



**Hynix Semiconductor Inc.  
and subsidiaries**

Consolidated financial statements  
Years ended December 31, 2010 and 2009  
with independent auditors' report



**Hynix Semiconductor Inc. and subsidiaries**  
**December 31, 2010 and 2009**

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### **Independent auditors' report**

The Board of Directors and Stockholders  
Hynix Semiconductor Inc.

We have audited the accompanying consolidated statements of financial position of Hynix Semiconductor Inc. ("Hynix") and its subsidiaries (collectively, the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Hynix management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of two subsidiaries, including Hynix Semiconductor America Inc., whose total assets constituting approximately 6% and 4% as of December 31, 2010 and 2009, respectively, and total sales constituting approximately 19% and 17% for the years ended December 31, 2010 and 2009, respectively, of the related financial statement amounts (before elimination of inter-company transactions and account balances among consolidated companies). Those financial statements were audited by other auditors whose audit conclusions have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the audit conclusions of the other auditors.

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

In our opinion, based on our audits and the audit conclusions of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hynix Semiconductor Inc. and its subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their financial performance and their cash flows for the years then ended in accordance with accounting principles generally accepted in the Republic of Korea.

The Board of Directors and Stockholders  
Hynix Semiconductor Inc.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of financial performance 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 audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

A stylized, handwritten signature in black ink that reads "Ernst & Young Han Young".

March 9, 2011

This audit report is effective as of March 9, 2011, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of financial position**  
**As of December 31, 2010 and 2009**

(Korean won in millions)

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Notes 3, 4 and 23)	₩ 1,247,409	₩ 1,209,110
Short-term financial instruments (Notes 3, 4 and 23)	947,297	309,351
Held-to-maturity securities	-	1
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩4,177 in 2010 (₩3,447 in 2009) (Notes 5, 10 and 23)	1,603,650	1,729,733
Other accounts receivable, net of allowance for doubtful accounts of ₩4,788 in 2010 (₩4,069 in 2009) (Notes 10 and 23)	147,365	234,149
Inventories (Notes 6 and 14)	1,264,944	1,057,280
Prepaid expenses	87,851	97,334
Deferred income tax assets (Note 31)	353,860	248,464
Other current assets (Notes 7, 10 and 23)	39,474	31,668
Total current assets	5,691,850	4,917,090
Non-current assets:		
Long-term financial instruments (Notes 3 and 4)	322	1,265
Available-for-sale securities (Notes 8 and 25)	52,245	57,543
Held-to-maturity securities	1	1
Equity method investments (Note 9)	103,585	105,359
Long-term loans, net of allowance for doubtful accounts of ₩60 in 2010 (₩6 in 2009) (Notes 10 and 23)	6,777	1,419
Long-term accrued revenues, net of allowance for doubtful accounts of ₩2 in 2010 (₩1,187 in 2009)	202	-
Long-term advance payments	119,430	141,913
Deferred income tax assets (Note 31)	90,197	258,838
Property, plant and equipment, net (Notes 12, 13, 14 and 20)	10,816,909	10,143,006
Intangible assets, net (Note 15)	548,972	461,958
Investment properties (Note 11)	53,204	162,416
Other assets (Notes 16 and 23)	100,557	52,725
Total non-current assets	11,892,401	11,386,443
Total assets	₩ 17,584,251	₩ 16,303,533

(Continued)

See accompanying notes.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of financial position (cont'd)**  
**As of December 31, 2010 and 2009**

(Korean won in millions)

	<b>2010</b>	<b>2009</b>
<b>Liabilities and equity</b>		
Current liabilities:		
Trade accounts and notes payable (Notes 10 and 23)	₩ 874,232	₩ 739,813
Short-term borrowings (Notes 10, 18 and 23)	511,389	1,418,774
Other accounts and notes payable, net of discount on present value (Notes 10 and 23)	654,654	576,873
Advances received	173,961	522,998
Accrued expenses (Notes 10 and 23)	1,023,796	885,333
Income taxes payable (Note 31)	8,523	4,418
Derivatives payable (Note 26)	47,001	33,309
Current portion of bonds and long-term borrowings, net of discount on bonds, discount on present value, conversion right adjustments and addition of redemption premium (Notes 19, 20 and 23)	2,019,313	1,552,027
Other current liabilities (Notes 17)	28,692	35,688
Total current liabilities	5,341,561	5,769,233
Non-current liabilities:		
Bonds and long-term borrowings, net of discount on bonds, discount on present value, conversion right adjustments and addition of redemption premium (Notes 19, 20 and 23)	3,393,332	3,984,442
Other long-term accounts and notes payable, net of discount on present value (Notes 19, 23, 24 and 25)	120,820	185,365
Severance and retirement benefits (Note 21)	415,919	351,845
Other long-term liabilities (Notes 22 and 23)	143,126	93,370
Total non-current liabilities	4,073,197	4,615,022
Total liabilities	9,414,758	10,384,255
Equity:		
Equity attributable to holders of the parent:		
Capital stock (Note 27)	2,969,023	2,965,833
Capital surplus	1,414,739	1,303,528
Capital adjustments (Note 28)	5,762	5,769
Accumulated other comprehensive income (Notes 8, 9 and 29)	126,499	171,316
Retained earnings	3,653,825	1,005,936
Total equity attributable to holders of the parent	8,169,848	5,452,382
Minority interests	(355)	466,896
Total equity	8,169,493	5,919,278
Total liabilities and equity	₩ 17,584,251	₩ 16,303,533

See accompanying notes.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of income**  
**Years ended December 31, 2010 and 2009**

(Korean won in millions, except per share amounts)

	<b>2010</b>	<b>2009</b>
Sales (Notes 10, 25 and 36)	₩ 12,098,667	₩ 7,906,350
Cost of sales (Note 10)	7,319,191	6,279,821
Gross profit (loss)	4,779,476	1,626,529
Selling and administrative expenses (Notes 10, 12, 13, 15, 21 and 30)	1,506,387	1,434,560
Operating income (loss)	3,273,089	191,969
Other income (expenses):		
Interest income (Note 10)	68,139	29,977
Interest expense (Notes 10 and 19)	(350,454)	(433,576)
Rental income (Note 10)	20,261	21,933
Reversal of allowance for doubtful accounts	71	1,298
Bad debt expenses - other	(831)	(519)
Gain (loss) on foreign currency transactions, net	(132,037)	19,342
Gain on foreign currency translation, net	78,403	256,081
Gain on disposal of available-for-sale securities, net (Note 8)	617	413
Equity in earnings of equity method investments, net (Note 9)	329	413
Gain on disposal of property, plant and equipment, net (Notes 10 and 12)	21,156	100,083
Impairment loss on property, plant and equipment (Note 12)	(289)	(2,118)
Depreciation of idle assets (Note 12)	(31,977)	(88,354)
Impairment loss on investment properties (Note 11)	(7,390)	(63,604)
Loss on disposal of investment properties, net (Note 11)	(26,704)	(10,447)
Loss on early redemption of bonds (Note 19)	(66,344)	-
Loss on valuation of derivatives (Note 26)	(14,581)	(2,357)
Miscellaneous loss, net	(161,064)	(391,146)
Others, net (Note 32)	25,806	(209)
	(576,889)	(562,790)
Gain (loss) before income taxes	2,696,200	(370,821)
Benefit from income taxes (Note 31)	(39,724)	38,177
Net income (loss)	₩ 2,656,476	₩ (332,644)
Attributable to:		
Equity holders of the parent	2,647,889	(347,785)
Minority interests	8,587	15,141
	₩ 2,656,476	₩ (332,644)
Loss per share (Note 33):		
Basic	₩ 4,486	₩ (620)
Diluted	₩ 4,357	₩ (620)

See accompanying notes.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of changes in equity**  
**Years ended December 31, 2010 and 2009**

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total
As of January 1, 2009 (as previously stated)	₩ 2,315,654	₩ 929,004	₩ 5,840	₩ 483,643	₩ 1,356,062	₩ 436,037	₩ 5,526,240
Net loss	-	-	-	-	(347,785)	15,141	(332,644)
Exercise of stock options	133	69	(71)	-	-	-	131
Paid-in capital increase	650,000	381,028	-	-	-	-	1,031,028
Exercise of convertible bonds	46	156	-	-	-	-	202
Deferred income taxes recognized directly to equity	-	-	-	(3,952)	-	-	(3,952)
Changes of equity arising from equity method investments	-	-	-	907	-	-	907
Loss on valuation of available-for-sale securities	-	-	-	27,274	-	-	27,274
Foreign currency translation adjustments	-	-	-	(336,556)	-	(51,344)	(387,900)
Effect of changes in subsidiaries' equity interests	-	(6,729)	-	-	(2,341)	67,062	57,992
As of December 31, 2009	₩ 2,965,833	₩ 1,303,528	₩ 5,769	₩ 171,316	₩ 1,005,936	₩ 466,896	₩ 5,919,278

(Continued)

See accompanying notes.



