount, subject to reduction upon the occurrence of certain events. We have not made any royalty payments under this agreement because we have not yet begun commercial production of any licensed products. Under the license agreement, the foundation agreed to share with us a portion of the proceeds, including upfront payments and ongoing royalties, from any future license agreements it enters into with third parties. We agreed to use reasonable efforts to commercialize the licensed technologies, including reaching a certain level of sales of products using the licensed technologies within a certain number of years after the effective date. The agreement is subject to termination in the event of failure to cure a material breach of certain provisions and covenants of the agreement, including failure to pay royalties and the filing of inaccurate royalty reports, and upon the occurrence of certain insolvency events.

In connection with the settlement of a lawsuit with NEC, we entered into a cross-license agreement with NEC in April 2001, under which each party granted to the other a non-exclusive and non-transferable worldwide licenses under all of its patents filed prior to the fifth anniversary of the effective date relating to TFT-LCD modules, panels, materials and driver chips. In particular, each party granted to the other a non-exclusive license under its side mounting patents. In addition, NEC authorized us to grant to LG Electronics a license under NEC s monitor patents for the production and sale of monitors. The licenses granted under the agreement are generally non-transferable, subject to certain exceptions and will expire upon the expiration of the last patent to be filed by either NEC or us prior to April 2006. The agreement is subject to termination in the event of failure to cure a material breach of the terms of the agreement and upon the occurrence of certain insolvency events. Upon termination, the rights and licenses granted to the breaching party by the non-breaching party shall terminate but the non-breaching party may continue to use the rights and licenses granted to it by the breaching party.

We entered into a license agreement with Honeywell International Inc. and Honeywell Intellectual Properties Inc. in March and October 2003 for a non-exclusive, non-transferable license under a patent relating to certain diffuser and flicker-free technology used for liquid crystal displays to use the technology in the manufacture and sale of certain TFT-LCD products. The agreement provides for an upfront license fee and a fixed annual payment for each of the five years after the effective date. We have no sub-licensing or enforcement rights under the agreement. Our license agreement with Honeywell International expires in July 2012 and our license agreement with Honeywell Intellectual Properties expires in December 2008.

We entered into a non-exclusive, fully paid-up license agreement with Plasma Physics Corporation in September 2003 under certain patents relating to plasma chemical vapor coating or etching to use the technology in the development, manufacture and sale of certain TFT-LCD products until the licensed patents expire. Our license agreement with Plasma Physics Corporation expires in February 2010. The agreement is subject to termination in the event of a material breach of certain provisions, including unauthorized sub-licensing, and upon the occurrence of certain insolvency events.

We entered into a license agreement with Fergason Patent Properties, LLC in October 2003 for a non-exclusive, non-transferable license under a patent relating to technology for controlling light intensity to use the technology in the manufacture and sale of certain TFT-LCD products. The agreement, which expires in February 2015, provides for an initial payment and a fixed running royalty for each product we produce using the licensed technology. The agreement is subject to termination in the event of a material breach of the terms of the agreement.

We entered into a cross-license agreement with Hitachi in June 2004 for a non-exclusive, non-transferable, non-assignable and indivisible license to use each other s patents for the manufacture and sale of liquid crystal and electroluminescent display devices. Under the cross-license agreement, we are obligated to make six semi-annual payments to Hitachi starting in the second half of 2004. The agreement will expire upon the expiration of the last patent to be filed by either Hitachi or us on or before June 2024. The agreement is subject to early termination in the event of failure to cure a material breach of certain provisions, including failure to make payments, and upon the occurrence of certain insolvency events. Pursuant to this cross-license agreement, we will be able to use a patent owned by Hitachi for In Plane Switching, or IPS, a key technology that allows for increased viewing angles for large-size display panels.

We entered into a license agreement with Merck & Co., our key supplier of liquid crystal materials, for a non-exclusive and non-transferable license under a Merck patent for a panel design technology which is used in IPS for the manufacture and sale of certain large-size display panels. The agreement expires in December 2014.

Philips Electronics and Toshiba Corporation entered into a royalty-free cross-license agreement in July 2000, as amended in a side letter dated March 2004, for a worldwide, non-exclusive and non-transferable license to use each other s patents relating to

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display cells and circuitry components for the manufacture and sale of certain TFT-LCD products. The cross-license agreement extends to affiliates, subsidiaries and certain associated companies of Philips Electronics and Toshiba, which included us prior to our initial public offering in July 2004. The ability of Toshiba and us to use each other s patented technologies under this cross-license agreement automatically terminated when, following our initial public offering, Philips Electronics ceased to own or control at least 50% of our voting stock. However, under the terms of the license agreement we will continue to be licensed to use those patents that were filed prior to the date on which we were no longer deemed to be an associated company of Philips Electronics, which is July 2004, for the life of such patents.

In addition to licensing key technologies from third parties, we aim to benefit from our own patents and other intellectual property rights by granting licenses to third parties from time to time in return for royalty payments. We entered into a license agreement with Rockwell Collins Inc. in June 2001, under which we granted to Rockwell a non-exclusive, non-transferable license under our high aperture LCD patents primarily for use in military applications. This agreement expires in December 2021. We are entitled to receive ongoing royalty payments equal to a percentage of Rockwell s sales of licensed products. We have not received any royalty payments under this agreement because Rockwell has not yet begun commercial production of the licensed products. The agreement is subject to early termination in the event of a material breach of the terms and conditions of the agreement.

Under several patent purchase and license agreements between us and third parties where we have sub-licensing rights, we are obligated to share with these third parties a portion of the license payments and/or royalty income received from any such sub-licensing. In 2006, we received US$24.9 million in license fees under such sub-licensing rights after deducting amounts due to third parties under the patent purchase and license agreements.

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

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

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

Historically, we had not engaged in any material off-balance sheet financing activities to finance our operations or expansion. In September 2004, we entered into a revolving asset-backed commercial paper program of up to US$300 million using selected accounts receivable of our four sales subsidiaries in Germany, Taiwan, Japan and the United States. In April 2006, the limit of the revolving asset-backed commercial paper program was increased to US$450 million. We have used the proceeds from this financing to reduce the payment terms of our sales subsidiaries accounts payable and to meet working capital needs.

In the second half of 2006, our overseas sales subsidiaries entered into factoring arrangements. In June 2006, our sales subsidiary in Shanghai, China entered into a forfeiting arrangement of up to US$200 million using its accounts receivable backed by letter of credit and in September 2006, our sales subsidiary in Taiwan entered into an accounts receivable factoring facility of up to US$250 million using its accounts receivable. In October 2006, we entered into an accounts receivable purchase facility of up to US$600 million using selected accounts receivable of our sales subsidiaries in the United States, Germany, Hong Kong and Shanghai, China. We have used the proceeds from these financing activities for our sales subsidiaries working capital.

In 2006, payment guarantees were provided to us by ABN AMRO Bank amounting to US$8.5 million relating to deferred tax payments in Poland. In 2006, payment guarantees were provided to our subsidiary in Japan by Bank of Tokyo-Mitsubishi UFJ amounting to ¥1,300 million and to our subsidiary in Taiwan by ABN AMRO Bank amounting to NT$68 million, respectively, relating to their local tax payments.

