



Hynix Semiconductor Inc.

Interim Non-consolidated Financial Statements

Nine months ended September 30, 2010 and 2009

with independent accountants' review report

Hynix Semiconductor Inc.
September 30, 2010 and 2009

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Independent accountants' review report

The Board of Directors and Stockholders
Hynix Semiconductor Inc.

We have reviewed the accompanying interim non-consolidated statement of financial position of Hynix Semiconductor Inc. (the "Company") as of September 30, 2010, and the related interim non-consolidated statements of operations, changes in equity and cash flows for the nine-month periods ended September 30, 2010 and 2009. These interim non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these interim non-consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the review standard for interim financial statements in the Republic of Korea. That standard requires that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

We have previously audited, in accordance with generally accepted auditing standards in the Republic of Korea, the non-consolidated statement of financial position of the Company as of December 31, 2009, and the related non-consolidated statements of operations, appropriations of retained earnings, changes in equity and cash flows for the year then ended (not presented herein); and in our report dated January 30, 2010, we expressed an unqualified opinion on those statements. The accompanying statement of financial position of the Company as of December 31, 2009, which is presented for comparative purposes, does not materially differ from the above audited statement of financial position.

The Board of Directors and Stockholders
Hynix Semiconductor Inc.

Accounting principles and review standard and their application in practice vary among countries. The accompanying interim non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such interim non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying interim non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and review standard and their application in practice.

Ernst & Young Han Young

October 28, 2010

This review report is effective as of October 28, 2010, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent accountants' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim non-consolidated financial statements and may result in modifications to this report.

Hynix Semiconductor Inc.
Interim non-consolidated statements of financial position
As of September 30, 2010 and December 31, 2009

(Korean won in millions)

	September 30, 2010 Unaudited	December 31, 2009 Audited
Assets		
Current assets:		
Cash and cash equivalents	₩ 676,115	₩ 1,085,991
Short-term financial instruments	1,538,883	242,612
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩1,555 in 2010 (₩894 in 2009) (Notes 3 and 7)	1,749,828	984,243
Other accounts receivable, net of allowance for doubtful accounts of ₩4,078 in 2010 (₩4,111 in 2009) (Note 7)	111,962	88,319
Inventories, net (Notes 4 and 26)	921,621	783,741
Prepaid expenses	111,524	84,661
Current portion of deferred income tax assets (Note 27)	240,814	240,814
Other current assets (Notes 5 and 7)	55,590	57,210
Total current assets	5,406,337	3,567,591
Non-current assets:		
Long-term financial instruments	322	322
Available-for-sale securities (Notes 6, 19 and 29)	53,097	58,070
Equity method investments (Notes 6 and 7)	2,995,043	2,454,115
Long-term loans receivable, net of allowance for doubtful accounts of ₩58 in 2010 (nil in 2009) (Note 7)	62,643	58,623
Long-term accrued revenues, net of allowance for doubtful accounts of ₩1,187 in 2010 (₩1,187 in 2009)	134	-
Investment properties (Note 8)	25,853	86,566
Long-term advance payments	125,782	141,705
Deferred income tax assets (Note 27)	227,728	227,728
Property, plant and equipment, net (Notes 7, 8, 9, 10 and 16)	6,886,206	6,325,203
Intangible assets, net (Note 11)	472,118	461,493
Other non-current assets (Note 12)	93,783	43,351
Total non-current assets	10,942,709	9,857,176
Total assets	₩ 16,349,046	₩ 13,424,767

(Continued)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of financial position (cont'd)
As of September 30, 2010 and December 31, 2009

(Korean won in millions)

	September 30, 2010 Unaudited	December 31, 2009 Audited
Liabilities and equity		
Current liabilities:		
Trade accounts and notes payable (Note 7)	₩ 845,074	₩ 943,395
Short-term borrowings (Notes 7 and 14)	760,874	958,179
Other accounts and notes payable, net of discount on present value of ₩16,217 in 2010 (₩22,893 in 2009) (Notes 7, 15, 18 and 19)	772,869	459,304
Accrued expenses (Notes 7 and 19)	939,603	862,343
Current portion of bonds and long-term borrowings, net of discount on bonds, discount on present value, conversion rights adjustments and addition of redemption premiums (Notes 15 and 16)	1,514,038	1,106,498
Other current liabilities (Notes 7 and 13)	79,497	321,934
Total current liabilities	<u>4,911,955</u>	<u>4,651,653</u>
Non-current liabilities:		
Bonds, net of discount on bonds (Notes 15 and 20)	1,364,437	1,426,979
Convertible bonds, net of discount on bonds, conversion right adjustments and addition of redemption premium (Note 15)	464,802	481,743
Long-term borrowings, net of discount on present value (Notes 15 and 16)	951,778	805,654
Other long-term accounts and notes payable, net of discount on present value (Notes 15, 18 and 19)	113,012	184,739
Severance and retirement benefits, net	394,750	348,810
Other long-term liabilities (Notes 17 and 20)	107,640	72,807
Total non-current liabilities	<u>3,396,419</u>	<u>3,320,732</u>
Total liabilities	<u>8,308,374</u>	<u>7,972,385</u>
Equity:		
Capital stock (Note 21)	2,969,022	2,965,833
Capital surplus (Notes 15 and 22)	1,411,028	1,303,528
Capital adjustments (Notes 7, 21 and 23)	5,762	5,769
Accumulated other comprehensive income (Notes 6 and 24)	111,080	171,316
Retained earnings (Note 24)	3,543,780	1,005,936
Total equity	<u>8,040,672</u>	<u>5,452,382</u>
Total liabilities and equity	<u>₩ 16,349,046</u>	<u>₩ 13,424,767</u>

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of operations
For the three months and nine months ended September 30, 2010 and 2009
(Korean won in millions, except for per share amounts in units)

	Three months ended September 30, 2010 (Unaudited)		Three months ended September 30, 2009 (Unaudited)	
	₩	₩	₩	₩
Revenues (Notes 7, 19 and 29)	3,273,894	9,310,775	2,053,055	4,854,392
Cost of revenues (Notes 7 and 28)	1,923,725	5,467,442	1,552,740	4,620,543
Gross profit (loss)	1,350,169	3,843,333	500,315	233,849
Selling and administrative expenses (Notes 7, 9, 10, 11 and 26)	358,446	1,072,752	335,269	942,374
Operating income (loss)	991,723	2,770,581	165,046	(708,525)
Other Income (expenses):				
Interest income (Note 7)	18,299	51,204	8,733	19,399
Interest expense (Note 7)	(71,139)	(226,338)	(82,253)	(244,393)
Rental income (Note 7)	7,232	21,682	9,839	30,498
Gain (loss) on foreign currency transactions, net	(31,902)	(60,075)	3,868	(26,445)
Gain (loss) on foreign currency translation, net	149,268	53,153	286,369	254,416
Equity in earnings (loss) of equity method investments, net (Note 6)	(285)	2,807	16,126	181,862
Loss on disposal of investment properties, net	912	(23,877)	(160)	(9,925)
Gain (loss) on disposal of property, plant and equipment, net	2,986	23,047	13,290	23,794
Depreciation of idle assets (Note 9)	(7,027)	(24,198)	(18,484)	(70,439)
Loss on early redemption of bonds (Note 15)	-	(66,344)	-	-
Miscellaneous income (loss), net	(7,615)	968	(177,929)	(426,950)
Others, net (Note 30)	3,939	(16,917)	18,745	(26,544)
	64,668	(264,888)	78,144	(294,727)
Income (loss) before income taxes	1,056,391	2,505,693	243,190	(1,003,252)
Benefit from income taxes (Note 27)	4,248	32,151	2,209	3,418
Net income (loss) (Note 32)	1,060,639	2,537,844	245,399	(999,834)
Earnings (loss) per share (Note 31):				
Basic	₩ 1,797	₩ 4,299	₩ 416	₩ (1,814)
Diluted	₩ 1,713	₩ 4,156	₩ 416	₩ (1,814)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of changes in equity
For the Nine months ended September 30, 2010 and 2009

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of January 1, 2009 (audited)	₩ 2,315,654	₩ 929,003	₩ 5,840	₩ 483,643	₩ 1,356,063	₩ 5,090,203
Net loss	-	-	-	-	(999,834)	(999,834)
Exercise of stock options	133	69	(71)	-	-	131
Conversion of convertible bonds	44	149	-	-	-	193
Paid-in capital	650,000	381,028	-	-	-	1,031,028
Changes in equity arising from equity method investments	-	3,754	-	(231,599)	(2,342)	(230,187)
Gain on valuation of available-for-sale securities	-	-	-	24,488	-	24,488
Effect of deferred income taxes	-	-	-	(3,418)	-	(3,418)
As of September 30, 2009 (unaudited)	<u>₩ 2,965,831</u>	<u>₩ 1,314,003</u>	<u>₩ 5,769</u>	<u>₩ 273,114</u>	<u>₩ 353,887</u>	<u>₩ 4,912,604</u>
						-
As of January 1, 2010 (audited)	₩ 2,965,833	₩ 1,303,528	₩ 5,769	₩ 171,316	₩ 1,005,936	₩ 5,452,382
Net income	-	-	-	-	2,537,844	2,537,844
Exercise of stock options	13	7	(7)	-	-	13
Conversion of convertible bonds	3,176	11,300	-	-	-	14,476
Issuance of convertible bonds	-	131,192	-	-	-	131,192
Changes in equity arising from equity method investments	-	(5,625)	-	(48,623)	-	(54,248)
Loss on valuation of available-for-sale securities	-	-	-	(12,632)	-	(12,632)
Effect of deferred income taxes	-	(29,374)	-	1,019	-	(28,355)
As of September 30, 2010 (unaudited)	<u>₩ 2,969,022</u>	<u>₩ 1,411,028</u>	<u>₩ 5,762</u>	<u>₩ 111,080</u>	<u>₩ 3,543,780</u>	<u>₩ 8,040,672</u>

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of cash flows
For the nine months ended September 30, 2010 and 2009

(Korean won in millions)

	Nine months ended September 30,	
	2010	2009
	Unaudited	Unaudited
Cash flows from operating activities:		
Net income (loss)	₩ 2,537,844	₩ (999,834)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for severance and retirement benefits	83,764	54,275
Depreciation	1,291,742	1,265,893
Amortization of intangible assets	40,841	39,664
Research and development costs	98,148	91,565
Interest expense	56,392	44,528
Impairment loss on investment assets	7,390	-
Loss on early redemption of bonds	66,344	-
Loss (gain) on valuation of derivatives, net	2,324	(1,696)
Loss on foreign currency translation, net	(53,364)	(246,648)
Equity in earnings of equity method investments, net	(2,807)	(181,862)
Loss on disposal of investment porperties, net	23,877	9,925
Gain on disposal of property, plant and equipment, net	(23,047)	(23,794)
Depreciation of idle assets	24,198	70,439
Reveral of loss on valuation of inventories	(27,583)	(356,717)
Reversal of allowance for expected contract loss	-	(41,014)
Miscellaneous loss, net	(6,297)	326,003
Others, net	1,028	6,125
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(807,987)	(513,252)
Other accounts receivable	(16,693)	-
Prepaid expenses	(114,054)	(106,562)
Other current assets	(8,846)	17,027
Inventories	(110,298)	348,083
Long-term advance payments	4,932	-
Other non-current assets	23	308
Trade accounts and notes payable	(81,130)	191,304
Other accounts and notes payable	237,376	(333,568)
Accrued expenses	95,915	(145,086)
Deffered tax assets	(28,355)	-
Other current liabilities	(58,038)	37,776
Other long-term accounts and notes payable	-	29,243
Payments of severance and retirement benefits, net	(37,826)	(37,039)
Other non-current liabilities	73,828	7,168
Others, net	(133)	-
Total adjustments	731,664	552,088
Net cash provided by (used in) operating activities	₩ 3,269,508	₩ (447,746)

(Continued)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of cash flows (cont'd)
For the nine months ended September 30, 2010 and 2009
(Korean won in millions)

	Nine months ended September 30,	
	2010	2009
	Unaudited	Unaudited
Cash flows from investing activities:		
Increase in short-term financial instruments, net	₩ (1,298,301)	₩ (73,062)
Decrease (increase) in short-term loans receivables, net	13,784	(13,597)
Decrease (increase) in long-term financial instruments, net	-	3,000
Increase in long-term loans receivables, net	(7,712)	(7,500)
Proceeds from disposal of available-for-sale securities	441	410
Proceeds from disposal of equity method investments	217,578	-
Proceeds from disposal of investment properties	16,183	26,354
Proceeds from disposal of property, plant and equipment	30,230	99,242
Acquisition of equity method investments	(809,953)	-
Acquisition of available-for-sale securities	(7,659)	(5,547)
Acquisition of property, plant and equipment	(1,870,948)	(291,996)
Acquisition of intangible assets	(54,017)	(16,053)
Others, net	(68,221)	(26,067)
Net cash used in investing activities	(3,838,595)	(304,816)
Cash flows from financing activities:		
Drawdown of short-term borrowings	-	599,015
Proceeds from long-term borrowings	289,867	14,114
Proceeds from issuance of bonds	298,588	-
Proceeds from issuance of convertible bonds	557,018	-
Proceeds from paid-in capital	-	1,048,500
Proceeds from exercise of stock options	13	133
Repayment of short-term borrowings	(191,403)	-
Repayment of current portion of bonds and long-term borrowings	(776,175)	(73,783)
Repayment of long-term borrowings	(18,685)	(17,475)
Stock issuance costs	(12)	(19)
Net cash provided by financing activities	159,211	1,570,485
Net increase (decrease) in cash and cash equivalents	(409,876)	817,923
Cash and cash equivalents at the beginning of the period	1,085,991	341,351
Cash and cash equivalents at the end of the period	₩ 676,115	₩ 1,159,274

See accompanying notes.