Hynix Semiconductor Inc. and subsidiaries

Consolidated statements of changes in equity (cont'd)

Years ended December 31, 2010 and 2009

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interest	Total
As of January 1, 2010	₩ 2,965,833	₩ 1,303,528	₩ 5,769	₩ 171,316	₩ 1,005,936	₩ 466,896	₩ 5,919,278
Net income	-	-	-	-	2,647,889	8,587	2,656,476
Exercise of stock options	13	7	(7)	-	-	-	13
Exercise of conversion rights	3,177	11,301	-	-	-	-	14,478
Issuance of convertible bonds	-	131,192	-	-	-	-	131,192
Deferred income taxes recognized							
directly to equity	-	(29,375)	-	1,223	-	-	(28,152)
Stock-based compensation expenses	-	-	-	(2,033)	-	-	(2,033)
Loss on valuation of							
available-for-sale securities	-	-	-	(14,255)	-	-	(14,255)
Foreign currency translation adjustments	-	-	-	(29,752)	-	18,829	(10,923)
Effect of changes in subsidiaries' equity interests	-	(1,914)	-	-	-	(494,667)	(496,581)
As of December 31, 2010	₩ 2,969,023	₩ 1,414,739	₩ 5,762	₩ 126,499	₩ 3,653,825	₩ (355)	₩ 8,169,493

See accompanying notes.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of cash flows**  
**Years ended December 31, 2010 and 2009**

(Korean won in millions)

	<b>2010</b>		<b>2009</b>	
<b>Cash flows from operating activities:</b>				
Net income (loss)	₩	2,656,475	₩	(332,644)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Provision for severance and retirement benefits		115,140		81,766
Depreciation		2,737,051		2,654,166
Depreciation of idle assets		31,977		88,354
Amortization of intangible assets		58,261		53,146
Research and development costs		114,912		138,067
Interest expense		119,123		102,027
Reversal of allowance for doubtful accounts		(71)		(1,298)
Bad debt expense - other		831		519
Gain on foreign currency translation, net		(77,636)		(252,894)
Equity in earnings of equity method investments, net		(329)		(413)
Gain on disposal of available-for-sale securities, net		(617)		(413)
Gain on disposal of property, plant and equipment, net		(21,156)		(100,083)
Loss on disposal of investment properties, net		26,704		10,447
Impairment loss on property, plant, and equipment		289		2,118
Reversal of allowance for inventories		-		(516,220)
Impairment loss on investment properties		7,390		63,604
Loss on early redemption of bonds		66,344		-
Benefit from income taxes		-		(50,303)
Loss on valuation of derivatives		14,581		2,357
Miscellaneous loss (gain), net		(8,626)		294,928
Others, net		(28,527)		(3,210)
Changes in operating assets and liabilities:				
Trade accounts and notes receivable		267,800		(1,158,694)
Other accounts receivable		(43,157)		(13,367)
Prepaid expenses		(40,487)		(69,117)
Inventories		(210,070)		528,348
Long-term advance payments		(46,400)		(53,934)
Deferred income tax assets		31,358		-
Trade accounts and notes payable		73,054		16,384
Other accounts and notes payable		43,784		(181,581)
Advances received		35,610		297,132
Accrued expenses		196,394		(214,772)
Other long-term accounts and notes payable		38,678		(2,624)
Payments of severance and retirement benefits, net		(51,579)		(44,696)
Other current assets		(156,980)		(2,599)
Other current liabilities		(42,086)		11,860
Others, net		(277)		(5,980)
Total adjustments		3,251,283		1,673,025
Net cash provided by operating activities	₩	5,907,758	₩	1,340,381

(Continued)

See accompanying notes.

**Hynix Semiconductor Inc. and subsidiaries**  
**Consolidated statements of cash flows (cont'd)**  
**Years ended December 31, 2010 and 2009**

(Korean won in millions)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from investing activities:</b>		
Increase in short-term financial instruments, net	₩ (640,496)	₩ (125,394)
Decrease (increase) in long-term financial instruments, net	934	(54)
Proceeds from disposal of available-for-sale securities	441	1,070
Proceeds from disposal of investment properties	89,542	31,915
Proceeds from disposal of property, plant and equipment	38,146	278,714
Proceeds from disposal of intangible assets	-	261
Acquisition of available-for-sale securities	(9,557)	(8,083)
Acquisition of equity method investments	-	(77,969)
Acquisition of subsidiaries' equity interests	(496,604)	-
Acquisition of property, plant and equipment	(3,421,017)	(1,012,626)
Acquisition of intangible assets	(148,681)	(22,217)
Derivative transactions, net	(29,572)	(44,623)
Others, net	(92,540)	(25,415)
Net cash used in investing activities	(4,709,404)	(1,004,421)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of bonds	300,455	199,161
Proceeds from issuance of convertible bonds	557,018	-
Proceeds from long-term borrowings	330,015	14,114
Proceeds from paid-in capital	-	1,031,028
Proceeds from exercise of stock options	13	132
Repayment of short-term borrowings	(903,835)	(109,609)
Repayment of current portion of long-term borrowings	(948,762)	(357,162)
Repayment of long-term borrowings	(475,315)	(481,438)
Bond issuance costs	-	(1)
Stock issuance costs	(13)	-
Decrease in consolidated capital transactions	-	58,276
Net cash provided by (used in) financing activities	(1,140,424)	354,501
<b>Net decrease in cash and cash equivalents from change of subsidiaries in consolidated financial statements</b>	-	-
<b>Change in cash and cash equivalents from foreign currency translation adjustments</b>	(19,631)	(8,215)
<b>Net increase in cash and cash equivalents</b>	38,299	682,246
<b>Cash and cash equivalents at the beginning of the year</b>	1,209,110	526,864
<b>Cash and cash equivalents at the end of the year</b>	₩ 1,247,409	₩ 1,209,110

See accompanying notes.

# **1. Corporate information**

The organization and business of Hynix Semiconductor Inc. ("Hynix"), the parent company, and its consolidated subsidiaries (collectively, the "Company"), which consist of four domestic and twelve foreign subsidiaries, are described below.

## **(a) The parent company**

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

As of December 31, 2010, the stockholders of Hynix and their shareholdings are as follows:

Stockholder	Number of shares	Percentage of ownership (%)
Share Management Council:	88,499,250	15.0
Korea Exchange Bank	20,184,750	3.4
Woori Bank	19,722,000	3.3
Korea Finance Corporation	15,280,500	2.6
Shinhan Bank	14,963,250	2.5
Other financial institutions	18,348,750	3.2
Individual investors	501,777,304	85.0
	590,276,554	100.0

In accordance with the voluntary resolution of the Share Management Council, the members of the Share Management Council are restricted from selling their respective shares to the public.

## **(b) Consolidated subsidiaries**

As of December 31, 2010, Hynix' consolidated subsidiaries are as follows (Korean won in millions):

	Number of shares invested as of December 31, 2010			Owner- ship (%)	Assets	Liabilities	Sales	Net income (loss)
	Direct	Indirect	Total					
Hynix Engineering Co., Ltd.	671,932	-	671,932	99.65	44,255	30,458	112,869	(4,990)
Hystech Co., Ltd.	236,408	-	236,408	99.65	17,356	13,367	81,317	(1,156)
Ami Power Co., Ltd	524,852	-	524,852	99.65	80,343	66,561	29,636	(82)
Hydis	10,000	-	10,000	100.00	14,061	-	-	807
HSA (*1)	6,286,000	-	6,286,000	97.74	847,151	814,790	3,297,729	23,714
HSMA	100,000	199,900,100	200,000,100	100.00	67,928	173,456	-	8,413
HSE	335,640,000	-	335,640,000	100.00	6,463	-	-	2,005
HSU	-	186,240,200	186,240,200	100.00	138,494	132,066	638,310	2,005
HSD	Certificate of investment	-	Certificate of investment	100.00	135,890	107,062	898,848	(207)
HSS	196,303,500	-	196,303,500	100.00	189,862	130,454	1,304,404	2,161
HSJ	170,693,661	-	170,693,661	100.00	205,665	160,753	1,580,564	3,135
HSJ	20,000	-	20,000	100.00	381,879	335,940	1,317,025	(5,060)
HST	35,725,000	-	35,725,000	100.00	326,809	297,731	2,315,538	(7,617)
HSCS	Certificate of investment	-	Certificate of investment	100.00	28,126	21,952	167,942	1,756

**1. Corporate information (cont'd)**

	Number of shares invested as of December 31, 2010			Owner- ship (%)	Assets	Liabilities	Sales	Net income (loss)
	Direct	Indirect	Total					
HSCL	Certificate of investment	Certificate of investment	Certificate of investment	100.00	4,440,898	1,677,934	2,069,126	80,905
HSMC(*1)	Certificate of investment		Certificate of - investment	100.00	294,742	4,452	5,284	11,774

(\*1) Due to differences in accounting policies with respect to investments in equity securities, Hynix revised the financial information of HSA and HSMC, respectively. Consequently, HSA's net income was changed to ₩ 23,714 million and HSMC's net income was changed to ₩ 11,774 million for the year ended December 31, 2010.

Hynix Engineering Co., Ltd. ("HEC") – Astec was incorporated in April 2001 to take over the supporting service business division of Hynix, under an agreement in which Hynix transferred related assets, liabilities, employees, contractual rights, etc. of its supporting service division to HEC effective as of June 15, 2001 for a consideration of ₩11,241 million. Astec has been in operation since then. On March 15, 2008, Astec was spun off to the semiconductor business division, industrial complex business division, education business division and logistics business division and changed its name from Astec Co., Ltd. to Hynix Engineering Co. Ltd. on March 15, 2008. HEC spun off its cogeneration segment on January 26, 2010. HEC had outstanding capital stock amounting to ₩50 million upon its incorporation and HEC has outstanding capital stock amounting to ₩3,372 million as of December 31, 2010.

Hyundai Display Technology Inc. ("Hydis") – In order to focus its efforts on the semiconductor industry, Hynix separated its Liquid Cristal Display ("LCD") business division by incorporating Hydis on May 30, 2001. The business of Hydis consisted of the TFT-LCD division and the STN-LCD division. On January 1, 2002, Hydis sold its STN-LCD business unit to Hyundai LCD, Inc. and on January 21, 2003, it also sold the TFT-LCD business unit to BOE Technology Group Co., Ltd., a Chinese company. Subsequently, Hydis ceased all operations and as of December 31, 2010, Hydis has outstanding capital stock amounting to ₩50 million.

Hystech Co., Ltd. ("Hystech") – On March 15, 2008, Hystech was spun off from Hynix Engineering Co., Ltd.'s industrial complex business division and was incorporated on March 18, 2008. As of December 31, 2010, Hystech has outstanding capital stock amounting to ₩ 1,186 million.

Ami Power Co., Ltd.