We enter into foreign currency forward contracts to hedge transaction risks related to changes in currency exchange rates.

Item 5.F. ***Tabular Disclosure of Contractual Obligations***

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

Item 5.G. ***Safe Harbor***

See Forward-Looking Statements.

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Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Board of Directors

Our board of directors has the ultimate responsibility for the management of our business affairs. Our articles of incorporation provide for a board consisting of between five and nine directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Our articles of incorporation also require that we elect either a single representative director or two joint representative directors. If we elect to have two joint representative directors, one representative director will serve as chief executive officer and the other representative director will serve as chief financial officer. Under the Korean Commercial Code and our articles of incorporation, the joint representative directors are authorized to jointly represent us in activities relating to our business. A representative director of a company established in Korea is authorized to represent and act on behalf of such company and has the power to bind such company. A company may have (i) one sole representative director, (ii) two or more co-representative directors or (iii) two or more joint representative directors. The powers and authorities of a sole representative director and any co-representative directors are exactly the same while the only distinction for joint representative directors is that they must act jointly (i.e., all of the joint representative directors must act together in order to bind the company while co-representative directors may act independently). All representative directors are selected from among the non-outside directors.

The term of office for our directors will expire upon the closing of the annual general meeting of shareholders convened in respect of the last fiscal year within three years after they take office. However, if the term of office expires after the close of the last fiscal year of such term of office but before the annual general meeting of shareholders convened in respect of such fiscal year, the term of office shall be extended up to the close of such annual general meeting of shareholders. Our board must meet at least once every quarter, and may meet as often as the representative director or joint representative directors deem necessary or advisable. Other directors may also request the representative director or joint representative directors to convene a board meeting at any time.

The tables below set forth information regarding our current directors and executive officers. The business address of all of the directors and executive officers is the address of our registered office at West Tower, LG Twin Towers, 20 Yoido-dong, Youngdungpo-gu, Seoul, Republic of Korea, 150-721.

Our Outside Directors

Our current outside directors are set out in the table below. Each of our outside directors meets the applicable independence standards set forth under the rules of the Korean Securities and Exchange Act and also meets the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

Name	Date of Birth	Position	First Elected/ Appointed	Term Expires	Principal Occupation
Bongsung Oum	March 2, 1952	Director	March 2005	March 2008	Chairman, KIBNET Co., Ltd.
Bart van Halder	August 17, 1947	Director	July 2004	February 2010	Member of Boards of Directors of Cosun u.a. and Air Traffic Control in the Netherlands
Ingoo Han	October 15, 1956	Director	July 2004	February 2010	Professor, Graduate School of Management, Korea Advanced Institute of Science and Technology
Doug J. Dunn	May 5, 1944	Director	March 2005	March 2008	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	Director	March 2005	March 2008	Outside Director, Pixelplus

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Our Non-Outside Directors

Our non-outside directors are:

Name	Date of Birth	Position	First Elected/ Appointed	Term Expires	Principal Occupation
Rudy Provoost	October 16, 1959	Chairman of the Board of Directors	April 2006 (Director since February 2006)	February 2009	Chief Executive Officer of Philips Consumer Electronics and Member of Philips Group Management Committee
Young Soo Kwon	February 6, 1957	Joint Representative Director, President and Chief Executive Officer	February 2007	February 2010	
Hee Gook Lee	March 19, 1952	Director	March 2005	March 2008	President and Chief Technology Officer of LG Electronics
Ron H. Wirahadiraksa	June 10, 1960	Joint Representative Director, President and Chief Financial Officer	August 1999	March 2008	

Our Executive Officers

Name	Date of Birth	Position	First Elected/ Appointed	Division/ Department
Young Soo Kwon	February 6, 1957	Joint Representative Director, President and Chief Executive Officer	February 2007	
Ron H. Wirahadiraksa	June 10, 1960	Joint Representative Director, President and Chief Financial Officer	August 1999	
Jong Sik Kim	June 4, 1953	Executive Vice- President and Chief Production Officer	October 2006	Manufacturing
In Jae Chung	September 20, 1956	Executive Vice-President and Chief Technology Officer	January 2007	Research & Development

Name	Date of Birth	Position	Elected/Appointed to Current Position	Division/ Department
Bock Kwon	August 4, 1954	Executive Vice-President	January 2006	Marketing Center
Woo Shik Kim	September 8, 1955	Executive Vice-President	January 2004	IT Business Unit
Sang Deog Yeo	September 21, 1955	Executive Vice-President	January 2005	TV Business Unit
Jae Geol Ju	December 20, 1952	Executive Vice-President	January 2005	Japan Service Center
Sang Beom Han	June 18, 1955	Executive Vice-President	January 2006	Panel Center
Hyun He Ha	December 18, 1956	Executive Vice-President	January 2007	Small and Medium Business Unit

We and our subsidiaries do not have any service contracts with our directors providing for benefits upon termination of their employment with us or our subsidiaries.

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Rudy Provoost has served as director since February 2006. He currently also serves as chief executive officer of Philips Consumer Electronics and chairman of European Information and Communications Technology Industry Association. He also served as executive vice president of Philips Consumer Electronics in Europe and chief executive officer of Global Sales and Services for Philips Consumer Electronics. He holds degrees in psychology and business administration from the University of Gent in Belgium.

Young Soo Kwon has served as joint representative director, president and chief executive officer since February 2007. Prior to joining LG.Philips LCD, he served as president and chief financial officer of LG Electronics. Mr. Kwon also served as head of the globalization team at LG Electronics headquarters in Korea, as well as a financial officer at LG Electronics overseas subsidiary in New Jersey. Mr. Kwon holds a bachelor s degree in business administration from Seoul National University and a master s degree in industrial engineering from Korea Advanced Institute of Science and Technology.

Hee Gook Lee has served as director since March 2005. He is currently president and chief technology officer of LG Electronics. He also served as president and head of LG Electronics Institute of Technology and executive vice-president at LG Semicon. Mr. Lee holds a bachelor s degree in electronics engineering from Seoul National University and a Ph.D. in electrical engineering from Stanford University.

Ron H. Wirahadiraksa has served as president since January 2005 and joint representative director and chief financial officer since August 1999. Prior to joining LG.Philips LCD, he was the chief financial officer of Philips Flat Display Systems in San Jose, California. Mr. Wirahadiraksa also served as the chief financial officer of Philips Malaysia and Philips Greece. He is also a certified registered comptroller. Mr. Wirahadiraksa received both his undergraduate and graduate degrees in business economics from the Free University of Amsterdam.

Bongsung Oum has served as outside director since March 2005. He is currently the chairman of KIBNET Co., Ltd. He also served as a researcher at the Korea Development Institute. Mr. Oum received a bachelor s degree in business administration from Seoul National University, an M.B.A. degree from the University of California at Berkeley and a Ph.D. in economics from Cornell University.