1. Corporate information

Hynix Semiconductor Inc. (the "Company") was incorporated on October 15, 1949 under the laws of the Republic of Korea. The Company is engaged in the manufacturing and marketing of semiconductors and the Company's shares have been listed on the Korea Exchange since 1996. The Company has its headquarters in I-cheon and a branch office in Seoul. The production facilities of the Company are located in I-cheon and Cheong-ju.

2. Summary of significant accounting policies

Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. In the event of any differences in interpreting the interim non-consolidated financial statements or the independent accountants' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying interim non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

Significant accounting policies

The interim non-consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Republic of Korea, including Statements of Korea Accounting Standards ("SKAS") 1 to 23 (except 14). The significant accounting policies adopted in the preparation of the interim non-consolidated financial statements (not presented herein) are consistent with those followed in the preparation of the annual financial statements, and should be read in conjunction with the annual financial statements as of December 31, 2009.

3. Accounts receivable factored

Outstanding accounts receivable factored with financial institutions as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited	Factoring terms
Trade accounts and notes receivable	₩ 51,462	₩ 471,565	With recourse

4. Inventories

Inventories as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Finished goods	₩ 286,836	₩ 227,173
Work in-process	512,074	495,135
Raw materials	86,333	73,819
Supplies	13,256	8,352
Materials in-transit	42,924	26,646
	941,423	831,125
Less: valuation allowance	(19,802)	(47,384)
	₩ 921,621	₩ 783,741

5. Other current assets

Other current assets as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Short-term loans receivable	₩ 20,681	₩ 31,147
Advance payments	16,390	20,210
Accrued income	18,519	5,853
	₩ 55,590	₩ 57,210

6. Investment in securities

(a) Available-for-sale securities as of September 30, 2010 and December 31, 2009 consist of the following (Korean won in millions):

	September 30, 2010 (Unaudited)				
	Number of shares	Ownership (%)	Acquisition cost	Fair value / proportionate net asset value	Book value (*1)
Equity securities:					
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	₩ 3,481	₩ 1,322	₩ 1,322
Hyundai Logiem Co., Ltd. (formerly, Hyundai Logistics Co., Ltd.) (*4)	15,115	0.12	76	193	98
Eqbestech Co., Ltd.	2,000	1.67	10	29	10
Novelis Korea Ltd.	159	0.12	1,699	491	1,699
Itest Co., Ltd.	481,780	1.33	1,166	516	1,166
Hyundai IT Corp.	25,286	0.03	63	14	14
Hynix HRD Center Co., Ltd. (*2)	59,102	99.65	1,195	1,117	1,170
Hylogitech Co., Ltd. (*2)	39,401	99.65	441	7	431
Fidelix Co., Ltd.	1,605,854	8.79	3,560	2,513	2513
Futurescope technology Co., Ltd.	60,000	10.44	300	(32)	300
C&S technology Co. Ltd.	1,031,590	3.91	4,508	6,076	6,076
ZMOS Technology Inc.	2,000,000	5.11	995	(178)	995
Phison Electronics Corp.	3,277,054	2.23	11,661	18,136	18,136
Anobit Technologies Ltd.	204,248	3.51	3,123	-	3,123
Specified money trusts (*3)	288,000,000	3.96	16,683	16,042	16,042
Hynix Semiconductor Indian Subcontinent Private Ltd.(HSIS)					
(*2)	100	1.00	-	-	-
Others			14,589	2,676	2
			₩ 63,550	₩ 48,922	₩ 53,097

(*1) In the event a difficulty arises in measuring reliably the fair value of available-for-sales securities due to the lack of underlying data or credibility of data, the securities were accounted for at acquisition cost.

(*2) Investments in these entities were not accounted for using the equity method of accounting as each investee's total assets were less than ₩10,000 million thresholds as of December 31, 2009, and the changes in carrying amount of each investment were immaterial.

(*3) After liquidation of the specified money trusts, the Company is expected to obtain available-for-sale securities of ProMos on the number of shares and ownership percentage as stated.

6. Investment in securities (cont'd)

(*4) During the nine months ended September 30, 2010, Hyundai Logistics Co., Ltd. changed its name to Hyundai Logiem Co., Ltd.

December 31, 2009 (Audited)					
	Number of shares	Ownership (%)	Acquisition cost	Fair value / proportionate net asset value	Book value
Equity securities:					
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	₩ 3,481	₩ 1,160	₩ 1,079
Hyundai Logistics Co., Ltd.	15,115	0.12	76	334	98
Eqbestech Co., Ltd.	2,000	1.67	10	24	10
Novelis Korea Ltd.	159	0.12	1,699	468	1,699
Itest Co., Ltd.	481,780	1.46	1,166	568	1,166
Hyundai IT Corp.	25,286	0.03	63	11	18
Hynix HRD Center Co., Ltd.	59,102	99.65	1,195	1,407	1,169
Hylogitech Co., Ltd.	39,401	99.65	441	519	431
Fidelix Co., Ltd.	1,605,854	9.89	3,560	3,324	3,236
Futurescope technology Co., Ltd.	60,000	12.95	300	31	300
C&S technology Co. Ltd.	1,031,590	4.23	4,508	3,729	3,817
ZMOS Technology Inc.	2,000,000	5.11	995	69	995
Phison Electronics Corp.	2,731,002	1.86	11,661	27,253	27,007
Anobit Technologies Ltd.	204,248	3.54	3,123	687	3,123
Specified money trusts	177,600,000	2.44	9,024	13,920	13,920
Hynix Semiconductor Indian Subcontinent Private Ltd. (HSIS)	100	1.00	-	-	-
Others			14,589	(442)	2
			₩ 55,891	₩ 47,421	₩ 58,070

The unrealized gain or loss on available-for-sale securities resulted from changes in market value of listed investees. The details of changes in unrealized gain or loss on available-for-sale securities for the nine months ended September 30, 2010 and the year ended December 31, 2009 are as follows (Korean won in millions):

Nine months ended September 30, 2010 (Unaudited)				
	January 1, 2010	Gain (loss) on valuation	September 30, 2010	
Hyundai Information Technology Co., Ltd.	₩ 888	₩ 244	₩ 1,132	
Hyundai IT Corp.	(45)	(3)	(48)	
Hyundai Logiem Co., Ltd. (formerly, Hyundai Logistics Co., Ltd.)	7	-	7	
Hynix HRD Center Co., Ltd.	(26)	-	(26)	
Hylogitech Co., Ltd.	(10)	-	(10)	
Fidelix Co., Ltd.	(324)	(723)	(1,047)	
C&S Technology Co. Ltd.	(691)	2,259	1,568	
Phison Electronics Corp.	15,346	(8,871)	6,475	
Specified money trusts	4,897	(5,538)	(641)	
	₩ 20,042	₩ (12,632)	₩ 7,410	

6. Investment in securities (cont'd)

	Year ended December 31, 2009 (Audited)		
	January 1, 2009	Gain (loss) on valuation	December 31, 2009
Hyundai Information Technology Co., Ltd.	₩ 1,243	₩ (355)	₩ 888
Hyundai IT Corp.	(57)	12	(45)
Hyundai Logistics Co., Ltd.	15	(8)	7
Hynix HRD Center Co., Ltd.	(26)	-	(26)
Hylogitech Co., Ltd.	(10)	-	(10)
Fidelix Co., Ltd.	(1,569)	1,245	(324)
C&S Technology Co. Ltd.	(1,981)	1,290	(691)
Phison Electronics Corp.	(5,473)	20,819	15,346
Specified money trusts	626	4,271	4,897
	₩ (7,232)	₩ 27,274	₩ 20,042

The balance of unrealized gains on available-for-sale securities, which are recorded in other comprehensive income, amounts to ₩3,846 million and ₩15,392 million, net of deferred income tax liabilities and assets of ₩3,564 million and ₩4,650 million, as of September 30, 2010 and December 31, 2009, respectively. In addition, the unrealized losses on available-for-sale securities of Hyundai Information Technology Co., Ltd. and Hyundai Logiem Co., Ltd. (formerly, Hyundai Logistics Co., Ltd.) are inconsistent with difference between acquisition cost and book value as those securities were transferred from equity method investments to available-for-sale securities.

The accumulated impairment losses on available-for-sale securities as of September 30, 2010 are as follows (Korean won in millions):

	Up to 2009	2010	Total
Hydi Tech Co., Ltd.	₩ 779	₩ -	₩ 779
Yonsei Digital Co., Ltd.	155	-	155
Hanse TNG Co., Ltd. (formerly, Hanse Telecom Co., Ltd.)	385	-	385
T.on Telecom Co., Ltd.	2,700	-	2,700
U.P.D. Co., Ltd.	8,747	-	8,747
Anhui Wanyan Electronics System Inc.	1,623	-	1,623
Globalstar Thailand Ltd.	93	-	93
Pak Globalstar (Private) Ltd.	106	-	106
	₩ 14,588	₩ -	₩ 14,588

6. Investment in securities (cont'd)

(b) Equity method investments as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 (Unaudited)				
	Number of shares	Ownership (%)	Acquisition cost	Proportionate net asset value	Book Value
Hynix Engineering Co., Ltd. (*1)	671,932	99.65	₩ 9,209	₩ 14,706	₩ 9,956
Hystech Co., Ltd.	236,408	99.65	4,071	4,321	4,321
Ami Power Co., Ltd. (*1)	524,852	99.65	13,816	13,757	13,379
Hyundai Display Technology Inc.	10,000	100.00	125	13,860	13,860
Siliconfile Technologies Inc. (*2)	2,358,832	29.74	22,835	22	14,875
Hynix Semiconductor America Inc. (HSA)	6,285,587	97.74	1,231,196	28,650	14,090
Hynix Semiconductor Manufacturing America Inc. (HSMA)	100,000	0.05	98	(50)	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	335,640,000	100.00	446,766	5,268	3,548
Hynix Semiconductor Certificate Deutschland GmbH (HSD)	of investment	100.00	80,956	30,071	29,876
Hynix Semiconductor Asia Pte., Ltd. (HSS)	196,303,500	100.00	137,532	58,262	51,568
Hynix Semiconductor Hong Kong Ltd. (HSH)	170,693,661	100.00	223,233	43,672	31,627
Hynix Semiconductor Certificate (Shanghai) Co., Ltd. (HSCS)	of investment	100.00	6,357	5,672	5,004
Hynix Semiconductor Japan Inc. (HSJ)	20,000	100.00	81,587	35,551	33,343
Hynix Semiconductor Taiwan Inc. (HST)	35,725,000	100.00	13,330	13,104	3,295
Hynix Semiconductor China Ltd. (HSCL) (*4,*5) (formerly, Hynix-Numonix Semiconductor Ltd. (HNSL))	Certificate of investment	90.26	1,870,280	2,445,778	2,443,201
Hynix Semiconductor (Wuxi) Ltd. (HSMC) (*3)	Certificate of investment	100.00	90,437	284,772	240,066
Hynix Semiconductor (Wuxi) Co., Ltd. (HITECH)	Certificate of investment	45.00	77,969	80,541	83,012
Hynix Semiconductor China Wuxi Ltd. (HSCW) (*6)	Certificate of investment	100.00	237	242	22
			<u>₩ 4,310,034</u>	<u>₩ 3,078,199</u>	<u>₩ 2,995,043</u>

(*1) During the nine months ended September 30, 2010, Hynix Engineering Co., Ltd. spun off its cogeneration segment to a newly incorporated entity, Ami Power Co., Ltd.