Ami Power Co., Ltd. was spun off from Hynix Engineering Co., Ltd. and was incorporated as a separate entity on January 26, 2010. As of December 31, 2010. The outstanding capital stock of Ami Power Co., Ltd. amounts to ₩2,634 million.

Hynix Semiconductor America Inc. ("HSA") – HSA was incorporated in the United States on March 31, 1983 to engage in the sale, marketing and distribution of semiconductors and to perform research and development activities. As of December 31, 2010, HSA has outstanding capital stock amounting to US\$1,109 million.

Hynix Semiconductor Manufacturing America Inc. ("HSMA") – HSMA was incorporated in the United States in July 1995 to operate a Dynamic Random Access Memory ("DRAM") silicon wafer manufacturing facility located in Eugene, Oregon. In July 2008, HSMA decided to shut down the factory and, as of December 31, 2009, its manufacturing operations are substantially ceased. As of December 31, 2010, HSMA has outstanding capital stock amounting to US\$200 million.

Hynix Semiconductor Europe Holdings Ltd. ("HSE") – HSE was incorporated in the United Kingdom on July 5, 1995 as a holding company. As of December 31, 2010, HSE has outstanding capital stock amounting to US\$336 million.

**1. Corporate information (cont'd)**

Hynix Semiconductor U.K. Ltd. ("HSU") – HSU was incorporated in the United Kingdom on July 5, 1995 to engage in the sale and distribution of semiconductors. As of December 31, 2010, HSU has outstanding capital stock amounting to US\$186 million.

Hynix Semiconductor Deutschland GmbH ("HSD") – HSD was incorporated in Germany on March 1, 1989 to engage in the sale and distribution of semiconductors in Europe. As of December 31, 2010, HSD has outstanding capital stock amounting to EUR63 million.

Hynix Semiconductor Asia Pte., Ltd. ("HSS") – HSS was incorporated in Singapore on September 12, 1991 to engage in the sale and distribution of semiconductors. As of December 31, 2010, HSS has outstanding capital stock amounting to US\$109 million.

Hynix Semiconductor Hong Kong Ltd. ("HSH") – HSH was incorporated in Hong Kong on April 27, 1995 to engage in the sale and distribution of semiconductors. As of December 31, 2010, HSH has outstanding capital stock amounting to HKD1,331 million.

Hynix Semiconductor Japan Inc. ("HSJ") – HSJ was incorporated in Japan on September 16, 1996 to engage in the sale of semiconductors. As of December 31, 2010, HSJ has outstanding capital stock amounting to JPY1,000 million.

Hynix Semiconductor Taiwan Inc. ("HST") – HST was incorporated in Taiwan on July 3, 1996 to engage in the sale and distribution of semiconductors. As of December 31, 2010, HST has outstanding capital stock amounting to NTD357 million.

Hynix Semiconductor (Shanghai) Co., Ltd. ("HSCS") – HSCS was incorporated in China on August 2, 2001 to engage in the sale and distribution of semiconductors. As of December 31, 2010, HSCS has outstanding capital stock amounting to RMB2 million.

Hynix Semiconductor China Ltd. (HSL) – HSL was jointly established by Hynix and ST Microelectronics NV in China on April 26, 2005 under the name of Hynix-ST Semiconductor Ltd. ("HSSL") to engage in the manufacture and sale of wafers. During the year ended December 31, 2009, ST Microelectronics NV, joint investor of HSSL, transferred its equity interest in HSSL to Numonyx BV, and consequently, the name of the entity was changed from HSSL to HNSL. During the year ended December 31, 2010, Hynix wholly acquired shares in HNSL held by Numonyx BV and changed its name from HNSL to HCSL. As of December 31, 2010, HNSL has outstanding capital stock amounting to RMB 14,801 million.

Hynix Semiconductor (Wuxi) Ltd. ("HSMC") – HSMC was incorporated in China on April 13, 2006 to engage in the manufacture and sale of wafers. As of December 31, 2010, HSMC has outstanding capital stock amounting to RMB 989 million.

**(c) Investments in affiliated companies using the equity method of accounting**

As of December 31, 2010, the Company's equity method investments are as follows (Korean won in millions):

	Number of shares invested as of December 31, 2010			Ownership (%)	Proportionate net asset value
	Direct	Indirect	Total		
QRT Semiconductor Inc.	-	20,000	20,000	100.00	₩ 6,904
Siliconfile Technologies Inc.	2,358,832	-	2,358,832	29.84	7,202
HITECH Semiconductor (Wuxi) Co. Ltd. (HITECH)	Certificate of investment	-	Certificate of investment	45.00	82,305

**1. Corporate information (cont'd)**

(d) Operating activities of consolidated subsidiaries

Most of Hynix' overseas subsidiaries, including HSA, are engaged in the sale of semiconductors, which are purchased from Hynix. HSCL, HSMC and HSMA (stop manufacturing as of December 31, 2010) are engaged in manufacturing semi-conductors.

**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 financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

The 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), and the summary of significant account policies used for the preparation of the financial statements are as follows:

**Cash equivalents**

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

**Financial instruments**

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

**Allowance for doubtful accounts**

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

**Inventories**

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the gross average method for finished goods and work-in-process; the specific identification method for materials in-transit; and the moving-average cost method for all other inventories. A perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year.

When a decline in the value of inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value. The loss on valuation is recognized in cost of sales when it is incurred in the ordinary course of business, whereas such losses incurred otherwise are classified as a non-operating expense.

## 2. Summary of significant accounting policies (cont'd)

### Investments in securities

Investments in securities within the scope of SKAS 8 - *Investments in Securities* are classified as either trading, held-to-maturity and available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving-average method. The Company determines the classification of its investments after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income or loss. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income or loss. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date, except for non-marketable equity securities which are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to the statement of operations.

### Equity method investments

Investments in entities over which the Company has significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of operations and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill, which is amortized over its useful life using the straight-line method. The amortization is recorded against the equity income or loss of equity method investments. When events or circumstances indicate that the carrying amount may not be recoverable, the Company recognizes an impairment loss.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated.



## **2. Summary of significant accounting policies (cont'd)**

### **Equity method investments (cont'd)**

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rates on the reporting dates and income and expenses are translated at the weighted-average exchange rates for the periods. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income or loss within equity.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation, except for certain assets which were revalued in accordance with the Korean Assets Revaluation Law and are stated at revalued amount less accumulated depreciation.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	8 ~ 60
Structures	2 ~ 40
Machinery and equipment	2 ~ 20
Vehicles	2 ~ 10
Others	2 ~ 10

The Company recognizes depreciation expense on idle property, plant and equipment, which are temporarily retired from operation, as part of non-operating expenses.

The Company records an impairment loss on the carrying amount of an item of property, plant and equipment when there is an indication that the asset is impaired. Impairment is measured by comparing the carrying amount of the asset with its recoverable amount. An impairment loss is charged to the statement of operations immediately. A previously recognized impairment loss for an impaired asset since the last impairment loss was recognized is reversed if the recoverable amount during the reporting period exceeds its carrying amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of those assets.

### **Leases**

A lease is accounted for as either a capital lease or an operating lease. A lease is recognized as a capital lease if it transfers to the Company substantially all the risks and rewards incidental to ownership of the leased asset. A lease other than capital lease is classified as an operating lease.

An asset acquired by way of a capital lease arrangement is stated in the statement of financial position at the lower of the fair value or the present value of minimum lease payments at the inception of the lease. The corresponding liability is included in the statement of financial position as a capital lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalized lease assets are depreciated in the same manner as other depreciable property, plant and equipment.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

## **2. Summary of significant accounting policies (cont'd)**

### **Government subsidy**

Government subsidy is recorded as a liability in the statement of financial position. Government subsidy with no repayment obligation which is used to purchase assets is presented as a deduction of the related asset and is amortized against the depreciation of the related asset over such assets' useful life.

### **Intangible assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses. Goodwill represents costs in excess over the fair value of net identifiable assets of businesses acquired or merged. Goodwill is amortized using the straight-line method over 20 years. Other intangible assets are amortized using the straight-line method over periods ranging from 5 to 10 years, based on the nature of the assets. However, when the recoverable value of intangible assets falls below their book value, the difference between the recoverable value and the book value is charged to the statement of operations.

### **Allowance for sales returns**

The anticipated sales returns are adjusted to sales and cost of sales and related gross profit and estimated expenses are recorded as accrued expenses.

### **Convertible bonds**

When issuing convertible bonds, the value of the conversion rights is recognized separately. The portion to be allocated to the conversion rights is measured by deducting the present value of the debt at time of issuance from the gross proceeds from issuance of convertible bonds, with the present value of the debt being computed by discounting the expected future cash flow using the effective interest rate applied to ordinary debt of the Company at the issue date. The portion of conversion rights is accounted for as capital surplus and the redemption premium payable at maturity of the bonds is accounted for as an addition to the face value of the bond with a corresponding conversion rights adjustment which is deducted from the related bonds. Such conversion rights adjustment is amortized to interest expense using the effective interest method over the redemption period of the convertible bonds.

### **Discount (premium) on bonds**

Discount (premium) on bonds is presented as a direct deduction from (addition to) the nominal value of the bonds and is amortized using the effective-interest-rate method over the life of the bonds.

### **Severance and retirement benefits**

In accordance with the Employee Retirement Benefit Security Act ("ERBSA") of Korea and employee benefits policy of the Company, employees terminating their employment with at least one year of service are entitled to severance and retirement benefits based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date.

The Company's severance and retirement benefits are partly funded through an insurance plan with Up to March 1999, the Company had previously prepaid a portion of its severance and retirement benefits obligation to the National Pension Service ("NPS"). The insurance deposits and prepayments are presented as a deduction from the provision for severance and retirement benefits.

### **Valuation of receivables (payables) at present value**

Receivables (payables) arising from long-term installment transactions are stated at present value. The difference between the carrying amount and present value of the receivables (payables) is amortized using the effective interest method and credited or charged to statement of operations over the installment period.