Bart van Halder has served as outside director since July 2004. He was formerly a professor of Management Control at the University of Amsterdam in the Netherlands and trainer in accounting. He is also serving as a member of the boards of directors of Cosun u.a. and Air Traffic Control in the Netherlands. He also served as senior director of Corporate Control and Group Controller of Royal Philips Electronics and chief financial officer of the global activities of Philips Medical Systems. He is also a certified registered accountant. Mr. van Halder holds a master s degree in business econometrics from the University of Tilburg in the Netherlands.

Ingoo Han has served as outside director since July 2004. He is currently a professor at the Graduate School of Management at the Korea Advanced Institute of Science and Technology. He is also a certified public accountant in Korea and a certified management accountant in the United States. Mr. Han holds a bachelor s degree in international economics from Seoul National University, a master s degree in management science from the Korea Advanced Institute of Science and Technology and a Ph.D. in accounting information systems from the University of Illinois at Urbana-Champaign.

Doug J. Dunn has served as outside director since March 2005. He is currently member of the boards of directors of ARM Holdings plc, STMicroelectronics N.V., Soitec Group, Optical Metrology Innovations and TomTom International BV. He also served as president and chief executive officer of ASML Holding N.V. and chief executive officer of the Consumer Electronics division and the Semiconductor Division of Royal Philips Electronics. Mr. Dunn holds a bachelor s degree and a Higher National Certificate in electrical and electronics engineering from Sheffield University in the United Kingdom. Mr. Dunn was awarded an Order of the British Empire by Queen Elizabeth II and an Order of Oranje Nassau by the Netherlands for services to the electronics industry.

Dongwoo Chun has served as outside director since March 2005. He is currently serving as member of the board of directors of Pixelplus. He also served as executive vice president of Cirrus Logic Inc., Silicon Magic Inc. and LG Semicon. Mr. Chun holds a bachelor s degree in electronic engineering from Seoul National University, a master s degree in electrical engineering from the University of California Berkeley and a Ph.D. in electrical engineering from the University of Texas.

Jong Sik Kim has served as executive vice-president since October 2006 and chief production officer since January 2007. Mr. Kim also served as head of the module center since joining LG.Philips LCD in October 2006. Prior to joining LG.Philips LCD, Mr. Kim served as head of display production and head of quality control and procurement at LG Electronics. Mr. Kim holds a bachelor s degree in electronic engineering from Yeungnam University and a master s degree in electronic engineering from Kyungpook National University.

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In Jae Chung has served as executive vice-president since January 2006 and as chief technology officer since January 2007. Prior to joining LG.Philips LCD, he served as head of the notebook development department and LCD laboratory at LG Electronics. Mr. Chung received a bachelor s degree in physics and a master s degree in applied physics from Korea University and a Ph.D. in electronic engineering from University of South Australia.

Bock Kwon has served as executive vice-president and head of marketing since January 2006. Mr. Kwon also served as vice president for our sales department since 1999. Prior to joining LG.Philips LCD, Mr. Kwon worked for the worldwide sales division at LG Electronics. Mr. Kwon holds a bachelor s degree in electrical engineering from Pusan National University.

Woo Shik Kim has served as executive vice-president since January 2004. Mr. Kim also served as head of IT Business Unit since August 2006. Prior to joining LG.Philips LCD, Mr. Kim served as head of the production technical center for LG Semicon. Mr. Kim holds bachelor s and master s degrees in ceramic engineering from Yonsei University.

Sang Deog Yeo has served as executive vice-president since January 2005. Mr. Yeo also served as head of the TV Business Unit since August 2006. Prior to joining LG.Philips LCD, Mr. Yeo served as head of Monitor Product Development at LG Electronics. Mr. Yeo holds a bachelor s degree in electronic engineering from Kyungpook National University.

Jae Geol Ju has served as executive vice-president since January 2005. Mr. Ju also served as head of the Japan Service Center since October 2006. Prior to joining LG.Philips LCD, Mr. Ju served as head of audio/video business division at LG Electronics and head of Memory Business Planning & Management at LG Semicon. Mr. Ju holds a bachelor s degree in electronic engineering from Yonsei University.

Sang Beom Han has served as executive vice-president and head of the panel center since January 2006. Mr. Han also served as vice president for our Panel 5 factory and the Manufacturing Technology Center since joining LG.Philips LCD in December 2001. Prior to joining LG.Philips LCD, Mr. Han served as vice president of Hynix Semiconductor Inc. Mr. Han holds a Ph.D. degree in material science from Stevens Institute of Technology.

Hyun He Ha has served as executive vice-president since January 2007. Mr. Ha has also served as head of the Small and Medium Displays Business Unit since August 2006. Mr. Ha has also served as vice president of the Corporate Strategy Department. Mr. Ha holds a bachelor s degree in history from Pusan National University and an M.B.A. degree from Waseda University.

Item 6.B. ***Compensation***

The aggregate remuneration and benefits-in-kind we paid in 2006 to our executive officers and our directors was (Won)5 billion. In addition, as of December 31, 2006, our accrued severance and retirement benefits to those directors and officers amounted to (Won)7.0 billion (US$7.5 million).

In March 2005, our articles of incorporation were amended to provide for a long-term incentive plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives.

We carry liability insurance for the benefit of our directors and officers against certain liabilities incurred by them in their official capacities. This insurance covers our directors and officers, as well as those of our subsidiaries, against certain claims, damages, judgments and settlements, including related legal costs, arising from a covered individual s actual or alleged breaches of duty, neglect or other errors, arising in connection with such individual s performance of his or her official duties. The insurance protection also extends to claims, damages, judgments and settlements, including related legal costs, arising out of shareholders derivative actions or otherwise relating to our securities. Policy exclusions include, but are not limited to, claims relating to fraud, willful misconduct or criminal acts, as well as the payment of punitive damages. In 2006, we paid a premium of approximately US$1.5 million in respect of this insurance policy.

Item 6.C. ***Board Practices***

See Item 6.A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

We currently have three committees that serve under our board of directors:

Audit Committee;

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Outside Director Nomination and Corporate Governance Committee; and

Remuneration Committee.

Our board of directors may establish other committees if they deem them necessary.

Our board of directors will appoint each member of these committees except that candidates for the Audit Committee will first be elected by our shareholders at the general meeting of shareholders.

Audit Committee

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. Our Audit Committee is comprised of three outside directors: Bongsung Oum, Bart van Halder and Ingoo Han. The chairman is Bongsung Oum. Members of the Audit Committee are elected by our shareholders at the annual general meeting of shareholders and all members must meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002 and the Korea Securities and Exchange Act. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee s primary responsibilities include the following:

engaging or dismissing independent auditors;

approving independent audit fees;

approving audit and non-audit services;

reviewing annual and interim financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics;

assessing compliance with disclosure and filing obligations;

evaluating reports of actual or threatened litigation;

considering significant changes in accounting practices; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of shareholders. Our external auditor reports directly to the Audit Committee. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed.

The committee holds regular meetings at least once each quarter, and more frequently as needed.