(*2) Goodwill arising from the excess of the cost of the investment over the Company's proportionate net asset value amounted to ₩13,041 million at the date of acquisition and the unamortized balance of goodwill amounted to ₩7,825 million (₩9,781 million as of December 31, 2009) as of September 30, 2010. These securities are listed on the KOSDAQ and the market value is ₩6,345 million (₩13,516 million as of December 31, 2009) as of September 30, 2010

(*3) During the nine months ended September 30, 2010, HSMC reduced its paid in capital by US\$230 million.

(*4) During the nine months ended September 30, 2010, HSCL (formerly, HNSL) increased its paid in capital by US\$260 million.

(*5) During the nine months ended September 30, 2010, the Company acquired the whole HNSL shares held by Numonix, and changed its name HNSL to HSCL.

6. Investment in securities (cont'd)

(*5) During the nine months ended September 30, 2010, the Company incorporated as a sales entity, HSCW.

	December 31, 2009 (Audited)				
	Number of shares	Ownership (%)	Acquisition cost	Proportionate net asset value	Book Value
Hynix Engineering Co., Ltd.	1,196,784	99.65	₩ 9,209	₩ 32,625	₩ 28,890
Hystech Co., Ltd.	236,408	99.65	4,071	5,127	5,127
Hyundai Display Technology Inc.	10,000	100.00	125	13,254	13,254
Siliconfile Technologies Inc.	2,358,832	29.84	22,835	8,673	18,775
Hynix Semiconductor America Inc. (HSA)	6,285,587	97.74	1,231,196	8,913	31
Hynix Semiconductor Manufacturing America Inc. (HSMA)	100,000	0.05	98	(59)	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	335,640,000	100.00	446,766	4,604	1,811
Hynix Semiconductor Certificate Deutschland GmbH (HSD)	of investment	100.00	80,956	31,982	22,011
Hynix Semiconductor Asia Pte., Ltd. (HSS)	196,303,500	100.00	137,532	58,722	52,380
Hynix Semiconductor Hong Kong Ltd. (HSH)	170,693,661	100.00	223,233	43,032	32,623
Hynix Semiconductor Certificate (Shanghai) Co., Ltd. (HSCS)	of investment	100.00	6,357	4,364	4,032
Hynix Semiconductor Japan Inc. (HSJ)	20,000	100.00	81,587	46,363	42,905
Hynix Semiconductor Taiwan Inc. (HST)	35,725,000	100.00	13,330	34,151	37,562
Hynix-Numonyx Semiconductor Ltd. (HNSL)	of investment	68.05	1,060,563	1,603,341	1,615,385
Hynix Semiconductor Certificate (Wuxi) Ltd. (HSMC)	of investment	100.00	308,015	550,507	498,902
HITECH Semiconductor Certificate (Wuxi) Co. Ltd. (HITECH)	of investment	45.00	77,969	77,955	80,427
			₩ 3,703,842	₩ 2,523,554	₩ 2,454,115

Hynix Semiconductor Inc.
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6. Investment in securities (cont'd)

The changes in carrying amount of equity method investments for the nine months ended September 30, 2010 and the year ended December 31, 2009 are as follows. (Korean won in millions):

	Nine months ended September 30, 2010 (Unaudited)						Balance at Sep. 30, 2010
	Balance at Jan. 1, 2010	Spin-off / capital increase (reduction)	Equity in earnings (loss) of investee (*1)	Share of changes in:		Allowance for doubtful accounts	
				Other comprehensive income	Other capital surplus		
Hynix Engineering Co., Ltd.	₩ 28,890	₩ (13,816)	₩ (5,119)	₩ -	₩ -	₩ -	₩ 9,955
Hystech Co., Ltd.	5,127	-	(806)	-	-	-	4,321
Ami Power Co., Ltd.	-	13,816	(437)	-	-	-	13,379
Hyundai Display Technology Inc.	13,254	-	606	-	-	-	13,860
Siliconfile Technologies Inc.	18,775	-	(3,876)	(23)	-	-	14,876
Hynix Semiconductor America Inc. (HSA)	31	-	12,033	2,027	-	-	14,091
Hynix Semiconductor Manufacturing America Inc. (HSMA)	-	-	7	1	-	(8)	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	1,811	-	3,258	(1,522)	-	-	3,547
Hynix Semiconductor Deutschland GmbH (HSD)	22,011	-	(8,056)	15,921	-	-	29,876
Hynix Semiconductor Asia Pte., Ltd. (HSS)	52,380	-	(1,082)	269	-	-	51,567
Hynix Semiconductor Hong Kong Ltd. (HSH)	32,623	-	4,979	(5,976)	-	-	31,626
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	4,032	-	645	327	-	-	5,004
Hynix Semiconductor Japan Inc. (HSJ)	42,905	-	(14,091)	4,530	-	-	33,344
Hynix Semiconductor Taiwan Inc. (HST)	37,562	-	(25,121)	(9,145)	-	-	3,296
Hynix Semiconductor China Ltd. (HSCL) (formerly, Hynix-Numonix Semiconductor Ltd. (HNSL))	1,615,385	809,716	57,899	(40,837)	1,037	-	2,443,200
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	498,902	(217,578)	(22,192)	(12,403)	(6,662)	-	240,067
HITECH Semiconductor (Wuxi) Co. Ltd. (HITECH)	80,427	-	4,380	(1,795)	-	-	83,012
Hynix Semiconductor China Wuxi Ltd. (HSCW)	-	237	(219)	4	-	-	22
	₩ 2,454,115	₩ 592,375	₩ 2,808	₩ (48,622)	₩ (5,625)	₩ (8)	₩ 2,995,043

6. Investment in securities (cont'd)

(*1) Equity in earnings (loss) of investee represents the Company's proportionate net income (loss) after considering any unrealized loss (gain) from inter-company transactions, amortization of goodwill, foreign exchange translation from elimination of inter-company transactions, and so on.

	Year ended December 31, 2009 (Audited)							
	Balance at Jan. 1, 2009	Acquisition /disposal	Equity in earnings (loss) of investee	Share of changes in:			Allowance for doubtful accounts	Balance at Dec. 31, 2009
				Retained earnings	Other comprehensive income	Other capital surplus		
Hynix Engineering Co., Ltd.	₩ 29,125	₩ -	₩ (526)	₩ (2,341)	₩ -	₩ 2,632	₩ -	₩ 28,890
Hystech Co., Ltd.	4,861	-	224	-	-	42	-	5,127
Hyundai Display Technology Inc.	12,315	-	939	-	-	-	-	13,254
Siliconfile Technologies Inc.	21,552	-	(2,844)	-	67	-	-	18,775
Hynix Semiconductor America Inc. (HSA)	56,847	-	(7,804)	-	(49,012)	-	-	31
Hynix Semiconductor Manufacturing America Inc.(HSMA)	-	-	(46)	-	3	-	43	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	2,658	-	10,421	-	(11,268)	-	-	1,811
Hynix Semiconductor Deutschland GmbH (HSD)	30,943	-	5,412	-	(14,344)	-	-	22,011
Hynix Semiconductor Asia Pte., Ltd. (HSS)	57,466	-	19,440	-	(24,526)	-	-	52,380
Hynix Semiconductor Hong Kong Ltd. (HSH)	43,495	-	25,693	-	(36,565)	-	-	32,623
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	7,052	(4,154)	2,424	-	(1,290)	-	-	4,032
Hynix Semiconductor Japan Inc. (HSJ)	40,851	-	17,008	-	(14,954)	-	-	42,905
Hynix Semiconductor Taiwan Inc. (HST)	5,455	-	54,778	-	(22,671)	-	-	37,562
Hynix-Numonyx Semiconductor Ltd. (HNSL)	1,732,681	(58,380)	81,510	-	(123,176)	(17,250)	-	1,615,385
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	512,340	-	17,469	-	(38,754)	7,847	-	498,902
HITECH Semiconductor (Wuxi) Co. Ltd. (HITECH)	-	77,969	1,618	-	840	-	-	80,427
	₩ 2,557,641	₩ 15,435	₩ 225,716	₩ (2,341)	₩ (335,650)	₩ (6,729)	₩ 43	₩ 2,454,115

6. Investment in securities (cont'd)

The summary of financial position of the investees as of September 30, 2010 and the results of their operations for the nine months then ended, are presented as follows (Korean won in millions):

	Total assets	Total liabilities	Revenues	Net income (loss)
Hynix Engineering Co., Ltd.	₩ 40,535	₩ 25,778	₩ 78,932	₩ (4,029)
Hystech Co., Ltd.	17,300	12,965	59,891	(809)
Ami Power Co., Ltd.	76,977	63,172	21,178	(59)
Hyundai Display Technology Inc.	13,860	-	-	606
Siliconfile Technologies Inc.	41,249	17,544	54,605	(6,456)
Hynix Semiconductor America Inc. (HSA) (*1)	885,294	855,982	2,469,099	16,853
Hynix Semiconductor Manufacturing America Inc. (HSMA)	88,701	189,131	-	13,995
Hynix Semiconductor Europe Holding Ltd. (HSE)	104,228	98,960	489,523	780
Hynix Semiconductor Deutschland GmbH (HSD)	205,065	174,994	685,593	221
Hynix Semiconductor Asia Pte., Ltd. (HSS)	231,630	173,368	1,020,579	843
Hynix Semiconductor Hong Kong Ltd. (HSH)	244,314	200,642	1,216,047	1,632
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	25,701	20,029	123,937	1,316
Hynix Semiconductor Japan Inc. (HSJ)	502,720	467,169	1,026,095	(13,855)
Hynix Semiconductor Taiwan Inc. (HST)	428,353	415,249	1,881,513	(21,645)
Hynix Semiconductor China Ltd. (HSCL) (formerly, Hynix-Numonix Semiconductor Ltd. (HNSL))	4,436,407	1,726,704	1,517,501	54,629
Hynix Semiconductor (Wuxi) Ltd. (HSMC) (*1)	285,794	1,022	3,955	9,096
HITECH Semiconductor (Wuxi) Co. Ltd. (HITECH)	551,848	372,869	204,112	9,733
Hynix Semiconductor China Wuxi Ltd. (HSCW)	1,602	1,360	861	11
	<u>₩ 8,181,578</u>	<u>₩ 4,816,938</u>	<u>₩ 10,853,421</u>	<u>₩ 62,862</u>

(*1) Due to the differences identified between the accounting policies adopted by the equity method investees and those of the Company, the Company made adjustments to HSA and HSMC's financial statements. Consequently, HSA's and HSMC's net loss and income were changed from ₩1,770 million and ₩3,776 million, respectively, to net incomes of ₩16,853 million and ₩9,096 million, respectively, for the nine months ended September 30, 2010.