## **2. Summary of significant accounting policies (cont'd)**

### **Foreign currency translation**

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates at the reporting dates. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations. Non-monetary items that are re-measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

### **Derivative financial instruments**

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations.

### **Share-based payment transactions**

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity at the fair value of the goods or services received or the equity instruments granted over the vesting period. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability, and re-measures the fair value of the liability at each reporting date, with any changes in value recognized in profit or loss for the period. For share-based payment transactions in which the terms of the arrangement provide the supplier of goods or services with a choice of whether the Company settles the transaction in cash or by issuing equity instruments, the Company accounts for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Company has incurred a liability to settle in cash (or other assets), or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payment transactions implemented before the effective date of SKAS 22 are accounted in accordance with Korea Financial Accounting Standards Interpretation 39-35 *Accounting for Stock Options*.

### **Revenue recognition**

The Company recognizes revenue from the sale of products upon transfer of the significant risks and rewards of ownership of the goods to the buyer. Product sales are reported net of allowance for estimated discounts and product returns. Revenue from other than the sale of products is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

### **Income taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of (1) temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, (2) tax loss carryforwards and (3) tax credit carryforwards.

Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences, tax loss carryforwards and tax credit carryforwards are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statement of financial position. In addition, tax loss carryforwards and tax credit carryforwards are classified based on when they are expected to be utilized. Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

## **2. Summary of significant accounting policies (cont'd)**

### **Principles of consolidation**

The investment accounts of the parent company and the corresponding equity accounts of the subsidiaries are eliminated in consolidation. The consolidated financial statements reflect only the share of the consolidated subsidiaries retained earnings and other equity changes after acquiring or gaining control of the subsidiaries.

The difference between the cost of investment and the Company's share of the fair value of identifiable net assets of the subsidiaries at the date of acquisition is presented as goodwill or negative goodwill. All significant inter-company transactions and account balances among consolidated companies are eliminated in consolidation. Unrealized income or loss included in inventories and property, plant and equipment arising from transactions between consolidated companies is eliminated based on the average gross profit rates of the selling company. Related accounts receivable and accounts payable are also eliminated. Unrealized income or loss arising from sales by the parent company to subsidiaries is fully eliminated. Unrealized income or loss arising from sales by subsidiaries to the parent company or between subsidiaries is fully eliminated and the minority interests are allocated their share of unrealized income or loss.

Accounts of foreign subsidiaries are maintained in the currency of the country in which they conduct their operations. In translating the foreign currency financial statements into Korean won, income and expenses are translated at the average exchange rates for the year, and assets and liabilities at the exchange rate prevailing on the statement of financial position date. All resulting exchange differences are recognized as foreign currency translation adjustments in the accumulated other comprehensive income or loss within equity.

Minority interest in a consolidated subsidiary is presented as a separate component of equity in the consolidated statement of financial position. Losses in excess of minority interest are treated as a reduction of equity. If there is a subsequent recovery of the losses in excess of the minority interest, a reversal of the previous charge to equity is made up to the extent of the original amount charged to equity.

The Company consolidates the financial statements using the parent company's financial statement reporting period which is conterminous with the reporting period of the consolidated subsidiaries.

### **Reclassifications**

Certain amounts in the 2009 financial statements have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on the Company's net loss and retained earnings as previously reported.

### **Significant judgments and accounting estimates**

The preparation of financial statements in accordance with Korean GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **3. Cash and cash equivalents and financial instruments**

Cash and cash equivalents and financial instruments as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

	2010	2009
<u>Cash and cash equivalents:</u>		
Cash on hand	₩ 918	₩ 36
Checking accounts	68,274	59,893
Passbook accounts	3,256	10,305
Time deposits	894,330	711,528
Specified money trust accounts	172,000	115,001
Repurchase agreement	40,000	60,000
Certificate of deposit	-	240,000
Cash management accounts	19,777	2,325
Money market deposit accounts	45,664	10,022
Money market Trust	3,190	-
	<u>₩ 1,247,409</u>	<u>₩ 1,209,110</u>
<u>Short-term financial instruments:</u>		
Passbook accounts	₩ -	₩ 15,695
Time deposits	733,690	119,424
Specified money trust accounts	65,000	3,000
Certificate of deposit	-	60,000
Repurchase agreement	130,000	110,000
Money market deposit accounts	2,423	1,232
Others	16,184	-
	<u>₩ 947,297</u>	<u>₩ 309,351</u>
<u>Long-term financial instruments:</u>		
Time deposits	₩ 308	₩ 308
Deposits for checking accounts	14	14
Others	-	943
	<u>₩ 322</u>	<u>₩ 1,265</u>

### **4. Restricted deposits**

Restricted deposits as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

	2010	2009
<u>Cash and cash equivalents</u>		
Deposits related to Rambus case	₩ 189,673	₩ -
<u>Short-term financial instruments</u>		
Guarantee for redemption of borrowings	57,763	56,711
Deposits for deferred consumption taxes of HSJ	6,985	6,314
Deposits for L/C open	21,991	-
Deposits related to Rambus case	56,945	58,380
Others	2,423	1,232
	<u>146,107</u>	<u>122,637</u>
<u>Long-term financial instruments:</u>		
Maintenance of checking accounts	14	14
Others	308	1,251
	<u>322</u>	<u>1,265</u>
	<u>₩ 336,102</u>	<u>₩ 123,902</u>

**5. Accounts receivable factored**

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

	2010	2009	Factoring terms
Trade accounts and notes receivable	₩ 26,834	₩ 53,553	Without recourse
Trade accounts and notes receivable	-	77,640	With recourse
	₩ 26,834	₩ 131,193	

**6. Inventories**

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

	2010	2009
Finished goods	₩ 427,768	₩ 312,224
Work in-process	673,112	607,317
Raw materials	139,455	120,923
Supplies	41,272	39,394
Materials in-transit	63,730	38,890
	1,345,337	1,118,748
Less: valuation allowance	(80,393)	(61,468)
	₩ 1,264,944	₩ 1,057,280

**7. Other current assets**

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

	2010	2009
Short-term loans	₩ 1,576	₩ 280
Advance payments	18,895	22,862
Accrued income	16,425	5,957
Deposits provided for guarantees	2,578	2,569
	₩ 39,474	₩ 31,668

**8. Investments in securities**

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

	2010				
	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	₩ 4,583	₩ 4,583
Hyundai Logiem Co., Ltd. (*4) (formerly, Hyundai Logistics Co., Ltd.)	15,115	0.12	76	221	98
Eqbestech Co., Ltd.	2,000	1.67	10	33	10
Novelis Korea Ltd.	63,600	0.14	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	12	12
Hynix HRD Center Co., Ltd. (*2)	59,102	99.65	1,195	1,055	1,169
Hylogitech Co., Ltd. (*2)	39,401	99.65	441	(183)	431
Fidelix Co., Ltd.	1,605,854	8.79	3,560	2,473	2,473
Futurescope technology Co., Ltd.	60,000	10.44	300	(33)	-
C&S technology Co., Ltd.	1,031,590	3.91	4,508	6,138	6,138
ZMOS Technology Inc.	2,000,000	5.11	995	(222)	-
Phison Electronics Corp.	3,277,054	1.85	11,661	20,875	20,875
Anobit Technologies Ltd.	204,248	2.80	3,123	9	3,123
Specified money trusts (*3)	124,320,000	4.89	18,581	10,299	10,299
Equity investment in a construction guarantee	132	0.00	165	165	165
Hynix Semiconductor Indian Subcontinent Private Ltd. (HSIS) (*2)	10,000	100.00	3	-	3
Others			14,589	2,694	1
			<u>₩ 65,616</u>	<u>₩ 49,126</u>	<u>₩ 52,245</u>

(\*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 threshold as of December 31, 2009 and the changes in carrying amount of each investment was 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.

(\*4) During the year ended December 31, 2010, Hynix Logistics Co., Ltd. changed its name to Hyundai Logiem Co., Ltd.



**8. Investments in securities (cont'd)**

	2009				
	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
Hydi Tech Co., Ltd.	75,000	12.78	779	-	-
Yonsei Digital Co., Ltd.	138,000	7.68	155	72	-
Eqbestech Co., Ltd.	2,000	1.67	10	24	10
Novelis Korea Ltd.	159	0.12	1,699	468	1,699
Hanse Telecom Co., Ltd.	7,000	0.49	385	4	-
T.on Telecom Co., Ltd.	108,000	5.78	2,700	(697)	-
U.P.D. Co., Ltd.	1,874,400	18.56	8,747	-	-
Itest Co., Ltd.	481,780	1.46	1,166	568	1,166
Hyundai IT Corp.	25,286	0.03	63	11	18
Hydis Technology Co., Ltd.	68,140	0.21	-	177	-
Trigem Computer Inc.	640	0.00	1	2	2
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
Pantech	17,932,315	1.09	-	-	-
ZMOS Technology Inc.	2,000,000	5.11	995	69	995
Phison Electronics Corp.	2,731,002	1.86	11,661	27,253	26,312
Anobit Technologies Ltd.	204,248	3.54	3,123	687	3,123
Specified money trusts	177,600,000	2.44	9,024	8,279	13,920
Equity investment in a construction guarantee	132	0.00	165	165	165
Hynix Semiconductor Indian Subcontinent Private Ltd. (HSIS)	10,000	100.00	3	-	3
Anhui Wanyan Electronics System Inc. (WANYAN)	Certificate of investment	12.91	1,623	-	-
Globalstar Thailand Ltd. Gsj.	34,299	34.30	93	-	-
Pak Globalstar (Private) Ltd.	Certificate of investment	44.20	106	-	-
			<u>₩ 56,059</u>	<u>₩ 47,586</u>	<u>₩ 57,543</u>

The details of impairment loss on available-for-sales securities as follows (Korean won in millions):