Outside Director Nomination and Corporate Governance Committee

The Outside Director Nomination and Corporate Governance Committee is comprised of two outside directors, Dongwoo Chun and Bart van Halder, and two non-outside directors, Rudy Provoost and Hee Gook Lee. The chairman is Dongwoo Chun. The Outside Director Nomination and Corporate Governance Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors. The committee also develops and recommends to the board of directors a set of corporate governance principles and oversees our policies, practices and procedures in the area of corporate governance.

The committee holds regular meetings at least once each year, and more frequently as needed.

Remuneration Committee

The Remuneration Committee is comprised of two outside directors, Doug J. Dunn and Dongwoo Chun, and two non-outside directors, Rudy Provoost and Hee Gook Lee. The chairman is Rudy Provoost. The Remuneration Committee s primary responsibilities include making recommendations to the board of directors concerning salaries and incentive compensation for our directors and executive officers.

The committee holds regular meetings at least once each year, and more frequently as needed.

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Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange s corporate governance standards and those that we follow under Korean law. The following is a summary of such significant differences.

NYSE Corporate Governance Standards	LG.Philips LCD s Corporate Governance Practice
Nomination/Corporate Governance Committee Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.	We have established an Outside Director Nomination and Corporate Governance Committee composed of two outside directors and two non-outside directors.
Compensation Committee Listed companies must have a compensation committee composed entirely of independent directors.	We have established a Remuneration Committee composed of two outside directors and two non-outside directors.
Executive Session Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.	We do not normally hold executive sessions solely attended by non-management directors as that is not required under Korean law but we may elect to do so at the discretion of the directors.
Audit Committee Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	We have established an Audit Committee composed of three outside directors who meet the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.
Audit Committee Additional Requirements Listed companies must have an audit committee that is composed of at least three directors.	Our Audit Committee has three directors, as described above.
Shareholder Approval of Equity Compensation Plan Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company s equity compensation plan.	We currently have two equity compensation plans: one providing for the grant of stock options to officers and key employees and an Employee Stock Ownership Plan, or ESOP. Stock options to officers and key employees may be granted pursuant to a resolution of the shareholders in an amount not to exceed 15% of the total number of our issued and outstanding shares. Up to 1% of the total number of our issued and outstanding shares, however, the board of directors may grant stock options to non-director officers and employees, which must be approved by a resolution of the subsequent general meeting of shareholders, except for the stock options granted before March 30, 2006. All material matters related to the granting of stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders approval. Matters related to the ESOP are not subject to shareholders approval under Korean law.
Corporate Governance Guidelines Listed companies must adopt and disclose corporate governance guidelines.	We do not maintain formal corporate governance guidelines. Our Outside Director Nomination and Corporate Governance Committee is responsible for overseeing our policies, practices and procedures in the area of corporate governance.
Code of Business Conduct and Ethics	

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Ethics for all directors, officers and employees. A copy of our Code of Ethics is available on our website at *www.lgphilips-lcd.com.*

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Item 6.D. ***Employees***

As of December 31, 2006, we had 23,639 employees, including 7,070 employees in our overseas subsidiaries. The following table provides a breakdown of our employees by function as of December 31, 2004, 2005 and 2006:

	As of December 31,		
Employees[1]	**2004**	**2005**	**2006**
Production	8,270	13,119	16,326
Technical[2]	3,759	4,404	5,759
Sales & Marketing	436	541	444
Management & Administration	708	1,299	1,110
Total	13,173	19,363	23,639

(1) Includes employees of our subsidiaries.
(2) Includes research and development and engineering personnel.

To recruit promising engineering students at leading Korean universities, we work with these universities on research projects where these students can gain exposure to our research and development efforts. We also provide on-the-job training for our new employees and develop training programs to identify and promote new leaders.

As of December 31, 2006, approximately 63% of our employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. We have never experienced a work stoppage or strike, and we consider our relationship with our employees to be good.

The salaries of our employees are reviewed annually. Salaries are adjusted based on individual and team performance, industry standards and inflation. As an incentive, discretionary bonuses may be paid based on the performance of individuals, and a portion of our operating income may be paid to our employees under our profit sharing plan if certain performance criteria are achieved. We also provide a wide range of benefits to our employees including medical insurance, employment insurance, workers compensation, free medical examinations, child tuition and education fee reimbursements and low-cost housing for certain employees.

Under the Korean Labor Standards Act, employees with one year or more of service are entitled to receive, upon termination of their employment, a lump-sum severance payment based on the length of their service and their average wage during the last three months of employment. We make provisions for accrued severance liabilities based on the assumption that all employees terminate their employment with us at the same time. As of December 31, 2006, our accrued severance liabilities amounted to (Won)136.8 billion (US$147.1 million), of which 39.7% was funded through severance insurance plans, while 0.5% was funded through deposits with the National Pension Corporation.

At December 31, 2006, our employee stock ownership association owned approximately 0.1% of our common stock.

Item 6.E. ***Share Ownership***

Common Stock

The persons who are currently our executive officers held, as a group, 7,053 shares of common stock as of December 31, 2006, the most recent date for which this information is available. They acquired our shares of common stock through our employee stock ownership association and pursuant to open market purchases on the Korea Exchange. Due to Korean law restrictions, our chief executive officer and chief financial officer did not participate in the employee stock ownership association. During the week of March 5, 2007, our chief executive officer acquired 5,000 shares of common stock pursuant to open market purchases on the Korea Exchange.

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Stock Options

In March 2005, our articles of incorporation were amended to provide for a long-term incentive plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. We are now reviewing appropriate long-term incentive plan designs and details of the plan are yet to be finalized. It is likely that the plan will incorporate awards in the form of stock options, restricted stock or cash, or some combination of such forms. Awards will be linked to each person s contribution to our performance and the value of the awards eventually received will be based on our performance over the period following their grant.

As part of our long-term incentive plan, our board of directors resolved on April 7, 2005 to grant the first performance-based stock options to our standing directors and executive officers. The stock option plan compares gains in the Korea Composite Stock Price Index, or KOSPI, against increases in the price of our common stock during the period from the grant date to the start of the exercise period. Depending on our performance, adjustments may be made to the number of options that a grantee may exercise during the exercise period. A grantee will be permitted to exercise 100% of the stock options initially granted if our common stock outperforms the KOSPI during the period of comparison. A grantee will be permitted to exercise only 50% of the stock options initially granted if the KOSPI outperforms our common stock during the period of comparison. In addition, our board adopted a Stock Appreciation Rights Plan pursuant to which we will pay in cash the difference between the exercise and market price at the date of exercise. The following table sets forth certain information regarding our stock option plan as of April 10, 2007:

		Exercise Period					
Executive Officers	**Grant Date**	**From**	**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
Duke M. Koo	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

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7.A. ***Major Shareholders***

The following table sets forth information regarding beneficial ownership of our common stock as of December 31, 2006 by each person or entity known to us to own beneficially more than 5% of our outstanding shares:

Beneficial Owner	**Number of Shares of Common Stock**	**Percentage**
LG Electronics	135,625,000	37.9%
Philips Electronics	117,625,000	32.9%
Citibank, N.A.[(1)]	27,868,438	7.8%

(1) Solely as ADR depositary

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common stock or exercised control or could exercise control over us as of December 31, 2006.