6. Investment in securities (cont'd)

The summary of financial position of the investees as of December 31, 2009 and the results of their operations for the year then ended, are presented as follows (Korean won in millions):

	Total assets	Total liabilities	Revenues	Net income (loss)
Hynix Engineering Co., Ltd.	₩ 107,110	₩ 74,367	₩ 58,702	₩ (298)
Hystech Co., Ltd.	14,944	9,799	68,279	227
Hyundai Display Technology Inc.	13,254	-	-	939
Siliconfile Technologies Inc.	39,163	9,190	75,856	(793)
Hynix Semiconductor America Inc. (HSA)	613,321	604,202	1,881,276	(54,381)
Hynix Semiconductor Manufacturing America Inc. (HSMA)	82,227	199,310	647	(71,627)
Hynix Semiconductor Europe Holding Ltd. (HSE)	134,059	129,455	459,802	1,972
Hynix Semiconductor Deutschland GmbH (HSD)	156,280	124,298	532,516	3,370
Hynix Semiconductor Asia Pte., Ltd. (HSS)	244,643	185,921	843,353	5,701
Hynix Semiconductor Hong Kong Ltd. (HSH)	236,452	193,420	1,080,689	2,995
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	24,714	20,351	104,398	1,992
Hynix Semiconductor Japan Inc. (HSJ)	249,141	202,778	851,313	9,989
Hynix Semiconductor Taiwan Inc. (HST)	552,450	518,300	1,663,716	30,433
Hynix-Numonyx Semiconductor Ltd. (HNSL)	4,325,120	1,968,999	1,987,808	82,734
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	555,856	5,349	60,248	52,587
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	429,758	256,524	7,043	(1,898)
	<u>₩7,778,492</u>	<u>₩4,502,263</u>	<u>₩ 9,675,646</u>	<u>₩ 63,942</u>

7. Related party transactions

- (a) The related parties of the Company and nature of their relationship with the Company as of September 30, 2010 are as follows:

Company name	Parent company
Hynix Engineering Co., Ltd.	The Company
Hystech Co., Ltd.	The Company
Ami Power Co., Ltd.	The Company
Hyundai Display Technology Inc.	The Company
Hynix Semiconductor America Inc. (HSA)	The Company
Hynix Semiconductor Manufacturing America Inc. (HSMA)	HSA
Hynix Semiconductor Deutschland GmbH (HSD)	The Company
Hynix Semiconductor U.K. Ltd. (HSU)	HSE
Hynix Semiconductor Europe Holding Ltd. (HSE)	The Company
Hynix Semiconductor Japan Inc. (HSJ)	The Company
Hynix Semiconductor Asia Pte., Ltd. (HSS)	The Company
Hynix Semiconductor Hong Kong Ltd. (HSH)	The Company
Hynix Semiconductor Taiwan Inc. (HST)	The Company
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	The Company
Hynix Semiconductor China Ltd. (HSCL)	The Company
(formerly, Hynix-Numonix Semiconductor Ltd. (HNSL))	
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	The Company
Hynix Semiconductor China Wuxi Ltd. (HSCW)	The Company

- (b) Compensation for key management personnel for the nine months ended September 30, 2010 and 2009 is as follows (Korean won in millions):

	Three months ended Sep. 30, 2010 (Unaudited)	Nine months ended Sep. 30, 2010 (Unaudited)	Three months ended Sep. 30, 2009 (Unaudited)	Nine months ended Sep. 30, 2009 (Unaudited)
Salaries	₩ 2,622	₩ 7,746	₩ 2,606	₩ 6,589
Post-retirement benefits	423	3,612	834	23
Long-term service incentives	5	45	-	-
Total	<u>₩ 3,050</u>	<u>₩ 11,403</u>	<u>₩ 3,440</u>	<u>₩ 6,612</u>

Key management personnel includes one chief executive officer, nine directors, three audit committee members and 34 other executives who have the authority and responsibilities for planning, operation and control regarding the Company's business.

7. Related party transactions (cont'd)

(c) Significant transactions with related parties for the nine months ended September 30, 2010 and 2009 are as follows (Korean won in millions):

Related party	Primary activities	Transactions	Nine months ended September 30,	
			2010 Unaudited	2009 Unaudited
HSA	Sales	Revenues	₩ 2,424,086	₩1,093,130
HSMA	Manufacturing	Interest income	377	81
		Purchases	-	93
HSD	Sales	Revenues	686,251	317,479
HSU	Sales	Revenues	484,721	272,774
HSJ	Sales	Revenues	1,008,670	543,736
		Disposal of property, plant and equipment	-	165
		Purchases	60,621	52,669
		Purchase of property, plant and equipment	361,059	38,496
HSS	Sales	Revenues	1,014,463	481,013
HSH	Sales	Revenues	1,183,027	644,145
		Disposal of property, plant and equipment	-	162
HST	Sales	Revenues	1,887,350	1,022,238
		Disposal of property, plant and equipment	417	-
HSCS	Sales	Revenues	49,769	46,827
HSCL (formerly, HNSL)	Manufacturing	Revenues	18,307	13,527
		Rent income	584	5,519
		Disposal of property, plant and equipment	453	14,476
		Purchases	1,530,685	1,490,537
HSMC	Manufacturing	Rent income	46	57
		Purchases	-	94
HSCW	Sales	Revenues	828	-
HITECH	Manufacturing	Purchases	206,445	-
		Rent income	519	-
		Interest expense	31,107	-
		Revenues	22,017	6,419
Domestic affiliated companies	Manufacturing and others	Rent income	8,341	12,416
		Interest income	3,969	1,858
		Other income	4,944	1,010
		Disposal of property, plant and equipment	-	4
		Service fee and other expenses	136,333	88,044

7. Related party transactions (cont'd)

Related party	Primary activities	Transactions	Nine months ended September 30,	
			2010 Unaudited	2009 Unaudited
		Interest expense	546	1,125
		Sales and other income	₩ 8,799,139	₩ 4,477,036
		Purchases and others	₩ 2,326,796	₩ 1,671,058

(d) Outstanding balances with related parties as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

Related party	Primary activities	Accounts	September 30, December 31,	
			2010 Unaudited	2009 Audited
HSA	Sales	Trade accounts and notes receivable	₩ 624,036	₩ 278,826
		Trade accounts and notes payable	195	36
		Other accounts and notes payable	3,170	7,612
HSMA	Manufacturing	Other accounts receivable	34,611	35,383
		Other current assets	30	25,311
		Loans	15,388	-
		Trade accounts and notes payable	-	25
HSD	Sales	Trade accounts and notes receivable	148,163	60,615
		Other accounts and notes payable	664	767
HSU	Sales	Trade accounts and notes receivable	91,084	78,257
		Other accounts and notes payable	263	304
HSJ	Sales	Trade accounts and notes receivable	169,395	80,587
		Other accounts receivable	17	674
		Trade accounts and notes payable	22,448	15,571
		Other accounts and notes payable	168,216	24,783
HSS	Sales	Trade accounts and notes receivable	158,407	137,395
		Other accounts and notes payable	435	731
HSH	Sales	Trade accounts and notes receivable	192,578	138,493
		Other accounts and notes payable	2,265	1,484
HST	Sales	Trade accounts and notes receivable	221,764	128,460

7. Related party transactions (cont'd)

Related party	Primary activities	Accounts	September 30, 2010 Unaudited	December 31, 2009 Audited
HST	Sales	Other accounts receivable	₩ 406	₩ -
		Other accounts and notes payable	8,881	4,625
		Accrued expenses	528	-
		Other current liabilities	12,495	101,296
HSCS	Sales	Trade accounts and notes receivable	6,256	11,521
		Other accounts and notes payable	31	67
HSCL (formerly, HNSL)	Manufacturing	Trade accounts and notes receivable	2,864	2,843
		Other accounts receivable	137	194
		Other current assets	-	11
		Trade accounts and notes payable	325,876	256,356
HSMC	Manufacturing	Other accounts receivable	5	16
		Trade accounts and notes payable	-	117,140
HSCW	Manufacturing	Trade accounts and notes receivable	813	-
HITECH	Manufacturing	Other accounts receivable	3,709	467
		Trade accounts and notes payable	29,482	6,885
		Other current liabilities	-	161,868
		Borrowings	319,418	147,148
		Accrued expenses	1,074	-
Domestic affiliated companies	Manufacturing and others	Trade accounts and notes receivable	7,225	5,172
		Other accounts receivable	1,431	1,736
		Other current assets	-	1
		Long-term loans	60,894	62,849
		Trade accounts and notes payable	92	142
		Other accounts and notes payable	14,271	24,048
		Short-term borrowings	8,582	8,582
		Accrued expenses	6,200	3,933
Total		Receivables	₩ 1,739,213	₩ 1,048,811
		Payables	₩ 924,586	₩ 883,403
		Allowance provided for receivables above	₩ 58	₩ 58
		Reversal of allowance for receivables above	₩ -	₩ 364

- (e) The Company was contingently liable for guarantees provided on obligations and indebtedness of the subsidiaries amounting to ₩60,595 million in equivalent Korean won as of December 31, 2009.

7. Related party transactions (cont'd)

- (f) In addition to transactions with related parties above, the Company entered into cross currency swap contracts with its stockholders such as Korea Exchange Bank, Korea Development Bank and Woori Bank, in relation to the unsecured public offering of bonds and corresponding interest (Note 20 (1)). The balances of loans provided to the employees as of September 30, 2010 and December 31, 2009 were ₩1,401 million and ₩1,653 million, respectively.

8. Investment properties

Changes in the net book value of investment properties for the nine months ended September 30, 2010 and the year ended December 31, 2009 are as follows (Korean won in millions):

	Nine months ended September 30, 2010 Unaudited	Year ended December 31, 2009 Audited
As of January 1	₩ 86,566	₩ 114,554
Transfer during the period (*1)	(13,178)	27,461
Disposition during the period	(40,145)	(38,540)
Impairment during the period	(7,390)	(16,909)
	₩ 25,853	₩ 86,566

(*1) During the nine months ended September 30, 2010, the Company transferred investment properties amounting to ₩14,479 million to property, plant and equipment due to the change in holding purpose from held-for-sale to manufacturing operations, and property, plant and equipment amounting to ₩1,301 million to investment properties.

9. Property, plant and equipment

- (a) Details of property, plant and equipment as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 (Unaudited)			
	Cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 262,839	₩ -	₩ -	₩ 262,839
Buildings	1,387,013	(316,767)	(27,624)	1,042,622
Structures	454,397	(302,142)	(60,116)	92,139
Machinery and equipment	15,030,008	(10,098,949)	(265,115)	4,665,944
Vehicles	1,048	(821)	-	227
Other	453,961	(346,181)	(2,887)	104,893
Construction-in-progress	717,542	-	-	717,542
	₩ 18,306,808	₩ (11,064,860)	₩ (355,742)	₩ 6,886,206

9. **Property, plant and equipment (cont'd)**

	December 31, 2009 (Audited)			
	Cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 262,838	₩ -	₩ -	₩ 262,838
Buildings	1,355,920	(290,600)	(27,625)	1,037,695
Structures	450,176	(290,218)	(60,116)	99,842
Machinery and equipment	15,641,958	(10,694,896)	(281,082)	4,665,980
Vehicles	934	(803)	-	131
Other	450,005	(320,289)	(3,659)	126,057
Construction-in-progress	132,660	-	-	132,660
	<u>₩ 18,294,491</u>	<u>₩ (11,596,806)</u>	<u>₩ (372,482)</u>	<u>₩ 6,325,203</u>

(b) Changes in the net book value of property, plant and equipment for the nine months ended September 30, 2010 and year ended December 31, 2009 are as follows (Korean won in millions):

	Nine months ended September 30, 2010 (Unaudited)				
	Jan. 1, 2010	Additions	Disposals	Transfer	Depreciation
Land	₩ 262,838	₩ 1	₩ -	₩ -	₩ -
Buildings	1,037,695	184	(2,819)	34,741	(27,179)
Structures	99,842	-	-	4,221	(11,924)
Machinery and equipment	4,665,980	-	(4,123)	1,241,253	(1,237,166)
Vehicles	131	154	-	12	(70)
Other	126,057	-	(241)	18,678	(39,601)
Construction-in-Progress	132,660	1,870,609	-	(1,285,727)	-
	<u>₩ 6,325,203</u>	<u>₩ 1,870,948</u>	<u>₩ (7,183)</u>	<u>₩ 13,178</u>	<u>₩ (1,315,940)</u>

	Year ended December 31, 2009 (Audited)					
	Jan. 1, 2009	Additions	Disposals	Transfer	Depreciation	Impairment
Land	₩ 278,000	₩ 102	₩ (15,265)	₩ 1	₩ -	₩ -
Buildings	1,086,476	19,141	(30,047)	(1,920)	(35,955)	-
Structures	117,085	761	(1,970)	82	(16,116)	-
Machinery and equipment	5,848,392	149,422	(28,513)	372,362	(1,673,565)	(2,118)
Vehicles	204	-	-	-	(73)	-
Other	175,334	94	(701)	10,527	(59,197)	-
Construction-in-progress	172,922	368,251	-	(408,513)	-	-
	<u>₩ 7,678,413</u>	<u>₩ 537,771</u>	<u>₩ (76,496)</u>	<u>₩ (27,461)</u>	<u>₩ (1,784,906)</u>	<u>₩ (2,118)</u>

Capitalized interest costs for the nine months ended September 30, 2010 and 2009 were ₩16,470 million and ₩716 million, respectively.

10. Leases

- (a) As of September 30, 2010, the Company entered into lease agreements for certain of its machinery and equipment with HP Financial Services and GE Capital, which were recorded as capital leases pursuant to the terms of the agreements. In addition HSMC sold its machinery and equipment to HITECH Semiconductor (Wuxi) Co., Ltd., a joint venture of the Company and Taiji Industry Ltd., which were recorded as capital leases.

The details of capital lease obligations of the Company as of September 30, 2010 are as follows (Korean won in millions):

	Principal	Interest	Total
October 1, 2010 ~ September 30, 2011	₩ 102,800	₩ 23,534	₩ 126,334
October 1, 2011 ~ September 30, 2012	51,172	15,295	66,467
October 1, 2012 ~ September 30, 2013	40,987	10,101	51,088
October 1, 2013 ~ September 30, 2014	35,839	4,595	40,434
October 1, 2014 and thereafter	10,085	308	10,393
	₩ 240,883	₩ 53,833	₩ 294,716

For the nine months ended September 30, 2010 and 2009, the depreciation expense related to machinery and equipment under capital lease amounted to ₩64,380 million and ₩41,877 million, respectively.