	Prior to 2010	2010	Total
Futurescope technology Co., Ltd.	-	300	300
ZMOS Technology Inc.	-	995	995
Others	14,588	-	14,588
	<u>14,588</u>	<u>1,295</u>	<u>15,883</u>



**8. Investments in securities (cont'd)**

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

	2010		
	January 1, 2010	Valuation	December 31, 2010
Hyundai Information Technology Co., Ltd.	₩ 888	₩ 3,504	₩ 4,392
Hyundai IT Corp.	(45)	(6)	(51)
Hyundai Logiem Co., Ltd.	7	-	7
Hynix HRD Center Co., Ltd.	(26)	-	(26)
Hylogitech Co., Ltd.	(10)	-	(10)
Fidelix Co., Ltd.	(324)	(763)	(1,087)
C&S Technology Co., Ltd.	(691)	2,321	1,630
Phison Electronics Corp.	15,346	(6,132)	9,214
Specified money trusts	4,897	(13,179)	(8,282)
	<u>₩ 20,042</u>	<u>₩ (14,255)</u>	<u>₩ 5,787</u>

  

	2009		
	January 1, 2009	Valuation	December 31, 20-0
Hyundai Information Technology Co., Ltd.	₩ 1,243	₩ (355)	₩ 888
Hyundai IT Corp.	(57)	12	(45)
Hyundai Logiem 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
	<u>₩ (7,232)</u>	<u>₩ 27,274</u>	<u>₩ 20,042</u>

The balance of unrealized gain on available-for-sale securities are ₩2,434 million and ₩15,392 million, net of deferred tax liability of ₩3,353 million and ₩4,650 million, as of December 31, 2010 and 2009, respectively. The unrealized losses on available-for-sale securities on Hynix HRD Center Co., Ltd. and Hylogitech Co., Ltd. were transferred from changes of capital arising from equity method investments to unrealized losses on available-for-sale securities as those securities were transferred from equity method investments to available-for-sale securities

**9. Equity method investments**

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

	Number of shares	Ownership (%)	2010		
			Acquisition cost	Proportionate net asset value	Book value
QRT Semiconductor Inc.	20,000	100.00	₩ 100	₩ 6,904	₩ 6,904
Siliconfile Technologies Inc. (*1)	2,358,832	29.84	22,835	7,202	14,376
HITECH	Certificate of investment	45.00	77,969	82,305	82,305
			₩ 100,904	₩ 96,411	₩ 103,585

(\*1) Issued and outstanding shares of Siliconfile Technologies Inc. are listed on KOSDAQ, and the fair market value of those shares amounts to ₩5,921 million and ₩13,516 million as of December 31, 2010 and 2009, respectively.

	Number of shares	Ownership (%)	2009		
			Acquisition cost	Proportionate net asset value	Book value
QRT Semiconductor Inc.	-	100.00	₩ 100	₩ 6,157	₩ 6,157
Siliconfile Technologies Inc.	2,358,832	29.84	22,835	8,673	18,775
HITECH	Certificate of investment	45.00	77,969	77,955	80,427
			₩ 100,904	₩ 92,785	₩ 105,359

The details of changes in carrying amount of equity method investments for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010				
	Equity				Balance at Dec. 31, 2010
	Balance at Jan. 1, 2010	in earnings (loss) of investee	Acquisition	Other	
QRT Semiconductor Inc.	₩ 6,157	₩ 817	₩ -	₩ (70)	₩ 6,904
Siliconfile Technologies Inc.	18,775	(4,376)	-	(23)	14,376
HITECH	80,427	3,888	-	(2,010)	82,305
	₩ 105,359	₩ 329	₩ -	₩ (2,103)	₩ 103,585

  

	2009				
	Equity				Balance at Dec. 31, 2009
	Balance at Jan. 1, 2009	in earnings (loss) of investee	Acquisition	Other	
QRT Semiconductor Inc.	₩ 4,493	₩ 1,640	₩ -	₩ 24	₩ 6,157
Siliconfile Technologies Inc.	21,552	(2,844)	-	67	18,775
HITECH	-	1,618	77,969	840	80,427
	₩ 26,045	₩ 414	₩ 77,969	₩ 931	₩ 105,359

The summary of financial position of the investees as of December 31, 2010 and 2009 and the results of their operations for the years then ended, is presented as follows (Korean won in millions):

	2010			
	Total assets	Total liabilities	Sales	Net income (loss)
QRT Semiconductor Inc.	₩ 9,395	₩ 2,491	₩ 12,558	₩ 817
Siliconfile Technologies Inc.	36,188	11,970	72,366	(5,944)
HITECH	541,325	358,424	285,901	14,133
	₩ 586,908	₩ 372,885	₩ 370,825	₩ 9,006

① **Equity method investments (cont'd)**

	2009			
	Total assets	Total liabilities	Sales	Net income (loss)
QRT Semiconductor Inc.	₩ 7,241	₩ 1,084	₩ 10,504	₩ 1,640
Siliconfile Technologies Inc.	39,163	9,190	75,856	(793)
HITECH	429,758	256,524	7,043	(1,898)
	<u>₩ 476,162</u>	<u>₩ 266,798</u>	<u>₩ 93,403</u>	<u>₩ (1,051)</u>

The details of changes in carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		
	Jan. 1	Net changes	Dec. 31
Siliconfile Technologies Inc.	₩ 9,781	₩ (2,608)	₩ 7,173

  

	2009		
	Jan. 1	Net changes	Dec. 31
Siliconfile Technologies Inc.	₩ 12,389	₩ (2,608)	₩ 9,781

② **Related party transactions**

(a) Compensation for key management personnel for the years ended December 31, 2010 and 2009 is as follows (Korean won in millions):

	2010	2009
Salaries	₩ 15,768	₩ 12,668
Post-retirement benefits	4,063	305
Long-term service incentive	155	-
	<u>₩ 19,986</u>	<u>₩ 12,973</u>

**10. Related party transactions (cont'd)**

Key management personnel include the chief executive officer, 11 chief executive officers of subsidiaries, 41 directors, seven audit committee members and 39 others who have the authority and responsibilities for planning, operation and control of the business of the Company.

- (b) Significant transactions between Hynix and its subsidiaries for the years ended December 31, 2010 and 2009, which were all eliminated in consolidation, are as follows (Korean won in millions):

Subsidiary	Primary activities	Transactions	2010	2009
HSA	Sale	Sales	₩ 3,250,492	₩ 1,753,034
		Interest income	84	-
HSMA	Manufacturing	Interest income	382	170
		Purchases	-	93
HSU	Sale	Sales	629,691	436,459
HSD	Sale	Sales	880,005	504,710
HSS	Sale	Sales	1,291,437	797,286
HSJ	Sale	Sales	1,526,004	1,017,222
		Disposal of property, plant and equipment	-	162
HSCS	Sale	Sales	65,396	64,750
HSJ	Sale	Sales	1,281,581	811,072
		Disposal of property, plant and equipment	-	165
		Purchases	78,598	65,904
		Acquisition of property, plant and equipment	490,459	49,789
HST	Sale	Sales	2,275,567	1,558,220
		Disposal of property, plant and equipment	417	
HSCL (formerly, HNSL)	Manufacturing	Sales	25,798	19,142
		Purchases	2,083,822	2,002,141
		Rental income	584	5,838
		Disposal of property, plant and equipment	793	14,476
HSMC	Manufacturing	Rent income	49	73
		Purchases	-	94
Domestic affiliated companies	Manufacturing and others	Rental income	8,100	10,965
		Disposal of property, plant and equipment	-	428
		Interest income	5,274	3
		Other income	5,771	3,404
		Service fee and other expenses	169,684	95,456
		Interest expense	729	1,428
		Sales and other income	₩ 11,247,425	₩ 6,997,579
		Purchases and others	₩ 2,823,292	₩ 2,215,905

**10. Related party transactions (cont'd)**

- (c) Outstanding balances related to transactions between Hynix and its subsidiaries as of December 31, 2010 and 2009, which were all eliminated in consolidation, are as follows (Korean won in millions):

Subsidiary	Primary activities	Outstanding balance	2010	2009
HSA	Sale	Trade accounts and notes receivable	₩ 636,648	₩ 278,826
		Other accounts receivable	51,335	-
		Trade accounts and notes payable	-	36
		Other accounts and notes payable	31,463	7,612
HSMA	Manufacturing	Other accounts receivable	34,518	35,383
		Other current assets	-	25,311
		Trade accounts and notes payable	-	25
HSU	Sale	Trade accounts and notes receivable	126,774	78,257
		Other accounts and notes payable	3,595	304
HSD	Sale	Trade accounts and notes receivable	88,623	60,615
		Other accounts and notes payable	1,246	767
HSS	Sale	Trade accounts and notes receivable	123,735	137,395
		Other accounts and notes payable	1,422	731
HSH	Sale	Trade accounts and notes receivable	145,408	138,493
		Other accounts and notes payable	4,714	1,484
HSCS	Sale	Trade accounts and notes receivable	4,088	11,521
		Other accounts and notes payable	-	67
HSJ	Sale	Trade accounts and notes receivable	63,364	80,587
		Other accounts receivable	16	674
		Trade accounts and notes payable	19,137	15,571
		Other accounts and notes payable	103,094	24,783
HST	Sale	Trade accounts and notes receivable	119,667	128,460
		Other accounts and notes payable	3,761	4,625
		Accrued expenses	369	-
		Other current liabilities	-	101,296

**10. Related party transactions (cont'd)**

Subsidiary	Primary activities	Outstanding balance	2010	2009
HSCL (formerly, HNSL)	Manufacturing	Trade accounts and notes receivable	₩ 1,830	₩ 2,843
		Other accounts receivable	309	194
		Advanced payment	-	11
		Trade accounts and notes payable	348,922	256,356
HSMC	Manufacturing	Other accounts receivable	-	16
Domestic affiliated companies	Manufacturing and others	Trade accounts and notes payable	-	117,140
		Other accounts receivable	1,197	1,462
		Other current assets	5,979	-
		Long-term loans	54,328	62,849
		Trade accounts and notes payable	84	142
		Other accounts and notes payable	16,493	20,672
		Short-term borrowings	8,582	8,582
		Accrued expenses	8,180	3,933
		Receivables	₩ 1,457,819	₩ 1,042,897
Total		Payables	₩ 551,062	₩ 564,126