Shareholders Agreement

In July 2004, LG Electronics and Philips Electronics entered into a shareholders agreement to reflect certain corporate governance arrangements between them as our controlling shareholders. Pursuant to our articles of incorporation and the terms of the shareholders agreement, we have a nine-member board of directors which is composed of two outside directors selected by each of LG Electronics and Philips Electronics, one outside director jointly selected by them and four non-outside directors. The two shareholders also agreed to a co-voting arrangement under which each party is obligated to vote in favor of the non-outside director candidates selected by the other party as well as the non-outside candidate jointly selected by the two shareholders. The outside directors so selected to form our first board of directors were deemed to have been nominated by the Outside Director Nomination and Corporate Governance Committee, which was established on March 23, 2005 pursuant

to our articles of incorporation. Subject to minimum shareholding requirements, LG Electronics and Philips Electronics are also able to nominate our chief executive officer and chief financial officer, who are our two joint representative directors and who must act in concert in order for their actions to bind us. See Item 6.A. Directors and Senior Management for a description of the powers, under Korean law, of joint representative directors.

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The right to nominate the four non-outside directors of our board, including our joint representative directors or sole representative director, as the case may be, depends on the respective ownership interest in us of each of LG Electronics and Philips Electronics:

- if the ownership interest of each shareholder remains at 25% or higher, each shareholder will nominate two non-outside directors to our board, including nomination of the chief executive officer by LG Electronics and nomination of the chief financial officer by Philips Electronics, who will serve as joint representative directors;

- if the ownership interest of one shareholder remains at 25% or higher and the ownership interest of the other shareholder drops to below 25% but equal to 15% or higher (even if the ownership interest subsequently increases to 25% or higher), the former will nominate three non-outside directors to our board, including one sole representative director, and the latter will nominate one non-outside director and further forfeit its right to nominate a representative director and the chief executive officer or chief financial officer, as the case may be;

- if the ownership interest of one shareholder remains at 25% or higher and the ownership interest of the other shareholder drops to below 15% (even if the ownership interest subsequently increases to 15% or higher), the former will nominate all four non-outside directors to our board, including one sole representative director, and the latter will forfeit its right to nominate any non-outside director to our board;

- if the ownership interest of each shareholder drops to below 25% but equal to 15% or higher (even if the ownership interest of one or both subsequently increases to 25% or higher), each shareholder will nominate two non-outside directors but both will forfeit their right to nominate a representative director, who will be nominated by the board of directors;

- if the ownership interest of one shareholder drops to below 25% but equal to 15% or higher (even if the ownership interest subsequently increases to 25% or higher) and the ownership interest of the other shareholder drops to below 15% (even if the ownership interest subsequently increases to 15% or higher), the former will nominate all four non-outside directors to our board and the latter will forfeit its right to nominate any non-outside director to our board; and

- if the ownership interest of each shareholder drops to below 15% (even if the ownership interest of one or both subsequently increases to 15% or higher), both shareholders will forfeit their right to nominate any non-outside director and our board of directors will assume responsibility for nominating the four non-outside directors, including the nomination of one director as sole representative director;

provided, that, LG Electronics and Philips Electronics have each undertaken to (1) request the non-outside directors nominated by it to vote in favor of removal of the chief executive officer/joint representative director (or sole representative director, as the case may be) from such position or chief financial officer/joint representative director from such position, as the case may be, at the first meeting of our board of directors held immediately after the change in ownership interests described above, and (2) vote their respective shares in favor of effecting the events described above, including the removal of non-outside directors, at the first annual general shareholders meeting held after the change in ownership interests described above. In the event that a non-outside director fails to vote pursuant to the terms of the shareholders agreement, either to nominate or remove the chief executive officer/joint representative director to or from such position or chief financial officer/joint representative director to or from such position, as the case may be, both LG Electronics and Philips Electronics have agreed to vote for the removal of such non-outside director. In the event of death, resignation or other removal of a non-outside director before the natural expiration of his or her term, LG Electronics and Philips Electronics have each undertaken to vote its shares in favor of a proposal to elect a replacement non-outside director nominated by the party which nominated the departing or departed non-outside director. The term of the replacement non-outside director shall be the remaining term of the predecessor.

The shareholders agreement also provides for certain transfer restrictions which become effective after the expiration of the one-year lock-up period agreed to by both shareholders in connection with our initial public offering for any transfer or acquisition of any of our shares without the prior written consent of the other (except transfer to its affiliates). Such transfer restrictions include a right of first refusal pursuant to which each party, upon receipt of an offer by a third party to purchase its shares, must first give the other party the right to purchase such shares upon

the same terms and conditions. In addition, each party has certain tag-along rights whereby if a party seeks to sell its shares, the other party has the right to join the transaction and sell an equal number of shares on the same terms and conditions. These transfer restrictions will apply until the earlier of (1) the date that the ownership interest of either LG Electronics or Philips Electronics in us first falls below 15% or (2) the date that the combined ownership interest of both LG Electronics and Philips Electronics in us first falls below 40%.

In addition, LG Electronics and Philips Electronics have agreed with each other not to (1) effect any sale or transfer of our shares that would decrease their respective ownership interests in us to lower than 30% for a period of three years from the date of

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listing of our ADSs on the New York Stock Exchange and our shares on the Korea Exchange, which was on July 22, 2004 and July 23, 2004, respectively; (2) effect any sale or transfer of our shares to any single competitor of us in a single or series of related transactions if such sale or transfer would constitute 5% or more of our total issued and outstanding shares; or (3) effect any sale or transfer of our shares to any one person in a single or series of related transactions if such sale or transfer would constitute 10% or more of our total issued and outstanding shares, in each case, without the prior written consent of the other party.

The shareholders agreement will automatically terminate if the ownership interest of either LG Electronics or Philips Electronics in us falls below 10%.

The foregoing summary of the shareholders agreement between LG Electronics and Philips Electronics does not purport to be complete and is qualified in its entirety by reference to the Shareholders Agreement, a copy of which was previously filed with the Commission as an exhibit to our registration statement on Form F-1 and which is incorporated by reference herein.

Registration Rights Agreement

We entered into a registration rights agreement with each of LG Electronics and Philips Electronics in July 2004, which among other things, provides that (1) we will file a registration statement upon demand by either of LG Electronics or Philips Electronics at any time after the later of the first anniversary of the listing of our ADSs in the New York Stock Exchange and our common stock on the Korea Exchange, which was on July 22, 2004 and July 23, 2004, respectively, and (2) we will use our reasonable best efforts to cause such registration statement to be declared effective as soon as practicable. We will not be required to effect more than two demand registrations in any successive two-year periods and we will not be required to effect any demand registration within six months of the effectiveness of a registration statement under a previous demand registration effected by us for Philips Electronics or LG Electronics, as the case may be, subject in each case to customary black-out periods. LG Electronics and Philips Electronics are entitled to exercise certain piggyback registration rights with respect to their registrable securities, as defined in the registration rights agreement, subject to customary exceptions and black-out periods.