- (b) The Company has commercial operating leases for certain machinery and equipment with GE Capital and Macquarie Capital. Future minimum rentals payable under such operating leases as of September 30, 2010 are as follows (Korean won in millions):

	Future minimum rentals payable
October 1, 2010 ~ September 30, 2011	₩ 64,657
October 1, 2011 ~ September 30, 2012	8,143
	₩ 72,800

11. Intangible assets

- (a) Changes in the net book value of intangible assets for the nine months ended September 30, 2010 and the year ended December 31, 2009 are as follows (Korean won in millions):

	Nine months ended September 30, 2010 (Unaudited)			
	Goodwill (*1)	Industrial property rights	Development costs	Total
Beginning balance	₩ 386,450	₩ 75,043	₩ -	₩ 461,493
Additions/increases	-	22,757	31,260	54,017
Disposals	-	(2,585)	-	(2,585)
Amortization	(29,727)	(11,080)	-	(40,807)
Ending balance	₩ 356,723	₩ 84,135	₩ 31,260	₩ 472,118

(*1) Goodwill resulted from the merger with Hyundai Semiconductor Co., Ltd. (formerly, LG Semicon Co., Ltd.) in 1999.

11. Intangible assets (cont'd)

	Year ended December 31, 2009 (Audited)		
	Goodwill	Industrial property rights	Total
Beginning balance	₩ 426,086	₩ 69,683	₩ 495,769
Additions	-	22,208	22,208
Disposals	-	(260)	(260)
Amortization	(39,636)	(13,337)	(52,973)
Impairment loss	-	(3,251)	(3,251)
Ending balance	₩ 386,450	₩ 75,043	₩ 461,493

- (b) Among the expenditures on development activities incurred for the nine months ended September 30, 2010, the Company capitalized certain development costs amounting to ₩31,260 million that met the criteria of recognition on intangible assets.
- (c) Research and development costs incurred and charged to operations for the nine months ended September 30, 2010 and 2009 amounted to ₩650,857 million and ₩593,158 million, respectively, and were recorded as selling and administrative expenses.

12. Other non-current assets

Other assets as of September 30, 2010 and December 31, 2009 consist of the following (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Leasehold deposits, less allowance for doubtful accounts of ₩139 in 2010 and ₩136 in 2009	₩ 3,569	₩ 3,267
Other long-term accounts and notes receivables, less allowance for doubtful accounts of ₩9,711 in 2010 and ₩27,013 in 2009	105	111
Other deposits	90,109	39,973
	₩ 93,783	₩ 43,351

13. Other current liabilities

Other current liabilities as of September 30, 2010 and December 31, 2009 consist of the following (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Advances received	₩ 18,391	₩ 267,179
Unearned revenue	3,363	5,173
Withholdings	10,182	19,756
Accrual for loss on purchase commitment	461	409
Derivative liabilities	47,100	29,417
	₩ 79,497	₩ 321,934

14. Short-term borrowings

Short-term borrowings as of September 30, 2010 and December 31, 2009 consist of the following (Korean won in millions):

Description	Institution	Annual interest rate (%)	September 30, 2010 Unaudited	December 31, 2009 Audited
Usance financing	Korea Development Bank and others	1.01 ~ 5.25	₩ 383,772	₩ 579,541
Borrowings	Hyundai Display Technology Inc.	8.50	8,582	8,582
Foreign currency loan	The Export-Import Bank of Korea	3M Libor + 3.00	22,840	23,352
Foreign currency loan	The Export-Import Bank of Korea	3M Libor + 3.00	45,680	46,704
Syndicated loans	Korea Development Bank and others	CD(91days) +3.00	300,000	300,000
			<u>₩ 760,874</u>	<u>₩ 958,179</u>

15 Bonds, long-term borrowings and other long-term accounts and notes payable

(a) The details of bonds issued as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	Maturity	Annual interest rate (%)	September 30, 2010 Unaudited	December 31, 2009 Audited
Bonds:				
Local currency (unsecured):				
Public offering (*1)	May 25, 2012	5.70	₩ 150,000	₩ 150,000
Public offering	Sep. 5, 2012	6.19	150,000	150,000
Public offering	Dec. 20, 2010	6.88	70,000	70,000
Public offering	Feb. 15, 2011	6.51	150,000	150,000
Public offering	May 15, 2011	6.97	200,000	200,000
Public offering	Oct. 5, 2011	7.90	200,000	200,000
	Sep. 9, 2013	6.35	300,000	-
Foreign currency (unsecured):				
Public offering	Jun. 27, 2017	7.875	571,000	583,800
			<u>1,791,000</u>	<u>1,503,800</u>
Less:				
Discount on bonds			(6,834)	(6,923)
Current portion			(419,729)	(69,898)
			<u>₩ 1,364,437</u>	<u>₩ 1,426,979</u>

(*1) The Company entered into cross-currency swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank, in relation to these bonds and interest payments (Note 20 (1)).

15 Bonds, long-term borrowings and other long-term accounts and notes payable (cont'd)

- (b) The details of convertible bonds issued as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	Maturity	Annual interest rate (%)	September 30, 2010 Unaudited	December 31, 2009 Audited
Convertible bonds (*1)	Dec. 14, 2012	4.50	₩ 33,005	₩ 539,353
Convertible bonds (*2)	Sep. 5, 2013	3.00	484,967	499,786
Convertible bonds (*3)	May 14, 2015	2.65	565,500	-
			1,083,472	1,039,139
Addition:				
Redemption premium			78,115	80,501
Less:				
Conversion right adjustments			(199,000)	(149,667)
Discount on bonds			(12,939)	(9,832)
Current portion			(484,846)	(478,398)
			₩ 464,802	₩ 481,743

- (*1) The Company issued unsecured foreign currency convertible bonds amounting to US\$583 million on December 14, 2007 on the Singapore Stock Exchange. Convertible bonds carry an early redemption option allowing bondholders the redemption of the issue on June 14, 2010 and the Company the redemption of the issue after three years from the date of issuance. The Company redeemed the convertible bonds amounting to US\$547.7 million upon the request for early redemption from the bondholders on June 14, 2010. As of June 30, 2010, the balance of the convertible bonds amounting to US\$35.7 million is classified as non-current liabilities.
- (*2) The Company issued unsecured convertible bonds amounting to ₩500,000 million on September 5, 2008 on the Korea Exchange. Convertible bonds carry an early redemption option allowing bondholders the redemption of the issue on September 5, 2011 and the Company the redemption of the issue after three years from the date of issuance. The bondholders have converted a portion of such convertible bonds at the face value of ₩14,819 million into 635 thousand shares of common stock during the nine months ended September 30, 2010.
- (*3) The Company issued unsecured foreign currency convertible bonds amounting to US\$500 million on May 14, 2010 on the Singapore Stock Exchange. Convertible bonds carry an early redemption option allowing bondholders the redemption of the issue on May 14, 2013 and the Company the redemption of the issue after three years from the date of issuance.

The terms and conditions of the issuance are as follows:

	Issued on December 14, 2007 (*①)	Issued on September 5, 2008 (*②)	Issued on May 14, 2010 (*③)
Total face value of bonds	US\$35,700,000	₩484,967 million	US\$500,000,000
Maturity	December 14, 2012	September 5, 2013	May 14, 2015
Redemption value at maturity	100% of face value (yield to maturity at 4.5%)	100% of face value (yield to maturity at 5.8%)	100% of face value (yield to maturity at 2.65%)
Terms of early redemption	On June 14, 2010 upon request from the bondholders or after three years from the date of issuance upon request from the Company	On September 5, 2011 upon request from the bondholders or after three years from the date of issuance upon request from the Company	On May 14, 2013 upon request from the bondholders or after three years from the date of issuance upon request from the Company

15. **Bonds, long-term borrowings and other long-term accounts and notes payable (cont'd)**

	Issued on December 14, 2007 (*①)	Issued on September 5, 2008 (*②)	Issued on May 14, 2010 (*③)
<i>Terms and conditions for conversion:</i>			
Conversion ratio	100% of face value of the bonds	100% of face value of the bonds	100% of face value of the bonds
Conversion price	₩36,056 per share (applicable exchange rate: ₩919.9/US\$)	₩23,328 per share	₩34,580 per share (applicable exchange rate: ₩1,133.8/US\$)
Conversion period	December 15, 2008 through November 29, 2012	October 5, 2008 through August 5, 2013	May 15, 2011 through April 28, 2015
Total number of shares convertible	911 thousand shares	20,789 thousand shares	16,394 thousand shares
Assumed exercise date of conversion rights	At the beginning of a fiscal year for all rights exercised during the year	At the beginning of a fiscal year for all rights exercised during the year	At the beginning of a fiscal year for all rights exercised during the year

(*①) The Company recorded the equity component of the conversion rights amounting to ₩64,933 million (net of tax of ₩24,630 million) as other capital surplus.

(*②) The Company recorded the equity component of the conversion rights amounting to ₩29,455 million (net of tax of ₩8,641 million) as other capital surplus.

(*③) The Company recorded the equity component of the conversion rights amounting to ₩101,818 million (net of tax of ₩29,374 million) as other capital surplus.

- (c) The details of long-term borrowings denominated in local currency, as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	Annual interest rate (%)	September 30, 2010 Unaudited	December 31, 2009 Audited
Local currency denominated:			
Kookmin Bank	5.20	₩ 48	₩ 52
Kookmin Bank	CD (91days) +2.00	45,000	90,000
National Agricultural Cooperative Federation	2.00	308	308
Korea Finance Corporation	Industrial Finance Bond (1 year) + 1.6	200,000	-
HP Financial Services	5.80 ~ 6.50	9,484	19,907
		254,840	110,267
Less: current portion		(82,898)	(65,445)
		₩ 171,942	₩ 44,822

15. Bonds, long-term borrowings and other long-term accounts and notes payable (cont'd)

	Annual interest rate (%)	September 30, 2010 Unaudited	December 31, 2009 Audited
Foreign currency denominated:			
The Export-Import Bank of Korea	3M Libor + 3.40	₩ 165,590	₩ 189,151
	3M Libor + 3.40	38,067	53,515
National Agricultural Cooperative Federation	3M Libor + 0.69	76,099	116,760
National Agricultural Cooperative Federation	3M Libor + 3.90	57,100	-
Korea Exchange Bank and others	3M Libor + 1.90	548,160	630,504
HITECH	8.13 ~ 15.73	254,339	-
HITECH and GE Capital	6.66 ~ 14.60	231,398	267,412
		1,370,753	1,257,342
Less: discount on present value		(64,352)	(3,754)
Less: current portion		(526,565)	(492,757)
		₩ 779,836	₩ 760,831

(d) The details of other long-term accounts and notes payable as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

Creditor	Description	September 30, 2010 Unaudited	December 31, 2009 Audited
US Department of Justice and individual purchasers class	Anti-trust fine (Note 19 (3))	₩ 74,230	₩ 151,788
Veolia Water Industrial Development Co., Ltd.	Obligations in relation to supply of industrial water (Note 19 (6))	200,031	245,451
		274,261	397,239
Less: discount on present value		(46,647)	(64,618)
Less: current portion		(114,602)	(147,882)
		₩ 113,012	₩ 184,739

(e) The repayment schedules of the above bonds, convertible bonds, long-term borrowings and other long-term accounts and notes payable as of September 30, 2010 are as follows (Korean won in millions):

Period	Bonds		Long-term borrowings		Other long-term accounts and notes payable	Total
	Bonds	Convertible bonds (*1)	Local currency	Foreign currency		
October 1, 2010 ~ Sep 30, 2011	₩ 420,000	₩ -	₩ 82,898	₩ 532,703	₩ 130,828	₩ 1,166,429
October 1, 2011 ~ Sep 30, 2012	500,000	-	121,604	612,042	53,203	1,286,849
October 1, 2012 ~ Sep 30, 2013	300,000	517,972	50,058	95,229	31,945	995,204
October 1, 2013 ~ Sep 30, 2014	-	-	74	90,081	12,952	103,107

15. Bonds, long-term borrowings and other long-term accounts and notes payable (cont'd)

Period	Bonds		Long-term borrowings		Other long-term accounts and notes payable	Total
	Bonds	Convertible bonds (*1)	Local currency	Foreign currency		
October 1, 2014 and thereafter	571,000	565,500	207	40,698	45,333	1,222,738
	<u>₩ 1,791,000</u>	<u>₩1,083,472</u>	<u>₩ 254,841</u>	<u>₩1,370,753</u>	<u>₩ 274,261</u>	<u>₩4,774,327</u>

(*1) Convertible bonds amounting to ₩484,967 million carry an early redemption option allowing bondholders the redemption of the issue on September 5, 2011 prior to the stated maturity date on September 5, 2013. The Company has no right to defer the early redemption of the bonds against the request from the bondholders. Accordingly, such convertible bonds were classified as part of current liabilities as of September 30, 2010.