- (d) Hynix is not contingently liable for guarantees provided on obligations and indebtedness of the subsidiaries as of December 31, 2010 (aggregate amount of ₩60,595 million as of December 31, 2009).
- (e) Significant transactions among consolidated subsidiaries for the years ended December 31, 2010 and 2009, and related receivables as of December 31, 2010 and 2009, which were eliminated during the consolidation are as follows (Korean won in millions):

Selling company	Purchasing company	2010		2009	
		Sales/ purchases	Receivable/ payable	Sales/ purchases	Receivable/ Payable
HSA	HSD	₩ 3,288	₩ 284	₩ 765	₩ 153
	HSU	2,378	815	588	19
	HSJ	669	-	44	-
	HSS	3,173	-	1,631	779
	HSH	6,280	4,608	2,341	364
	HST	8,866	4,487	336	112
	HSMA	-	133,659	-	131,530
		24,654	143,853	5,705	132,957
HSD	HSA	629	45	654	453
	HSU	1,180	43	760	120
	HSJ	860	-	9	-
	HSS	157	159	273	-
	HSH	1,971	91	681	405
	HST	1,360	-	26	-
		6,157	338	2,403	978

10. Related party transactions (cont'd)

Selling company	Purchasing company	2010		2009	
		Sales/ purchases	Receivable/ payable	Sales/ purchases	Receivable/ Payable
HSS	HSA	₩ 6,412	₩ 2,722	₩ 491	₩ 4
	HSD	471	35	261	-
	HSU	62	-	18	-
	HSJ	463	237	8	-
	HSH	6,224	1,315	3,532	422
	HST	2,997	68	1,604	36
		16,629	4,377	5,914	462
HSH	HSA	5,193	1,635	1,761	1,530
	HSD	4,601	2,344	2,299	345
	HSU	539	108	376	84
	HSJ	837	241	560	27
	HSS	1,699	889	4,983	700
	HST	7,949	1,396	8,040	3,322
	HSCS	93,037	17,376	29,034	8,461
		113,855	23,989	47,053	14,469
HSJ	HSA	64	-	40	3
	HSD	173	-	18	-
	HSU	-	-	12	-
	HSS	1,112	-	94	58
	HSH	280	173	1,841	106
	HST	5,606	1,050	5,673	-
	HSCL	-	56,142	-	36,361
	HSMC	-	-	-	930
		7,235	57,365	7,678	37,458
HST	HSA	27,618	-	2,412	1,183
	HSD	2,637	-	1,934	71
	HSU	37	38	291	136
	HSJ	1,121	10	5	-
	HSS	8,875	885	4,602	222
	HSH	10,833	2,937	12,066	688
	HSCS	-	-	103	-
		51,121	3,870	21,413	2,300
HSU	HSA	372	56	732	8
	HSD	1,532	1,300	860	183
	HSJ	-	-	43	-
	HSS	10	-	208	5
	HSH	3,405	404	2,285	1,825
	HST	-	-	146	-
	HSCS	-	-	18	-
		5,319	1,760	4,292	2,021

**10. Related party transactions (cont'd)**

Selling company	Purchasing company	2010		2009	
		Sales/ purchases	Receivable/ payable	Sales/ purchases	Receivable/ Payable
HSCS	HSA	4	-	-	-
	HSU	-	-	18	-
	HSD	192	192		
	HSJ	112	-	46	-
	HSS	152	-		
	HSH	5,815	1,634	3,447	1,172
	HST	4	-	368	-
	HSCL	18	-	73	-
		6,297	1,826	3,952	1,172
HSCL (formerly, HNSL)	HSMC	-	-	-	1,132
HSMC Ami Power Co., Ltd. Hynix Engineering	HSCL	-	238	-	-
	Hynix Engineering	-	881	-	-
	HSCL	801	121	933	44
	Ami Power Co., Ltd	301	62	-	-
	Hystech	483	627	494	12
		1,585	810	1,427	56
Hystech	HSCL	654	23	204	51
	Hynix Engineering	1,539	145	1,496	128
	Ami Power Co., Ltd.	226	18	-	-
		2,419	186	1,700	179
		<u>₩ 235,271</u>	<u>₩ 239,493</u>	<u>₩ 101,537</u>	<u>₩ 193,184</u>

Significant transactions with related parties other than consolidated subsidiaries for the years ended December 31, 2010 and 2009, and related receivables and payable as of December 31, 2010 and 2009 are as follows (Korean won in millions):

Related party	Relation	Transactions	2010	2009
Siliconfile Technologies Inc.	Equity method investee	Sales	₩ 30,076	₩ 14,816
		Purchases	102	-
QRT Semiconductor Inc.	Equity method investee	Sales	2,022	1,719
		Purchases	5,418	4,178
HITECH	Equity method investee	Sales	762	-
		Purchases	329,840	8,805
Hylogitech Co., Ltd.	Other	Sales	141	124
		Purchases	9,101	8,225
Hynix HRD Center Co., Ltd.	Other	Sales	1,855	3,824
		Purchases	7,549	8,095
		Sales	₩ 34,856	₩ 20,483
		Purchases	₩ 352,010	₩ 29,303



**10. Related party transactions (cont'd)**

Related party	Relation	Receivable Payable	2010	2009
Siliconfile Technologies Inc.	Equity method investee	Receivable	₩ 5,425	₩ 5,172
		Payable	466	-
QRT Semiconductor Inc.	Equity method investee	Receivable	118	103
		Payable	-	732
HITECH	Equity method investee	Receivable	3,723	462
		Payable	328,691	315,901
Hylogitech Co., Ltd.	Other	Receivable	157	8
		Payable	577	1,502
Hynix HRD Center Co., Ltd.	Other	Receivable	9	164
		Payable	881	1,143
		Receivable	₩ 10,589	₩ 5,914
		Payable	₩ 330,615	₩ 319,278
Allowance provided for receivables above			₩ 58	₩ -
Bad debt expenses			₩ -	₩ (363)

- (f) In addition to transactions with related parties above, Hynix entered into cross-currency swap agreements 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 26). The balances of loans provided to the employees as of December 31, 2010 and 2009 were ₩1,345million and ₩1,653million, respectively.

**11. Investment properties**

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

	2010	2009
As of January 1	₩ 162,416	₩ 246,127
Transfers(*1)	(14,338)	27,461
Disposals	(116,246)	(38,579)
Impairment	(7,390)	(63,604)
Reversal of Impairment	29,937	-
Foreign exchange difference	(1,175)	(8,989)
As of December 31	₩ 53,204	₩ 162,416

- (\*1) During the year ended December 31, 2010, Hynix transferred investment properties amounting to ₩15,639 million to property, plant and equipment due to the change in holding purpose from held-for-sale to use in manufacturing operations, and property, plant and equipment amounting to ₩1,301 million to investment properties due to the change in holding purpose from use in manufacturing operations to held-for-sale.

**12. Property, plant and equipment**

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

2010				
	Cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 285,321	₩ -	₩ -	₩ 285,321
Buildings	1,674,708	(390,116)	(27,625)	1,256,967
Structures	440,849	(246,914)	(20,709)	173,226
Machinery and equipment	22,373,308	(13,653,003)	(280,765)	8,439,540
Vehicles	2,872	(2,179)	-	693
Other	575,227	(425,453)	(2,886)	146,888
Construction-in-progress	514,274	-	-	514,274
	<u>₩ 25,866,559</u>	<u>₩ (14,717,665)</u>	<u>₩ (331,985)</u>	<u>₩ 10,816,909</u>

  

2009				
	Cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 275,026	₩ -	₩ -	₩ 275,026
Buildings	1,814,617	(374,730)	(27,625)	1,412,262
Structures	519,097	(301,656)	(61,278)	156,163
Machinery and equipment	21,242,106	(12,940,383)	(371,584)	7,930,139
Vehicles	2,481	(1,947)	-	534
Other	537,083	(375,490)	(4,154)	157,439
Construction-in-progress	211,443	-	-	211,443
	<u>₩ 24,601,853</u>	<u>₩ (13,994,207)</u>	<u>₩ (464,641)</u>	<u>₩ 10,143,006</u>

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

2010								
	Jan. 1	Additions	Disposals	Transfer	Depreciation	Impairment	Other	Dec. 31
Land	₩ 275,026	₩ 1	₩ -	₩ 10,594	₩ -	₩ -	₩ (300)	₩ 285,321
Buildings	1,412,262	185	(3,700)	(101,815)	(51,228)	-	1,263	1,256,967
Structures	156,163	100	(1,213)	41,580	(24,098)	-	694	173,226
Machinery and equipment	7,930,139	6,465	(11,555)	3,110,177	(2,623,243)	(289)	27,846	8,439,540
Vehicles	534	293	(9)	231	(363)	-	7	693
Other	157,439	1,427	(513)	58,530	(70,096)	-	101	146,888
Construction-in-progress	211,443	3,412,546	-	(3,109,831)	-	-	116	514,274
	<u>₩ 10,143,006</u>	<u>₩ 3,421,017</u>	<u>₩ (16,990)</u>	<u>₩ 9,466</u>	<u>₩ (2,769,028)</u>	<u>₩ (289)</u>	<u>₩ 29,727</u>	<u>₩ 10,816,909</u>

**12. Property, plan and equipment (cont'd)**

	2009							
	Jan. 1	Additions	Disposals	Transfer	Depreciation	Impairment	Other	Dec. 31
Land	₩ 291,126	₩ 102	₩ (15,265)	₩ 1	₩ -	₩ -	₩ (938)	₩ 275,026
Buildings	1,522,615	19,130	(38,830)	(1,924)	(60,682)	-	(28,047)	1,412,262
Structures	176,615	6,889	(1,970)	82	(21,148)	-	(4,305)	156,163
Machinery and equipment	9,915,398	593,695	(120,448)	372,357	(2,584,306)	(2,118)	(244,439)	7,930,139
Vehicles	946	-	(13)	-	(373)	-	(26)	534
Other	224,483	1,882	(1,358)	10,528	(76,012)	-	(2,084)	157,439
Construction-in-progress	231,421	391,065	(1,155)	(408,513)	-	-	(1,375)	211,443
	₩ 12,362,604	₩ 1,012,763	₩ (179,039)	₩ (27,469)	₩ (2,742,521)	₩ (2,118)	₩ (281,214)	₩ 10,143,006

- (c) Capitalized interest costs for the years ended December 31, 2010 and 2009 were ₩24,632 million and ₩1,076 million, respectively.
- (d) The assessment values of the Company's land located in Korea, as determined by the Korean government for tax administration purposes, were ₩352,331 million and ₩352,257 million as of December 31, 2010 and 2009, respectively, and the book values of this land were ₩273,433 million and ₩278,000 million as of December 31, 2010 and 2009, respectively.