The foregoing summary of the registration rights agreements with LG Electronics and Philips Electronics does not purport to be complete and is qualified in its entirety by reference to the LG Electronics Registration Rights Agreement and the Philips Electronics Registration Rights Agreement, copies of which were previously filed as exhibits to the registration statement on Form F-1 and which are incorporated by reference herein.

Information Agreement

Our principal shareholders, LG Electronics and Philips Electronics, are both publicly traded companies, each of which is subject to legal and stock exchange reporting and other disclosure requirements. Accordingly, we have entered into an agreement with each of LG Electronics and Philips Electronics to provide, subject to certain limitations, various financial and other information relating to us and to assist them in connection with their respective reporting, disclosure and other obligations. Each party has agreed that it will use any information provided under the respective agreement, unless otherwise made public, only in connection with these obligations and that it will not use the information for any other purpose, including in connection with the sale and/or purchase of securities issued by us.

Item 7.B. ***Related Party Transactions***

Certain Relationships and Related Party Transactions

We engage from time to time in a variety of transactions with related parties. We have conducted our transactions with related parties, including LG Electronics and Philips Electronics, as we would in comparable arm s-length transactions with a non-related party, on a basis substantially as favorable to us as would be obtainable in such transactions.

Relationships and Transactions with LG Electronics and Related Companies

Sales to LG Electronics

We sell TFT-LCD panels, primarily large-size panels for televisions, notebook computers and desktop monitors and other applications, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis, as both an end-brand customer and as a systems integrator for use in products they assemble on a contract basis for other end-brand customers. Pricing and other principal terms of the sales are negotiated on an arm s-length basis and are substantially the same as those for our non-affiliated end-brand customers.

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Sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to (Won)1,607.1 billion, or 19.3% of our sales, in 2004, (Won)1,821.5 billion, or 18.1% of our sales, in 2005 and (Won)1,729.3 billion (US$1,859.5 million), or 16.3% of our sales, in 2006.

Sales to LG International

We sell our products to certain subsidiaries of LG International, our affiliated trading company, in regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region.

In particular, we have sold a significant amount of our products to LG International Japan, Ltd. and LG International (HK) Ltd. Sales to LG International and its subsidiaries on an aggregate basis amounted to 5.5%, 7.4% and 9.0% of our sales in 2004, 2005 and 2006, respectively. We sell our products to these subsidiaries of LG International at a market price determined on an arm s-length basis.

We establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of utilizing our affiliated trading company, LG International, or its subsidiaries, and where local market practice permits. Based on this approach, we established sales subsidiaries in Hong Kong and Shanghai, China, in January 2003, to replace LG International (HK) in conducting sales to system integrators located in China. We expect to continue to utilize LG International Japan, consistent with local market practices there, to conduct our sales to end-brand customers in Japan, but may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

Purchases from LG International

We procure a portion of our production materials, equipment and components from LG International and its subsidiaries in Japan, Europe and the United States. We use these subsidiaries in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. Purchase prices we pay to these subsidiaries and other terms of our transactions with them are conducted on an arm s-length basis. We expect to continue to utilize LG International s overseas subsidiaries for the procurement of a portion of our production materials, equipment and components.

Our purchases of materials, equipment, components and services from LG International and its subsidiaries, amounted to (Won)1,652.4 billion, or 22.4% of our total purchases of materials, equipment, components and services, in 2004, (Won)1,338.1 billion, or 16.7% of our total purchases, in 2005 and (Won)1,006.1 billion (US$1,081.8 million), or 10.7% of our total purchases in 2006.

Other Purchases

Under a master purchase agreement, we procure, on an as-needed basis, raw materials, components and other materials or services necessary for our production process, construction materials as well as construction and engineering services from LG Electronics and its affiliated companies, including LG Chem and GS Engineering & Construction (formerly LG Engineering & Construction). As of January 2005, GS Engineering & Construction is no longer an affiliated company of the LG Group. Our purchases of raw materials, such as polarizers, from LG Chem amounted to (Won)398.4 billion, (Won)620.9 billion and (Won)708.8 billion (US$762.1 million) in 2004, 2005 and 2006, respectively. Our purchases of photo masks from LG Micron Ltd. amounted to (Won)89.7 billion, (Won)125.2 billion and (Won)113.3 billion (US$121.8 million) in 2004, 2005 and 2006, respectively. In addition, we procured construction and engineering services from GS Engineering & Construction in connection with expansion investments in the amount of (Won)828.8 billion in 2004. As of January 2005, GS Engineering & Construction is no longer an affiliated company of LG Group.

Our total purchases of materials, equipment, components and services from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to (Won)1,747.2 billion, or 21.2% of our total purchases of materials, equipment, components and services, in 2004, (Won)1,258.6 billion, or 13.7% of our total purchases, in 2005 and (Won)1,551.1 billion (US$1,667.8 million), or 16.5% of our total purchases, in 2006.

In addition, we benefit from certain licenses extended to us from license or cross-license agreements between LG Electronics and third parties.

Under the terms of the joint venture agreement, LG Electronics had assigned most of its patents relating to the development, manufacture and sale of TFT-LCD products to us and we had agreed to maintain joint ownership of those patents that were not assigned to us. Pursuant to a grantback agreement entered into with LG Electronics in July 2004, in the event of any intellectual

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property dispute between LG Electronics and a third party relating to those patents jointly owned by LG Electronics and us, we intend to allow LG Electronics to assert ownership in those patents for all non-TFT-LCD applications and to license or grant other rights in such patents for use by the licensee in non-TFT-LCD applications in order to settle such disputes.

Trademark Agreement with LG Corp.

We entered into a trademark license agreement with LG Corp., the holding company of the LG Group, in July 2004 for use of the LG name. Under the agreement, we began making monthly payments in the aggregate amount per year of 0.1% of our sales, net of advertising expenses, in 2005. This agreement has a term of three years and is automatically renewable for successive three-year periods unless either party gives a termination notice prior to any renewal. LG Corp. has the right to terminate this agreement if the ownership interest of the LG Group companies in us falls below 25%.

Relationships and Transactions with Philips Electronics

Sales and Purchases from Philips Electronics

We sell large-size TFT-LCD panels for desktop monitors and televisions to Philips Electronics and its affiliates on a regular basis. Pricing and other principal terms of the sales are negotiated on an arm s-length basis and are substantially the same as those for our non-affiliated end-brand customers.

Sales to Philips Electronics and its affiliates on an invoiced basis, which include sales to Philips Electronics as an end-brand customer and system integrator, amounted to (Won)1,210.9 billion, or 14.5% of our sales, in 2004, (Won)1,323.6 billion, or 13.1% of our sales, in 2005 and (Won)1,331.4 billion (US$1,431.6 million), or 12.5% of our sales, in 2006.