16. Pledged assets

Assets pledged by the Company as collateral for long-term debt and others as of September 30, 2010 are as follows (Korean won in millions):

Asset	Pledged to	Pledged amount
Property, plant and equipment (*1)	The Export-Import Bank of Korea and others	₩ 3,346,713

(*1) According to the terms of the syndicate loans borrowed in May 2007 and revolving credit facility in July 2005, the Company is required to pledge additional tangible assets acquired in I-cheon facility on a semi-annual basis.

Other than the guarantees provided for related companies, as described in Note 7(e), the Company also provided guarantee for the indebtedness of employees amounting to ₩48 million as of September 30, 2010, and guarantee for indebtedness of a special purpose company, ProMOS N.H. Limited, amounting to ₩60,000 million, which is effective for the period from August 21, 2008 to September 20, 2011

17. Other long-term liabilities

Other long-term liabilities as of September 30, 2010 and December 31, 2009 consist of the following (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Leasehold deposits received	₩ 1,923	₩ 2,722
Withholdings	3,031	3,693
Long-term accrued expenses	74,868	3,503
Long-term derivatives payable	27,818	62,889
	<u>₩ 107,640</u>	<u>₩ 72,807</u>

18. Valuation of liabilities at present value

Accounts which are recorded at present value other than bonds and long-term borrowings as of September 30, 2010 are summarized as follows (Korean won in millions):

	Discount rate (%)	Period	Nominal value	Discount on present value	Book value
Other long-term accounts and notes payable (including current portion):					
US Department of Justice	3.90	2005 ~ 2010	₩ 39,970	₩ -	₩ 39,970
Anti-trust purchasers class	5.81	2009 ~ 2010	34,260	(562)	33,698
Veolia Water Industrial Development Co., Ltd.	11.48	2001 ~ 2018	200,031	(46,085)	153,946
			<u>₩ 274,261</u>	<u>₩ (46,647)</u>	<u>₩ 227,614</u>

19. Commitments and contingencies

- (1) Special agreement with Creditor Financial Institutions' Council - On July 12, 2005, the Creditor Financial Institutes ("Creditor Council") which took operational control over the Company since October 4, 2001, was terminated by entering into a special agreement between the Company and the Share Management Council (formerly, the Creditor Council). Under the special agreement, the Company is required to consult with the Share Management Council in advance on events that could have a significant effect on the Company's management including (a) appointment and dismissal of directors, (b) adoption of annual budgets, (c) investments in subsidiaries, (d) mergers, acquisitions or other strategic projects, and (e) organization and operation of corporate controlling structures. The special agreement remains in effect until the members of the Share Management Council substantially sell their equity interests in the Company.

During the nine months ended September 30, 2010, the Company entered into an additional agreement in regards to the credit for the Company with six financial institutions including Korea Exchange Bank which is a member of the Share Management Council. In accordance with the agreement, when the Share Management Council determines that a change in the controlling shareholders or a majority of the Company's Board of Directors significantly affects the Company's capability to repay its borrowings, the Share Management Council reserves the right to request for an early redemption on all the borrowings from the six financial institutions. The additional agreement remains in effect until a change of the controlling shareholders, or a majority of the Company's Board of Directors in which the Share Management Council approves of.

- (2) Countervailing duty - In 2003, the European Commission of the European Union ("EU") had imposed 34.8% in countervailing duty on imports of DRAM products manufactured in Korea into the EU jurisdiction. However, on April 9, 2008, the EC determined to repeal the countervailing duty imposed on the Company's DRAM products retroactively effective from December 31, 2007. Consequently, importation of the Company's DRAM products manufactured in Korea into the EU jurisdiction is no longer subject to countervailing duty effective from December 31, 2007.

In 2003, the Department of Commerce ("DOC") and the International Trade Commission ("ITC") of the United States had determined that the United States DRAM product manufacturers had suffered damage from the Company's debt restructuring by the Creditor Council and, consequently, imposed 44.29% in countervailing duty on imports of the DRAM product manufactured in Korea into the United States. The DOC adjusted the rate of countervailing duty to 58.11%, 31.86%, 23.78%, 4.91% and 0% in its first, second, third, fourth and fifth annual reviews in April 2006, February 2007, March 2008, February 2009 and November 2009, respectively. However, on July 1, 2008, the DOC and the ITC commenced a sunset review, and then, on October 3, 2008, they lifted the countervailing duty imposed on the Company's DRAM product retroactively to August 11, 2008. As a result, importation of the Company's DRAM products manufactured in Korea into the United States is no longer subject

19. Commitments and contingencies (cont'd)

to countervailing duty. As of September 30, 2010, the sixth annual review is in process for the refund of countervailing duty that was overpaid in 2008.

In relation to a countervailing duty investigation against the Company in Japan, the Japanese government made a ruling to impose a 27.2% countervailing duty on DRAM products in 2006, however, reduced the rate of countervailing duty to 9.1% following the WTO's recommendation.

Thereafter, as a result of a changed circumstance review started from October 15, 2008, the final countervailing duty was abolished on April 23, 2009, and the Japanese government has not imposed any countervailing duty on DRAM products manufactured in Korea by the Company since then.

- (3) Anti-Trust Act - In June 2002, the United States Department of Justice ("DOJ") notified the Company that the DOJ had commenced an investigation if certain Dynamic Random Access Memory ("DRAM") manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Company entered into a plea agreement with the DOJ to pay a fine in the amount of US\$185 million in installments over the next five years without interest. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages for the breach of the US Anti-Trust Act by the Company and Hynix Semiconductor America Inc. ("HSA"), its sales subsidiary located in the United States. In relation to the lawsuits, the Company reached settlements through separate negotiations with several major DRAM product Original Equipment Manufacturing ("OEM") users and also reached an agreement with the direct purchasers class on April 29, 2006 to pay US\$73 million and subsequently with certain direct purchasers who broke away from the direct purchasers class in June and October 2009 to pay US\$130 million. As of September 30, 2010, the Company is in the process of settlements with the indirect purchaser classes and 33 state governments in the United States to pay US\$52 million. Meanwhile, the European Commission adopted its decision settling a DRAM cartel investigation involving 10 producers of DRAM including the Company in May 2010. In accordance of the settlement decision, the Company paid EUR51 million during the nine months ended September 30, 2010. As a result, as of September 30, 2010, the Company recorded liabilities related to Anti-Trust cases amounting to US\$112 million for the fine and estimated future losses expected to be incurred from settlements with the US government. Furthermore, as of September 30, 2010, the civil suits in connection to DRAM against the direct and indirect purchaser classes of three provinces of Canada are, as of September 30, 2010, in progress.

Separately, the European Commission and the DOJ investigated the unfair transactions among certain Static Random Access Memory ("SRAM") manufacturers and sellers, including the Company, and the European Commission and DOJ informed the Company in November and December 2008, respectively, that they closed their investigations. Thereafter, the Company reached settlements through separate negotiations with the direct and indirect purchaser classes to pay US\$ 3.32 million and US\$ 0.95 million, respectively, in relation to the lawsuits that were in progress in the US courts, which the Company paid all in January and April 2010, respectively. Meanwhile, as of September 30, 2010, the civil suits in connection with SRAM and Flash memory were filed by the direct and indirect purchaser classes of three provinces of Canada. In addition, as of September 30, 2010, the lawsuits filed by the direct and indirect purchaser classes against the manufacturers, including the Company in connection with Flash memory are in progress in the US courts. As of September 30, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

- (4) As of September 30, 2010, the Company's pending litigation is as follows:

- ① Litigation filed by Rambus - The Company is a defendant in a litigation brought by Rambus Inc. ("Rambus"), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Company's manufacture, sales, offer for sales, use or otherwise disposal of Single Data Rate ("SDR") Synchronous Dynamic Random Access Memory ("SDRAM") and Double Data Rate ("DDR") SDRAM products. The litigation has been brought in Germany, France, the United Kingdom and the United States. In 2004, the European Patent Office revoked Rambus' certain key patents subject to such litigation against the Company in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United

19. Commitments and contingencies (cont'd)

Kingdom was dismissed, the litigation in France ceased further proceedings, and the litigation in Germany has been deferred without any progress. Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the final judgment that ordered the Company to pay for damages for the infringement of Rambus' patents and to pay royalties of 1% for SDR SDRAM products and 4.25% for DDR SDRAM products manufactured or sold in the United States from February 1, 2009 to April 17, 2010, while denying Rambus' request for injunctive relief.

The Company appealed the court's final judgment to the United States Court of Appeals for the Federal Circuit on April 6, 2009. Meanwhile, the United States District Court for the Northern District of California accepted the Company's motion to stay of execution of the final judgment ruling that such execution should be stayed on the condition that the Company posts a bond and provides part of its Cheong-ju plant in Korea as a collateral while the Company pursues the filing of the appeal at the United States Court of Appeals for the Federal Circuit. This ruling prevents Rambus from seeking to collect its damages while the appeal is pending. In September 2010, however, as considering the improvement in the Company's financial environment, the United States District Court for the Northern District of California ordered the Company to provide an additional bond equivalent to part of its Cheong-ju plant in as collateral. In connection with this ruling, Korea Development Bank and others have provided payment guarantee in the amount of US\$250 million for the Company as of September 30, 2010. Separately, Rambus also brought another lawsuit against the Company and its subsidiary in the United States by alleging that the Company and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. In addition, Rambus filed a lawsuit against the Company, its subsidiary in the United States, and other major memory chip manufacturers alleging that the defendants kept Rambus' DRAM products from entering the market. As of September 30, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

- ② Lawsuit from Hyundai Heavy Industries Co., Ltd. ("HHI") - On July 24, 1997, the Company sold 13 million shares of Hyundai Investment & Securities Co., Ltd. ("HIS") to Canadian Imperial Bank of Commerce ("CIBC"). In relation to this transaction, HHI entered into a share option agreement with CIBC in which HHI was obligated to buy back the 13 million shares of HIS if CIBC exercised its put option. In return, the Company and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Company, in turn, received a similar letter from HSC in which HSC acknowledged that all of the above transactions were initiated by HSC and that HSC guaranteed that the Company would not suffer any legal or economic losses in connection with the above transactions. Upon CIBC's exercise of its put option, HHI repurchased the shares and requested to be compensated the repurchase price of approximately US\$220 million to the Company and HSC. However, the Company rejected the request by reason of the fact that the Company was not a party connected directly to the transaction between HSI and CIBC and the comfort letter was not a legal guarantee. In response, On July 28, 2000, HHI sued the Company, HSC and the former CEO of HSC at the Seoul Central District Court in connection with the Company's comfort letter relating to a put option provided by HHI to CIBC.

In January 2002, the court rendered a ruling that the Company, HSC and the former CEO of HSC jointly and severally pay 70% (₩171,822 million) of the claim amount and interest thereon to HHI. In 2004, the Company paid HHI a total of ₩123,677 million, which represented the estimated portion of its share of compensation pursuant to the pronouncement of provisional execution of the ruling. However, the Company made an appeal to the Seoul High Court on February 15, 2002 and, on June 14, 2006, the court rendered a ruling that the Company and HSC should pay approximately 80% (₩192,942 million) of the claim amount. With respect to the revised ruling, the Company paid HHI an additional amount of ₩1,926 million for the estimated portion of its share of compensation, including interest. The Company further

19. Commitments and contingencies (cont'd)

contested this case by making an appeal to the Supreme Court of Korea on June 30, 2006 and in a third ruling, the Supreme Court upheld the second ruling in part for HSC and the former CEO of HSC. The Supreme Court, however, reversed and remanded the second ruling for the Company on the ground that the Company has the expense reimbursement obligation to HHI.