**13. Leases**

- (a) The Company entered into lease agreements for certain machinery and equipment with HP Financial Services and GE Capital as of December 31, 2010, which were recorded as capital leases pursuant to the terms of the agreements. The Company acquired buildings and machinery and equipment by capital leases and recognized the corresponding lease obligations as long-term borrowings.

The details of capital lease obligations of the Company as of December 31, 2010 are as follows (Korean won in millions):

	Principal	Interest	Total payments
2011	₩ 87,072	₩ 27,566	₩ 114,638
2012	69,507	23,687	93,194
2013	65,681	22,492	88,173
2014	37,633	21,489	59,122
2015 and thereafter	243,594	53,724	297,318
	₩ 503,487	₩ 148,958	₩ 652,445

For the years ended December 31, 2010 and 2009, the depreciation expense related to machinery and equipment under capital leases amounted to ₩159,086 million and ₩81,565 million, respectively.

**13. Leases (cont'd)**

- (b) The Company has commercial operating leases for certain machinery and equipment with GE Capital, Macquarie Capital and others. Future minimum rentals payable under such operating leases as of December 31, 2010 are as follows (Korean won in millions):

	Future minimum rentals payable	
2011	₩	49,253
2012		4,266
2013		337
2014		265
2015 and thereafter		349
	₩	54,470

**14. Insurance**

As of December 31, 2010, inventories and certain property, plant and equipment are insured against fire and other casualty losses for up to ₩9,310,120 million and the insurance policy of Hynix has been provided to the Korea Exchange Bank and other creditors as collateral for long-term borrowings as of December 31, 2010.

**15. Intangible assets**

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

	2010			2009		
	Goodwill(*1)	Industrial Property rights	Total	Goodwill(*1)	Industrial Property rights	Total
Balance as of January 1	₩ 386,450	₩ 75,508	₩461,958	₩ 426,086	₩ 70,321	₩ 496,407
Additions	-	28,178	28,178	-	22,217	22,217
Disposals	(39,636)	(3,406)	(43,042)	(39,636)	(260)	(39,896)
Amortization	-	(15,111)	(15,111)	-	(13,510)	(13,510)
Impairment loss	-	(1,476)	(1,476)	-	(3,250)	(3,250)
Others	-	1,476	1,476	-	(10)	(10)
Balance as of December 31	₩ 346,814	₩ 85,169	₩431,983	₩ 386,450	₩ 75,508	₩ 461,958

The Company's goodwill resulted from the merger with LG Semicon Co., Ltd. in 1999.

Among the expenditure in development activities incurred for the year ended December 31, 2010, Hynix capitalized certain development cost amounting to ₩120,503 million that met the criteria of recognition on intangible assets and recognized ₩3,514 million as amortization of intangible assets in selling and administrative expenses for the year ended December 31, 2010.

- (b) Research and development costs incurred and charged to operations for the years ended December 31, 2010 and 2009 amounted to ₩809,775 million and ₩798,702 million, respectively.

# **16. Other assets**

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

	2010	2009
Leasehold deposits, less allowance for doubtful accounts of ₩140 in 2010 and ₩136 in 2009	₩ 8,290	₩ 11,458
Other long-term accounts and notes receivables, less allowance for doubtful accounts of ₩10,969 in 2010 and ₩27,028 in 2009	117	280
Long-term trade accounts and notes receivables, less allowance for doubtful accounts of ₩74 in 2010 and ₩66 in 2009	-	70
Other deposits	91,893	39,973
Long-term prepaid expenses	24	72
Others	233	872
	<u>₩ 100,557</u>	<u>₩ 52,725</u>

# **17. Other current liabilities**

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

	2010	2009
Unearned revenue	₩ 2,928	₩ 5,179
Withholdings	25,364	30,044
Others	400	465
	<u>₩ 28,692</u>	<u>₩ 35,688</u>

# **18. Short-term borrowings**

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

Description	Institution	Annual interest rate (%)	2010	2009
Usance financing	Korea Development Bank and others	0.92 ~ 2.60	₩ 271,693	₩ 579,541
General term loans	Korea Exchange Bank and others	1.60 ~ 5.60	-	13,890
General term loans	China Construction Bank	3.00 ~ 3.30	171,362	-
Foreign currency loan	The Export-Import Bank of Korea	3M Libor + 3.00	22,778	23,352
Foreign currency loan	The Export-Import Bank of Korea	3M Libor + 3.00	45,556	46,704
Bills bought in foreign currency	Korea Exchange Bank and others	3M Libor +4.15~5.10	-	455,287
Syndicated loans	Korea Development Bank and others	CD (91days) +3.00	-	300,000
			<u>₩ 511,389</u>	<u>₩ 1,418,774</u>

**19. Bonds and long-term borrowings and other long-term accounts and notes payable**

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

	Maturity	Annual interest rate (%)		2010		2009
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
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
Public offering	Sep. 9, 2013	6.35		300,000		-
Foreign currency (unsecured):						
Public offering	Jun. 27, 2017	7.875		569,450		583,800
				<u>1,719,450</u>		<u>1,503,800</u>
Less:						
Discount on bonds				(6,264)		(6,923)
Current portion				<u>(549,619)</u>		<u>(69,898)</u>
				<u>₩ 1,163,567</u>		<u>₩ 1,426,979</u>

(\*1) Hynix 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 26 (1)).

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

	Maturity	Annual interest rate (%)		2010		2009
Convertible bonds (*1)	Dec. 14, 2012	4.50	₩	33,005	₩	539,353
Convertible bonds (*2)	Sep. 5, 2013	3.00		484,964		497,376
Convertible bonds (*3)	May 14, 2015	2.65		565,500		-
				<u>1,083,469</u>		<u>1,036,729</u>
Addition:						
Redemption premium				78,114		80,501
Less:						
Conversion right adjustments				(187,415)		(149,667)
Discount on bonds				(12,121)		(9,832)
Current portion				<u>(490,974)</u>		<u>(478,398)</u>
				<u>₩ 471,073</u>		<u>₩ 479,333</u>

(\*1) Hynix 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 Hynix the redemption of the issue after three years from the date of issuance. Hynix 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 December 31, 2010, the balance of the convertible bonds amounting to US\$35.7 million is classified as non-current liabilities.

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

- (\*2) Hynix 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 Hynix 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 ₩14,822 million into 635 thousand shares of common stock during the year ended December 31, 2010.
- (\*3) Hynix 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 Hynix 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 (i)	Issued on September 5, 2008 (ii)	Issued on May 14, 2010 (iii)
Total face value of bonds	US\$35,700,000	₩484,964 million	US\$500,000,000
Gross proceeds from the issuance of bonds	US\$35,700,000	₩484,964 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 Hynix	On September 5, 2011 upon request from the bondholders or after three years from the date of issuance upon request from Hynix	On May 14, 2013 upon request from the bondholders or after three years from the date of issuance upon request from Hynix
Terms and conditions for conversion:			
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: ₩1133.8/US\$)
Conversion period	December 15, 2008 through November 29, 2012	October 5, 2008 through August 5, 2013	May 15, 2011 through April 29, 2015
Total number of shares convertible	911 thousands shares	20,789 thousands shares	16,394 thousands 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

- (i) 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.
- (ii) The Company recorded the equity component of the conversion rights amounting to ₩30,620 million (net of tax of ₩8,641 million) as other capital surplus.
- (iii) 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.