We purchase materials, including backlight units and driver integrated circuits, as well as other services, from Philips Electronics. These purchases amounted to (Won)52.3 billion, (Won)52.2 billion and (Won)74.6 billion (US$80.2 million) in 2004, 2005 and 2006, respectively. These amounts include purchases from Philips Electronics semiconductor division until September 2006, which, as of October 2006, is no longer a division of Philips Electronics.

Trademark Agreement with Philips Electronics

We entered into a trademark license agreement with Philips Electronics in July 2004 for use of the Philips name. Under the agreement, we began making monthly payments in the aggregate amount per year of 0.1% of our sales, net of advertising expenses, in 2005. This agreement has a term of three years and is automatically renewable for successive three-year periods unless either party gives a termination notice prior to any renewal. Philips Electronics has the right to terminate this agreement if the ownership interest of Philips Electronics in us falls below 25%.

Transactions with Directors and Officers

Certain of our directors and executive officers also serve as executive officers of companies with which we do business. None of our directors or executive officers has or had any interest in any of our business transactions that are or were unusual in their nature or conditions or significant to our business.

Item 7.C. ***Interests of Experts and Counsel***

Not applicable

Item 8. FINANCIAL INFORMATION

Item 8.A. ***Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-34.

Legal Proceedings

On August 29, 2002, we filed a complaint in the United States District Court for the Central District of California against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, Inc. We believe that these companies have infringed on six of our United States patents relating to liquid crystal displays and the manufacturing processes for thin-film transistors and liquid crystal displays by selling TFT-LCD products into the United States covered by these patents. We sought, among other things, treble damages for past infringement of these patents and for an injunction against future infringement. On November 21, 2006, in a trial by jury, the defendants were found to have willfully infringed a patent owned by us and we were awarded US$53.5 million in damages. We also filed a complaint in the United States District Court for the Central District of California against customers of Chunghwa

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Picture Tubes, including ViewSonic Corp., Jean Co., Lite-On Technology Corp., Lite-On Technology International, Inc., TPV Technology and Invision Peripheral Inc. On May 24, 2004, we sought declaratory relief in the United States District Court for the District of Massachusetts to determine the inventorship of four of these patents. The case was dismissed, and the inventorship issue was ordered to be decided in the lawsuit before the Central District of California. On June 21, 2004, Chunghwa Picture Tubes filed a counter-claim against us in the United States District Court for the Central District of California for alleged infringement of Chunghwa Picture Tubes intellectual property and violation of U.S. antitrust laws. On August 3, 2004, we demanded arbitration of the counter-claims filed by Chunghwa Picture Tubes. On June 20, 2006, an arbitration panel appointed by the American Arbitration Association decided in our favor and ruled that we hold exclusive ownership rights to the patents.

On May 27, 2004, we filed a complaint in the United States District Court for the District of Delaware against Tatung Co. and ViewSonic Corp. claiming patent infringement on two of our United States patents relating to rear mountable liquid crystal display devices. We are seeking damages for past infringement and an injunction against future infringement. We also filed a parallel complaint with the Patents County Court in the United Kingdom claiming infringement on one of our U.K. patents relating to the same technology. Tatung Co. is a major shareholder in Chunghwa Picture Tubes. The Patents County Court ruled in favor of the defendants, and we appealed the ruling. On December 20, 2006, the appellate court dismissed the case.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint in the United States District Court for the Central District of California against LG Electronics and us for alleged infringement of one of its U.S. patents relating to flat panel display mounting systems. On April 25, 2005, we filed our answer to Chunghwa Picture Tubes infringement claim, together with a counter-claim in the United States District Court for the Central District of California for the correction of the legal title of the subject patent. On March 20, 2007, Chunghwa Picture Tubes and we stipulated to the dismissal of Chunghwa Picture Tubes infringement claim as well as the dismissal of all pending claims and counterclaims against each other without prejudice. On March 29, 2007, the United States District Court for the Central District of California dismissed the case without prejudice.

On May 13, 2005, we filed a separate complaint in the United States District Court for the District of Delaware against Chunghwa Picture Tubes, Tatung Company, Tatung Co. of America and ViewSonic Corporation claiming infringement of our patents relating to the design and manufacture of liquid crystal display modules. We sought, among other things, monetary damages for past infringement and an injunction against future infringement. On July 27, 2006, in a trial by jury, the defendants were found to have infringed a patent owned by us and we were awarded US$52.4 million in damages.

On January 9, 2006, New Medium Technology LLC, AV Technologies LLC, IP Innovation LLC and Technology Licensing Corporation filed a complaint in the United States District Court for the Northern District of Illinois against us for alleged patent infringement, seeking, among other things, monetary damages for past infringement.

On December 1, 2006, we filed a complaint in the United States District Court for the District of Delaware against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs. We are seeking, among other things, monetary damages for past infringement and an injunction against future infringement. On March 8, 2007, AU Optronics Corp. filed a counter-claim against us in the United States District Court for the Western District of Wisconsin for alleged infringement of patents related to the manufacturing processes for TFT-LCDs.

On February 2, 2007, Anvik Corporation filed a complaint in the United States District Court for the Southern District of New York against us, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of the photo-masking equipments manufactured by Nikon Corporation and the patented methods performed by such system in producing TFT-LCD panels. Anvik is seeking monetary damages for past infringement and an injunction against future infringement.

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of our customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. and Toshiba America, Inc., for alleged infringement of two of its patents relating to LCD displays. Positive Technologies, Inc. is seeking, among other things, damages for past infringement. On March 7, 2007, the United States District Court for the Eastern District of Texas granted our motion to intervene in the patent infringement case brought by Positive Technologies, Inc.

In December 2006, we received notice that we were under investigation by the Korean Fair Trade Commission, the Japanese Fair Trade Commission, the Antitrust Division of the U.S. Department of Justice and regulatory bodies of other competitive markets with respect to possible anti-competitive activities in the TFT-LCD industry. We are cooperating fully with the investigations, which remain preliminary.

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Subsequent to the commencement of the U.S. Department of Justice investigation, a number of purported class action lawsuits were filed against us and other TFT-LCD panel manufacturers in various federal district courts, alleging violation of U.S. antitrust laws and other related laws. In addition, purported class action lawsuits have been brought against us, and certain of our officers and directors, in the United States District Court for the Southern District of New York in 2007, alleging, among other things, that we and certain of our officers and directors violated the U.S. Securities Exchange Act of 1934, or the Exchange Act, in connection with possible anti-competitive activities in the TFT-LCD industry. While we intend to defend these suits vigorously, it is too early in the proceedings to evaluate the probability of a favorable or unfavorable outcome of the actions, or to estimate the potential loss, if any.

We are involved from time to time in certain routine legal actions incidental to our business. However, except for the ongoing legal proceedings described above relating to our intellectual property rights, we are not currently involved in any material litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, adversely affect our results of operations or financial condition. In addition, except as described above, we are not aware of any other material pending or threatened litigation against us.

Dividends

Annual dividends must be approved by the shareholders at the annual general meeting of shareholders and interim dividends must be approved by the board of directors. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves.

On March 8, 2000, we declared a cash dividend of (Won)221.9 billion to our two shareholders. On August 14, 2000, we declared an interim cash dividend of (Won)200.0 billion, and on March 21, 2001, we declared a cash dividend of (Won)179.0 billion to the two shareholders.