On August 21, 2009, the Seoul High Court rendered a ruling that the Company should pay ₩167,219 million and related interest after deducting payments previously made by HSC, recognizing the obligation based on the comfort letter provided by the Company. Subsequently, the Company paid ₩86,226 million, in addition to the payments the Company already made to HHI in accordance with the first and second rulings. HHI, however, made another appeal to the Supreme Court of Korea on September 10, 2009, claiming additional compensation of ₩13,136 million, and the litigation mentioned above is in progress. As of September 30, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

In addition, HHI initiated a separate lawsuit in December 2004 seeking the Company, HSC and the former CEO of HSC to compensate for the taxes levied on HHI and any related losses incurred by HHI amounting to ₩48,770 million in connection with HHI's repurchase of shares. As a result of the litigation described above, the Seoul Central District Court rendered its ruling on October 22, 2009, that the Company, HSC and the former CEO of HSC jointly and severally pay ₩73,692 million. Subsequently, the Company and HSC paid the amount to HHI. However, the Company appealed to the Seoul High Court on November 11, 2009. As of September 30, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

- ③ Lawsuit against Hyundai Securities Co., Ltd. ("HSC") - On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against the Company to the Seoul Central District Court with respect to the lawsuit described in ② above, seeking the Company to pay ₩99,172 million and delay interest to HSC on the grounds that the Company has the ultimate expense reimbursement obligation. Separately, the Company filed a lawsuit against the HSC to the Seoul Central District Court in connection with the agreed payment claim of ₩211,829 million and delay interest on the grounds that HSC provided the Company a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that the Company would not suffer any legal or economic losses in connection with the transactions described in ② above, and the agreement for loss compensation. The lawsuits described above are in progress. As of September 30, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.
- ④ Other litigation and patent-related claims - Apart from the above litigation, the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of September 30, 2010, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.
- (5) Technology and patent license agreements - The Company has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method. Lump-sum royalty payable in the future for the above patent license agreements totalled ₩278,686 million as of September 30, 2010.

19. Commitments and contingencies (cont'd)

- (6) Contract for supply of industrial water - In March 2001, the Company and Veolia Water Industrial Development Co., Ltd. ("VWID", formerly, Vivendi Water Industrial Development Co., Ltd.) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. The contract was subsequently extended to March 2018 in December 2006 and amended in March 2007 again due to the establishment of additional plants. According to the amended contract, the Company is obligated to pay an aggregate amount of ₩650,106 million (₩416,980 million as of September 30, 2010) as base service charges and an additional service charge calculated at a predetermined rate on the amount of water used from January 2007 to March 2018.
- (7) Repurchase agreement of Sithe Ichon power plants - The Company had previously entered into a long-term service agreement for the purchase of steam and electricity from Sithe Ichon Power Generating Corp. ("Sithe Ichon"). In March 2005, Hynix Engineering Co., Ltd. ("Hynix Engineering", formerly, Astec Co., Ltd.), the Company's subsidiary, entered into an agreement to purchase the power generating facility from Sithe Ichon for ₩119,000 million. In connection with the agreement, in July 2005, the Company entered into an agreement with Sithe Ichon and Hynix Engineering providing Sithe Ichon a guarantee for Hynix Engineering's performance under the purchase contract and also an agreement with Hynix Engineering to pay Hynix Engineering ₩56,319 million, which consisted of ₩39,106 million of compensation to Sithe Ichon for the early termination of the previously entered service agreement between the Company and Sithe Ichon, and ₩17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. In 2005, the Company recognized the related liabilities and charged the losses to the statement of operations. As of September 30, 2010, the aforementioned agreement and all the related assets were transferred to Ami Power Co., Ltd. ("Ami Power"), a newly incorporated entity that was spun off by Hynix Engineering Co., Ltd. According to this agreement, the compensation for expected losses on disposal of Ami Power's assets above is to be settled based on actual losses sustained from the disposal, and accordingly, an additional loss could be incurred. The accompanying interim non-consolidated financial statements do not include any adjustments in relation to such uncertainty.
- (8) Strategic alliance with ProMOS - In January 2005, the Company entered into an agreement with ProMOS Technologies Inc. ("ProMOS") under which the Company provided ProMOS with the license to produce DRAM semiconductors using the Company's technology, for the payment of running royalty to the Company. In accordance with the agreement, ProMOS had been providing the Company with 300mm wafer products manufactured under the license. However, ProMOS was no longer able to continue its commitment as agreed upon in the agreement with the Company due to its financial difficulties. Consequently, ProMOS and the Company terminated the agreement and entered into a new settlement agreement in May 2009, in which ProMOS shall compensate the Company for any breach on the original agreement.
- (9) Business cooperation with Numonyx - On August 5, 2008, the Company and Numonyx B.V. entered into an agreement to expand its joint development programs to broaden NAND product lines and to bring future product and technology innovations designed to address challenges facing NAND technology over the next five years. However, as Numonix was acquired by Micron Technology on May 7, 2010, the Company bought the shares Numonix held by exercising the call-option on August 31, 2010.
- (10) Post-process service contract with HITECH - The Company entered into an agreement to be provided with post-process service by HITECH. In addition, HITECH is to purchase machinery of US\$ 177 million and US\$ 128 million from the Company and HSMC, respectively. HITECH should use the machinery only for the purpose of providing the post-process service to the Company exclusively, for the next five years since its establishment. In relation with the contract, the Company agreed to pay the post-process service price to HITECH that will guarantee a certain level of income.

20. Derivative financial instruments

- (1) Swap and forward contract - To hedge the operational foreign currency risk, the Company entered into cross-currency swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank on May 25, 2007 with maturity on May 25, 2012 in relation to unsecured bonds from a public offering amounting to ₩150,000 million. According to the contracts, the Company pays floating rate interest and the notional principal amounts in United States dollars and receives fixed rate interest and the notional principal amounts in Korean won. Meanwhile, the Company entered into the agreement on forward exchange selling transactions amounting to US\$10 million. The settlement date of the forward exchange transaction was June 14, 2010.

The Company regarded these swap and forward contracts as transactions not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the nine months ended September 30, 2010 and 2009, the Company recognized i) gains on valuation of derivatives amounting to ₩5,441 million and ₩9,781 million, respectively, ii) gains on derivative transactions amounting to ₩4,552 million and ₩3,768 million, respectively, iii) losses on derivative transactions amounting to ₩1,480 million and nil, respectively.

- (2) Option contracts - The Company entered into option contracts for specified money trust benefit securities with financial investors on August 21, 2008. Financial investors invested on specified money trust in Korea Exchange Bank for underwriting shares of common stock privately issued by ProMOS at specific prices and also have put options which give them rights to sell trust benefit securities to the Company. As of September 30, 2010, total amount for the specified money trust is ₩120,000 million and the terms of the option contracts are as follows (Korean won in millions):

Financial investor	Amounts of specified money trust	Number of ProMOS shares	Object trust benefit securities	Exercisable period	Exercise price
Hana Bank	₩ 1,000	4,800,000	ProMOS-Hana 1 st	2008.11.17 ~ 2008.11.30	₩ 1,578
	4,000	19,200,000	ProMOS-Hana 2 nd	2009.7.1 ~ 2009.7.14	5,028
	2,000	9,600,000	ProMOS-Hana 3 rd	2009.11.17 ~ 2009.11.30	2,440
	3,000	14,400,000	ProMOS-Hana 4 th	2010.7.1 ~ 2010.7.14	3,698
	4,000	19,200,000	ProMOS-Hana 5 th	2010.11.17 ~ 2010.11.30	4,291
	6,000	28,800,000	ProMOS-Hana 6 th	2011.7.1 ~ 2011.7.14	6,323
	20,000	96,000,000			
ProMOS N.H. Ltd.	2,500	12,000,000	ProMOS-NH 1 st	2008.11.17 ~ 2008.11.30	3,909
	10,000	48,000,000	ProMOS-NH 2 nd	2009.7.1 ~ 2009.7.14	12,509
	5,000	24,000,000	ProMOS-NH 3 rd	2009.11.17 ~ 2009.11.30	6,074
	7,500	36,000,000	ProMOS-NH 4 th	2010.7.1 ~ 2010.7.14	9,202
	10,000	48,000,000	ProMOS-NH 5 th	2010.11.17 ~ 2010.11.30	10,710
	15,000	72,000,000	ProMOS-NH 6 th	2011.7.1 ~ 2011.7.14	15,789
	50,000	240,000,000			
T.Y. Pro Co., Ltd.	12,500	60,000,000	ProMOS-TongYang 1 st	2009.7.1 ~ 2009.7.14	16,650
	12,500	60,000,000	ProMOS-TongYang 2 nd	2010.7.1 ~ 2010.7.14	15,613
	12,500	60,000,000	ProMOS-TongYang 3 rd	2011.1.1 ~ 2011.1.14	13,546
	12,500	60,000,000	ProMOS-TongYang 4 th	2011.7.1 ~ 2011.7.14	13,014
	50,000	240,000,000			
	₩ 120,000	576,000,000			

20. Derivative financial instruments (cont'd)

During the nine months ended September 30, 2010 and 2009, in connection with the terms of option contracts, the Company recognized losses on transactions of the derivatives amounting to ₩1,141 million and ₩10,740 million, respectively. In addition, the Company recognized a loss on valuation of derivatives amounting to ₩6,101 million and ₩8,085 million, respectively, for the nine months ended September 30, 2010 and 2009, respectively for the specified money trust benefit security options of which the exercisable period is to end after September 30, 2010.

21. Interest swap

To hedge the risks from a fluctuation of interest rate and a rise in the exchange rate in relation with foreign currency debts, the Company entered into interest swap contracts with the conditions that the Company pays a fixed interest denominated in KRW and receives a floating foreign currency interest.

Details of interest swap of the Company as of September 30, 2010 are as follows (Korean won in millions):

	Details
Counter party	SC First bank
Contract date	August 12, 2010
Maturity	August 12, 2012
Contract amount	US\$50,000,000
Floating interest rate	3M Libor+3.90%
Fixed interest rate	5.90%

During the nine months ended September 30, 2010, in connection with the interest swap contract, the Company recognized a loss on valuation of the derivatives amounting to ₩1,664 million.

22. Capital stock

Changes in common stock of the Company for the nine months period ended September 30, 2010 are as follows (Korean won in millions, and number of shares in thousands, unaudited):

	Number of shares outstanding	Common stock
As of January 1, 2010	589,638	₩ 2,965,833
Changes in 2010:		
Exercise of conversion rights	635	3,176
Exercise of stock options	3	13
As of September 30, 2010	590,276	₩ 2,969,022

The Company is authorized to issue 9,000,000 thousand shares of capital stock with a par value of ₩5,000 per share, of which 5,584,254 thousand shares were originally issued. Due to the effect of a reverse stock split that the Company executed in 2003, the number of shares issued as of September 30, 2010 is 593,804 thousand shares. In accordance with the Articles of Incorporation, the Company is authorized to retire its common stock using available surplus for payment of dividends. The number of retired common stock through September 30, 2010 is 3,528 thousand shares. Accordingly, the number of shares issued by the Company since 2003 of 593,804 thousand shares differs from the 590,276 thousand shares outstanding as of September 30, 2010.

In accordance with the Articles of Incorporation, the Company is authorized to issue convertible bonds and bonds with stock warrants to other than stockholders of the Company up to the face value of ₩6 trillion and ₩2 trillion, respectively.

22. Capital stock (cont'd)

In accordance with the Articles of Incorporation, the Company is authorized to grant stock options to its employees and directors up to 15% of its issued common stock if approval of the stock holders is obtained through a resolution of the stockholders, and up to 1% of its issued common stock requires only a resolution of the Board of Directors. The Company has granted a total of 7,053 thousand stock options through September 30, 2010, of which 324 thousand shares remained unexercised and outstanding as of September 30, 2010 (see Note 24).