We have not declared or paid any dividends since 2001.

Item 8.B. ***Significant Changes***

Not applicable

Item 9. THE OFFER AND LISTING

Item 9.A. ***Offering and Listing Details.***

Market Price Information

The principal trading market for our common stock is the Korea Exchange. Our common stock, which is in registered form and has a par value of (Won)5,000 per share of common stock, has been listed on the Korea Exchange since July 23, 2004 under the identifying code 034220. As of December 31, 2006, 357,815,700 shares of common stock were outstanding. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank as ADS depositary and have been listed on the New York Stock Exchange under the symbol LPL since July 22, 2004. One ADS represents one-half of one share of common stock. As of December 31, 2006, 27,868,438 ADSs were outstanding.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs:

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	Korea Exchange			New York Stock Exchange		
	Closing Price Per Common Stock		Average Daily	Closing Price Per ADS		Average Daily
	High	Low	Trading Volume (in thousands of shares)	High	Low	Trading Volume (in thousands of DRs)
2006	(Won) 46,600	(Won) 25,550	1,181	US$ 24.40	US$ 14.06	1,096
2005	53,500	36,000	1,048	26.39	16.85	818
2007						
First Quarter	35,150	26,250	1,052	18.29	14.01	958
2006						
First Quarter	46,600	40,250	1,197	24.40	19.77	1,100
Second Quarter	44,300	28,300	1,136	23.50	15.00	1,220
Third Quarter	38,500	30,000	1,123	19.91	15.99	1,035
Fourth Quarter	32,000	25,550	1,272	17.03	14.06	1,030
2005						
First Quarter	45,900	36,000	637	21.90	16.85	448
Second Quarter	53,500	44,000	648	26.39	21.69	276
Third Quarter	50,800	41,550	1,313	24.46	20.04	1,372
Fourth Quarter	46,800	37,400	1,566	22.67	18.34	1,166
2006						
Fourth Quarter						
October	31,900	28,100	1,361	17.03	14.79	1,473
November	32,000	28,300	1,252	16.93	15.00	668
December	28,900	25,550	1,206	15.41	14.06	924
2007						
First Quarter						
January	29,550	26,250	718	15.88	14.01	861
February	32,800	26,650	1,168	17.21	14.42	853
March	35,150	30,300	1,298	18.29	15.56	1,136
Second Quarter						
April (through April 10)	34,450	32,400	1,467	18.39	17.71	904

Source: Korea Exchange; New York Stock Exchange.

Item 9.B. ***Plan of Distribution***

Not applicable

Item 9.C. ***Markets***

The Korea Exchange

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. The Korea Exchange (formerly the Korea Stock Exchange) has a single trading floor located in Seoul. The Korea Exchange is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ.

As of December 31, 2006, the aggregate market value of equity securities listed on the Korea Exchange was approximately (Won)705 trillion. The average daily trading volume of equity securities for 2006 was approximately 279 million shares with an average transaction value of (Won)3,435 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are

required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

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The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios:

	Opening	High	Low	Closing
1979	131.28	131.28	104.38	118.97
1980	100.00	119.36	100.00	106.87
1981	97.95	165.95	93.14	131.37
1982	123.60	134.48	106.00	128.99
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007 (through April 10)	1,435.26	1,501.06	1,355.79	1,499.16

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	Rounded Down To (Won)
Less than 5,000	5

5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

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As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

The number of companies listed on the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

		Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Billions of Won)	(Millions of US$)[1]	Thousands of Shares	(Millions of Won)	(Thousands of US$)[1]
1981	343	(Won) 2,959	US$ 4,223	10,565	(Won) 8,708	US$ 12,427
1982	334	3,001	4,012	9,704	6,667	8,914
1983	328	3,490	4,361	9,325	5,941	7,425
1984	336	5,149	6,207	14,847	10,642	12,829
1985	342	6,570	7,362	18,925	12,315	13,798
1986	355	11,994	13,863	31,755	32,870	37,991
1987	389	26,172	32,884	20,353	70,185	88,183
1988	502	64,544	93,895	10,367	198,364	288,571
1989	626	95,477	140,119	11,757	280,967	412,338
1990	669	79,020	109,872	10,866	183,692	255,412
1991	686	73,118	95,541	14,022	214,263	279,973
1992	688	84,712	107,027	24,028	308,246	389,445
1993	693	112,665	138,870	35,130	574,048	707,566
1994	699	151,217	190,762	36,862	776,257	979,257
1995	721	141,151	181,943	26,130	487,762	628,721
1996	760	117,370	138,490	26,571	486,834	928,418
1997	776	70,989	41,881	41,525	555,759	327,881
1998	748	137,799	114,261	97,716	660,429	547,619
1999	725	349,504	307,662	278,551	3,481,620	3,064,806
2000	704	188,042	148,415	306,163	2,602,211	2,053,837
2001	689	255,850	194,785	473,241	1,997,420	1,520,685
2002	683	258,681	216,071	857,245	3,041,595	2,540,590
2003	684	355,363	298,624	542,010	2,216,636	1,862,719
2004	683	412,588	398,597	372,895	2,232,109	2,156,419
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006	731	704,588	757,622	279,096	3,435,180	3,693,742
2007 (through April 10)	736	736,872	789,280	243,778	3,094,231	3,314,301

Source: The Korea Exchange

(1) Converted at the Federal Reserve Noon Rate on the last business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Supervisory Commission, the Korean Securities and Exchange Act and the Korean Securities and Futures Exchange Act. The Korean Securities and Exchange Act was fundamentally amended numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for

shareholders holding substantial interests. The Korean Securities and Futures Exchange Act regulates the operation and monitoring of the securities and futures markets.

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Further Opening of the Korean Securities Market

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002 the Korea Exchange opened a new options market for the stock of seven companies (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company). On September 26, 2005, the Korea Exchange expanded this market to include the stock of an additional 23 companies (including the stock of LG Electronics, SK Corporation, Shinhan Financial Group Co., Ltd., Samsung SDI, KT&G, Hana Financial Group Inc., Hyundai Mobis, Kia Motors Corp., LG Corporation, Samsung Fire & Marine Insurance, Kangwon Land Corporation, LG Chem, Ltd., Hyundai Heavy Industries Co., Ltd., Korea Gas Corporation, Samsung Corporation, Samsung Electro-Machanics Co., Ltd., GS Holdings Corp., CJ Corp., Hankook Tire, Hanjin Shipping Co., Ltd., Samsung Securities Co., Ltd., Korean Air, Hyundai Steel (formerly INI Steel)). Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Supervisory Commission sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of Korean companies that are not listed on the Korea Exchange and in bonds that are not listed.

Protection of Customer s Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange and this securities company places a sell order with another securities company, which is a member of the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Korean Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the Stock Market Division or the KOSDAQ Market Division. If a securities company which is a member of the Stock Market Division or the KOSDAQ Market Division breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

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As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification had been available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to (Won)50 million. Pursua