23. Capital surplus

Details of capital surplus of the Company as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Paid-in capital in excess of par value	₩ 645,499	₩ 633,028
Gain on capital reduction	479,244	479,244
Others	286,285	191,256
	<u>₩ 1,411,028</u>	<u>₩ 1,303,528</u>

24. Capital adjustments

Capital adjustments of the Company as of September 30, 2010 and December 31, 2009 are ₩5,762 million and ₩5,769 million, respectively, which are related to the stock options granted by the Company. Details of the stock options granted by the Company as of September 30, 2010 are as follows:

	First grant	Second grant	Third grant
Grant date	July 7, 2001 (regranted on June 13, 2003)	June 13, 2003	October 24, 2005
Method of grant	Equity-settlement	Equity-settlement	Equity-settlement
Weighted-average exercise price	₩5,000 per share	₩5,000 per share	₩22,800 per share
Exercisable period	June 14, 2005 ~ June 13, 2010	June 14, 2005 ~ June 13, 2010	October 25, 2007 ~ October 24, 2012
Number of shares in thousand:			
Granted	3,733	626	334
Outstanding at January 1, 2009	26	3	324
Exercised	(23)	(3)	-
Outstanding at December 31, 2009	3	-	324
Exercised	(3)	-	-
Outstanding at September 30, 2010	<u>-</u>	<u>-</u>	<u>324</u>

24. Capital adjustments (cont'd)

Details of the stock-based compensation expenses recognized the corresponding stock-based transaction accounted for as capital adjustments as of September 30, 2010 are as follows (Korean won in millions):

	First grant	Second grant	Third grant	Total
Accumulated stock-based compensation expenses through December 31, 2009	₩ 5,825	₩ 2,906	₩ 5,937	₩ 14,668
Stock-based compensation expenses for the six months ended September 30, 2010	-	-	-	-
Stock-based compensation expenses after September 30, 2010	-	-	-	-
Total stock-based compensation expenses	5,825	2,906	5,937	14,668
Accumulated exercised amounts at September 30, 2010	(5,825)	(2,906)	-	(8,731)
Accumulated forfeited amounts at September 30, 2010	-	-	(175)	(175)
Stock-based compensation expenses after September 30, 2010	-	-	-	-
Outstanding at September 30, 2010	₩ -	₩ -	₩ 5,762	₩ 5,762

The fair value of stock options is estimated at the date of grant by using the Black-Scholes option pricing model. The assumptions used under the Black-Scholes option pricing model are as follows:

	First grant	Second grant	Third grant
Risk-free interest rate	5.67%	4.16%	5.15%
Expected life of option	4.51 years	5.51 years	4.50 years
Expected volatility	113.99%	108.60%	103.89%
Expected dividend yield ratio	-	-	-
Expected forfeiture rate	0.00%	0.00%	0.00%
Weighted-average exercise price	₩5,000	₩5,000	₩22,800

25. Accumulated other comprehensive income and retained earnings

Details of accumulated other comprehensive income and retained earnings of the Company as of September 30, 2010 and December 31, 2009 are as follows (Korean won in millions):

	September 30, 2010 Unaudited	December 31, 2009 Audited
Accumulated other comprehensive income:		
Changes of equity arising from equity method		
Investments, net (Note 6)	₩ 107,234	₩ 155,924
Gain on valuation of available-for-sale securities (Note 6)	3,846	15,392
	₩ 111,080	₩ 171,316
Retained earnings:		
Voluntary reserves	₩ 235,506	₩ 235,506
Inappropriate retained earnings to be carried forward	3,308,274	770,430
	₩ 3,543,780	₩ 1,005,936

26. Selling and administrative expenses

Details of selling and administrative expenses for the three months and nine months ended September 30, 2010 and 2009 are as follows (Korean won in millions):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
Salaries (Note 7)	₩ 38,138	₩ 104,981	₩ 21,172	₩ 58,361
Provision for severance and retirement benefits	2,512	14,096	2,632	6,779
Employee benefits	6,878	18,095	4,481	13,304
Taxes and dues	1,332	3,867	1,802	4,174
Rent	1,939	5,409	1,743	5,325
Depreciation (Notes 9 and 10)	12,663	38,132	11,782	35,472
Amortization (Note 11)	13,711	40,841	13,257	39,664
Commissions and fees	32,382	121,219	52,449	130,335
Export expenses	4,178	11,677	2,652	6,678
Litigation fees	8,435	25,232	8,148	19,798
Research and development expenses (Note 11)	224,073	650,857	202,425	593,158
Others	12,205	38,346	12,726	29,326
	<u>₩ 358,446</u>	<u>₩ 1,072,752</u>	<u>₩ 335,269</u>	<u>₩ 942,374</u>

27. Income taxes

The components of the benefit from income taxes for the nine months ended September 30, 2010 and 2009 are as follows (Korean won in millions):

	Nine months ended September 30, 2010 Unaudited	2009 Unaudited
Current income taxes	₩ (3,796)	₩ -
Deferred income taxes:		
- Tax effect of temporary differences, net	-	-
- Tax effect of tax loss carryforwards	-	-
Deferred income taxes recognized directly to equity	(28,355)	(3,418)
Provision for (Benefit from) income taxes	<u>₩ (32,151)</u>	<u>₩ (3,418)</u>

A reconciliation of benefit from income taxes applicable to loss before income taxes at Korea statutory tax rate to benefit from income taxes at the effective income tax rate of the Company is as follows (Korean won in millions):

	Nine months ended September 30, 2010 Unaudited	2009 Unaudited
Income (loss) before income taxes	₩ 2,505,693	₩ (1,003,252)
Income taxes at income tax rate (24.2%)	₩ 606,402	₩ (242,763)
Adjustments:		
Non-temporary differences	38,498	14,702
Deferred tax assets, not recognized (*1)	983,749	1,019,906
Effect of unrecognized tax loss carryforwards and others	(1,660,800)	(795,263)
Provision for (Benefit from) income taxes	<u>₩ (32,151)</u>	<u>₩ (3,418)</u>

27. Income taxes (cont'd)

(*1) The Company did not recognize deferred income tax liabilities for taxable temporary differences related to valuation of investment using the equity method, as it is not probable that those temporary differences will be realized by disposal or dividend receipts of investments in the future. In addition, the Company did not recognize the deferred income tax assets from deductible temporary differences and tax loss carryforwards which exceed the expected taxable income.

28. Cost of revenues

The components of cost of revenues for the three months and nine months ended September 30, 2010 and 2009 are computed as follows (Korean won in millions):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
Beginning balance of finished goods	₩ 212,520	₩ 200,307	₩ 201,414	₩ 273,075
Cost of goods manufactured	2,307,789	6,140,805	1,780,505	5,315,985
Reversal of loss on valuation of inventories	(11,337)	(27,583)	(94,540)	(356,717)
Provision for(Reversal of) allowance for expected contract loss	(559)	51	(13,638)	(41,014)
Total	2,508,413	6,313,580	1,873,741	5,191,329
Transfer to other accounts	312,867	576,184	102,502	345,582
Adjustments for expected returns	408	(1,459)	13,690	20,395
Ending balance of finished goods	271,413	271,413	204,809	204,809
Cost of sales	₩ 1,923,725	₩ 5,467,442	₩ 1,552,740	₩ 4,620,543

29. Segment information

The following table presents the sales of the Company by geographical segments for the three months and nine months ended September 30, 2010 and 2009 (Korean won in millions):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
Korea (*1)	₩ 136,595	₩ 395,253	₩ 114,224	₩ 324,050
North America	942,983	2,403,634	504,251	1,075,344
Asia	1,801,909	5,350,725	1,191,302	2,870,409
Europe	392,407	1,161,163	243,278	584,589
Total	₩ 3,273,894	₩ 9,310,775	₩ 2,053,055	₩ 4,854,392

(*1) The sales in Korea for the three months and six months ended September 30, 2010 and 2009 include Local L/C sales.

30. Other income and expenses

Details of other income (expenses) for the three months and nine months ended September 30, 2010 and 2009 consist of the following (Korean won in millions):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
Gain (loss) on derivative transactions	₩ 290	₩ 1,931	₩ (8,904)	₩ (6,972)
Gain (loss) on valuation of derivatives	4,934	(2,324)	32,443	1,696
Gain on disposal of available-for-sale securities	-	441	91	410
Reversal of provision for bad debt	71	43	608	579
Impairment loss on intangible assets	-	-	(926)	(2,263)
Impairment loss on investment assets	-	(7,390)	-	-
Loss on disposal of intangible assets	(944)	(2,585)	-	-
Loss on disposal of trade accounts and notes receivable	(584)	(6,431)	(4,246)	(17,884)
Other bad debt expenses	(17)	(61)	(387)	(518)
Dividends	500	687	328	408
Donations	(311)	(1,228)	(262)	(1,908)
Other	-	-	-	(92)
	<u>₩ 3,939</u>	<u>₩ (16,917)</u>	<u>₩ 18,745</u>	<u>₩ (26,544)</u>

31. Per share amounts

The Company's per share amounts for the three months and six months ended June 30, 2010 and 2009 are calculated as follows (Korean won in millions, except for per share amounts):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
<u>Basic earnings (loss) per share</u>				
Net income (loss)	₩ 1,060,639	₩ 2,537,844	₩ 245,399	₩ (999,834)
Weighted-average number of shares of common stock outstanding (*1)	<u>590,276,439</u>	<u>590,275,660</u>	<u>589,634,759</u>	<u>551,203,364</u>
Basic earnings (loss) per share (Korean won in units)	<u>₩ 1,797</u>	<u>₩ 4,299</u>	<u>₩ 416</u>	<u>₩ (1,814)</u>
<u>Diluted earnings (loss) per share</u>				
Net income (loss)	₩ 1,060,639	₩ 2,537,844	₩ 245,399	₩ (999,834)
Interest expenses incurred from convertible bonds	<u>15,706</u>	<u>37,418</u>	<u>-</u>	<u>-</u>
Diluted net income (loss)	<u>1,076,345</u>	<u>2,575,262</u>	<u>245,399</u>	<u>(999,834)</u>
Weighted-average number of shares of potential common stocks outstanding (*2)	<u>628,370,180</u>	<u>619,672,826</u>	<u>589,634,759</u>	<u>551,203,364</u>
Diluted earnings (loss) per share	<u>₩ 1,713</u>	<u>₩ 4,156</u>	<u>₩ 416</u>	<u>₩ (1,814)</u>

31. Per share amounts (cont'd)

(*1) *Weighted-average number of shares of common stock outstanding for the nine months ended September 30, 2010 is calculated as follows:*

	<i>Number of Shares</i>	<i>Weight</i>	<i>Weighted numbers</i>
<i>Common stock outstanding at Jan. 1, 2010</i>	589,638,561	273	106,971,327,153
<i>Conversion of convertible bonds (Jan. 1, 2010)</i>	635,218	273	173,414,514
<i>Exercise of stock options (Mar. 22, 2010)</i>	2,660	193	513,380
			<u>161,145,255,047</u>

Weighted-average number of shares of common stock outstanding for the nine months ended September 30, 2010: 161,145,255,047 / 273 days = 590,275,660
(150,478,518,469 / 273 days = 551,203,364 for the nine months ended September 30, 2009)

(*2) *Weighted-average numbers of shares of common stock outstanding adjusted for the effect of dilutive shares for the three months and nine months ended September 30, 2010 and 2009 are calculated as follows:*

	<i>Three months ended Sep. 30, 2010 (Unaudited)</i>	<i>Nine months ended Sep. 30, 2010 (Unaudited)</i>	<i>Three months ended Sep. 30, 2009 (Unaudited)</i>	<i>Nine months ended Sep. 30, 2009 (Unaudited)</i>
<i>Weighted-average number of shares of common stock outstanding</i>	590,276,439	590,275,660	589,634,759	551,203,364
<i>Adjustments for the effect of dilution</i>				
- <i>Convertible bonds</i>	38,093,741	29,376,320	-	-
- <i>Stock options</i>	-	20,847	-	-
<i>Weighted-average number of shares of common stock outstanding adjusted for the effect of dilution</i>	<u>628,370,180</u>	<u>619,672,826</u>	<u>589,634,759</u>	<u>551,203,364</u>

32. Comprehensive income (loss)

The details of comprehensive loss for the three months and nine months ended September 30, 2010 and 2009 are as follows (Korean won in millions):

	Three months ended Sep. 30, 2010	Nine months ended (Unaudited)	Three months ended Sep. 30, 2009	Nine months ended (Unaudited)
Net income (loss)	₩ 1,060,639	₩ 2,537,844	₩ 245,399	₩ (999,834)
Other comprehensive income (loss):				
Gain on valuation of available-for-sale securities (net of tax: ₩(547) and ₩1,086 for the three months and nine months ended September 30, 2010, respectively, ₩(2,406) and ₩(3,625) for the three months and nine months ended September 30, 2009, respectively)	(5,861)	(11,546)	8,940	20,863
Equity adjustment arising from equity method investments (net of tax: ₩(231) and ₩(68) for the three months and nine months ended September 30, 2010, respectively, ₩196 and ₩206 for the three months and nine months ended September 30, 2009, respectively)	(108,885)	(48,691)	(233,927)	(231,392)
Comprehensive income (loss)	<u>₩ 945,893</u>	<u>₩ 2,477,607</u>	<u>₩ 20,412</u>	<u>₩ (1,210,363)</u>

33. Preparation plan and development conditions for K-IFRS introduction

As all listed companies are required to adopt K-IFRS from the fiscal year of 2011, the Company is in the process of preparation for the implementation of K-IFRS as of the reporting date. The Company has organized a Task Force Team ("TFT") to oversee and manage all matters concerning the Company's K-IFRS implementation, and reports on the status of the Company's K-IFRS implementation are made regularly to management by the TFT. The Company has commissioned an external advisory body since 2008 to assess the accounting policy changes arising from the adoption of K-IFRS. The Company has already commenced re-configuring and realigning its accounting information system and consolidation reporting system.