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

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

	Annual interest rate (%)	2010	2009
Local currency denominated:			
Kookmin Bank	5.20	₩ 46	₩ 52
Kookmin Bank	CD (91days) +2.00	38,571	90,000
National Agricultural Cooperative Federation	2.00	308	308
Korea Finance Corporation	IFB (1 year) + 1.6	200,000	-
HP Financial Services	5.80 ~ 6.50	5,898	19,907
		244,823	110,267
Less: current portion		(80,230)	(65,445)
		₩ 164,593	₩ 44,822
Foreign currency denominated:			
Export-Import Bank of Korea	3M Libor + 3.40	₩ 165,141	₩ 189,151
	3M Libor + 3.40	37,963	53,515
National Agricultural Cooperative Federation	3M Libor + 0.69	75,893	116,760
HITECH	8.13 ~ 15.73	401,822	210,730
Comerica Bank	6.48	38,065	39,774
Development Bank of Singapore	6.50	285,604	292,008
SC First Bank	3M Libor+3.90	56,945	-
Korea Exchange Bank and others	3M Libor+1.90	478,338	630,504
ICBC and others	2.00	102,817	338,729
	1.70	454,681	670,450
GE Capital (capital leases)	6.66 ~ 7.92	127,773	120,264
Lian Xian (capital leases)	6.03	369,803	383,448
Others (capital leases)	10.65	13	29
		2,594,858	3,045,362
Less: discount on present value		(102,269)	(73,768)
Less: current portion		(898,490)	(938,286)
		₩ 1,594,099	₩ 2,033,308



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

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

Creditor	Description	2010	2009
US Department of Justice	Anti-trust fine (Note 25 (3))	₩ 79,812	₩ 151,788
Veolia Water Industrial Development Co., Ltd.	Obligations in relation to supply of industrial water (Note 25 (6))	185,598	245,451
ICBC and others	Borrowing transaction fee	-	1,093
		<u>265,410</u>	<u>398,332</u>
Discount on present value		(46,062)	(64,618)
Current portion, net of discount of ₩17,393 and ₩22,893 as of December 31, 2010 and 2009, respectively, included in other accounts and notes payable		(98,528)	(148,349)
		<u>₩ 120,820</u>	<u>₩ 185,365</u>

- (c) The repayment schedules for the above bonds, long-term borrowings and other long-term accounts and notes payable as of December 31, 2010 are as follows (Korean won in millions):

Year	Bonds		Long-term borrowings		Other long-term accounts and notes payable	Total
	Bonds	Convertible bonds (*1)	Local currency	Foreign currency		
2011	₩ 550,000	₩ -	₩ 80,230	₩ 901,724	₩ 115,921	₩ 1,647,875
2012	300,000	33,005	139,257	854,495	71,994	1,379,110
2013	300,000	484,964	25,073	160,099	22,448	992,584
2014	-	-	75	201,308	12,952	214,335
2015	-	565,500	65	197,251	12,952	775,768
2016 and thereafter	569,450	-	123	279,981	29,143	878,697
	<u>₩ 1,719,450</u>	<u>₩ 1,083,469</u>	<u>₩ 244,823</u>	<u>₩ 2,594,858</u>	<u>₩ 265,410</u>	<u>₩ 5,908,010</u>

- (\*1) Convertible bonds amounting to ₩484,964 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. Hynix has no right to defer the early redemption of the bonds against the request from the bondholders. Accordingly, as of December 31, 2010, the convertible bonds were reclassified as part of current assets under Korean GAAP.

## **20. Pledged assets**

Detail of assets pledged by the Company as collateral for long-term borrowings as of December 31, 2010 is as follows (Korean won in millions):

Asset	Pledged to	Pledged amount
Property, plant and equipment (*1, 2)	The Export-Import Bank of Korea and others	₩ 4,579,975

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

(\*2) Hynix pledged tangible assets at the Cheong-ju facility as collateral for the guarantee provided from the Korea Development Bank and others in connection with the litigation filed by Rambus (Note 25-(4)-①).

Other than the guarantees provided for related companies, as described in Note 10, the Company also provided guarantee for indebtedness of employees amounting to ₩47 million and guarantee for indebtedness of a special purpose company, ProMOS N.H. Limited, as of December 31, 2010, amounting to ₩60,000 million for the period from August 21, 2008 to September 20, 2011.

## **21. Severance and retirement benefits**

Changes in the net carrying amount of the liability for severance and retirement benefits for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
As of January 1,	₩ 364,563	₩ 327,286
Payments during the year	(52,178)	(44,436)
Provision during the year	115,140	81,766
Change due to foreign currency translation	62	(53)
	<u>427,587</u>	<u>364,563</u>
Presented net of:		
Accumulated prepayments to the NPS	(2,371)	(2,675)
Insurance deposits	(9,297)	(10,043)
As of December 31,	<u>₩ 415,919</u>	<u>₩ 351,845</u>

## **22. Other long-term liabilities**

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

	2010	2009
Leasehold deposits received	₩ 1,917	₩ 2,822
Withholdings	3,788	3,693
Long-term accrued expenses	75,218	3,503
Long-term derivatives payable	27,262	62,889
Others	34,941	20,463
	<u>₩ 143,126</u>	<u>₩ 93,370</u>

**23. Assets and liabilities denominated in foreign currencies**

Assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are as follows:

	2010		2009	
	Foreign currencies (in thousands)	Korean won equivalent (in millions)	Foreign currencies (in thousands)	Korean won equivalent (in millions)
<b>Assets:</b>				
Cash and cash equivalents	US\$ 157,813 JPY 5,113,361 EUR 1,578 Overseas -	₩ 179,733 71,438 2,388 264,468	US\$ 287,858 JPY 2,211,654 EUR 5,735 Overseas -	₩ 336,103 27,929 9,602 120,625
Short-term financial instruments	US\$ 50,000 Overseas -	56,945 92,529	US\$ 50,000 Overseas -	58,380 63,039
Trade accounts and notes receivable	US\$ 26,928 RMB 4 Overseas -	30,668 1 1,523,560	US\$ 5,824 RMB 1,327 Overseas -	6,800 227 1,662,924
Other accounts receivable	US\$ 14,687 Overseas -	16,727 58,128	US\$ 13,369 Overseas -	15,610 180,202
Other current assets	US\$ - JPY - Overseas -	- - 4,046	US\$ 1,318 JPY 5 Overseas -	1,539 - 2,616
Long-term loans	US\$ 4,765 Overseas -	5,427 228	Overseas -	-
Other assets	US\$ 186 Overseas -	211 4,263	US\$ 7 Overseas -	8 7,918
		₩ 2,310,760		₩ 2,493,522
<b>Liabilities:</b>				
Trade accounts and notes payable	US\$ 139,675 EUR 40 JPY 9,715,075 Overseas -	₩ 159,077 60 135,727 407,108	US\$ 130,003 EUR 8 JPY 15,770,229 Overseas -	₩ 151,791 13 199,150 176,197
Short-term borrowings	US\$ 215,732 EUR 62,322 Overseas -	245,697 94,330 171,362	US\$ 555,999 EUR - Overseas -	649,185 - 494,445
Other accounts and notes payable	US\$ 104,400 EUR 18,294 JPY 8,228,642 GBP 226 DEM - Overseas -	118,901 27,689 114,961 424 - 224,449	US\$ 104,803 EUR 891 JPY 1,871,851 GBP 208 DEM 6 Overseas -	122,368 1,492 23,638 391 5 177,343
Accrued expenses	US\$ 483,342 EUR 229 TWD 62,227 Overseas -	550,479 347 2,432 33,680	US\$ 573,353 EUR 52,070 TWD 62,227 Overseas -	669,447 87,179 2,258 21,012
Bonds	US\$ 496,331	565,272	US\$ 495,914	579,029
Long-term borrowings	US\$ 1,092,883 Overseas -	1,244,685 1,247,904	US\$ 1,073,645 Overseas -	1,253,588 1,718,005
Other long-term accounts and notes payable	US\$ 69,094 Overseas -	78,691 -	US\$ 221,812 Overseas -	258,988 627
Other long-term liabilities	US\$ 67,968 Overseas -	77,409 35,496	US\$ 21,499 Overseas -	25,102 -
		₩ 5,536,180		₩ 6,611,253

## **24. Valuation of liabilities at present value**

Accounts which are recorded at present value other than bonds and long-term borrowings as of December 31, 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 ~ 2011	₩ 39,861	₩ -	₩ 39,861
DRAM Purchaser classes	8.61	2010 ~ 2012	39,951	(4,337)	35,614
Veolia Water Industrial Development Co., Ltd.	11.48	2001 ~ 2018	185,598	(41,725)	143,873
			₩ 265,410	₩ (46,062)	₩ 219,348

## **25. Commitments and contingencies**

- (1) Special agreement with Creditor Financial Institutions' Council - On July 12, 2005, the Creditor Financial Institutions ("Creditor Council") operational control over Hynix since October 4, 2001 was terminated by entering into a special agreement between Hynix and the Share Management Council (formerly, the Creditor Council). Under the special agreement, Hynix is required to consult with the Share Management Council in advance on events that could have significant influence on Hynix' 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 Hynix.

During the year ended December 31, 2010, Hynix entered into an additional agreement in regards to the credit for Hynix 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 Hynix' Board of Directors significantly affects Hynix' 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 Hynix' Board of Directors in which the Share Management Council approves of.

- (2) Countervailing duty - In 2003, the European Commission ("EC") 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 Hynix' DRAM products retroactively effective from December 31, 2007. Consequently, importation of Hynix' 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 Hynix' 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%, 0% and 1.93% in its first, second, third, fourth, fifth and sixth annual reviews in April 2006, February 2007, March 2008, February 2009, November 2009 and January 2011, respectively. However, on July 1, 2008, the DOC and the ITC commenced the sunset review, and then, on October 3, 2008, they lifted the countervailing duty imposed on Hynix' DRAM product retroactively to August 11, 2008. As a result, importation of Hynix' DRAM products manufactured in Korea into the United States is no longer subject to countervailing duty.

**25. Commitments and contingencies (cont'd)**

In relation to a countervailing duty investigation against Hynix 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 Hynix since then.

- (3) Anti-Trust Act - In June 2002, the United States Department of Justice ("DOJ") notified Hynix 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, Hynix 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 Hynix and Hynix Semiconductor America Inc. ("HSA"), its sales subsidiary located in the United States. In relation to the lawsuits, Hynix reached settlements through separate negotiations with several major DRAM product Original Equipment Manufacturing ("OEM") users and also reached an agreement with the direct purchaser classes on April 29, 2006 to pay US\$73 million and subsequently with certain direct purchasers who broke away from the direct purchaser classes in June and October 2009 to pay US\$130 million. In November 2010, Hynix reached settlements with the indirect purchaser classes and 33 state governments in the United States to pay US\$50 million. Meanwhile, in May 2010, the EC determined to adopt new Settlement Procedure to close the DRAM Anti-trust investigation in EU which had been commenced in April 2003. According to the Settlement Procedure, Hynix paid the EUR 51 million during the year ended December 31, 2010. As a result, Hynix recorded liabilities related to Anti-trust cases amounting to US\$66 million for the fine and estimated future losses expected to be incurred from settlements with the US government as of December 31, 2010. Furthermore, as of December 31, 2010, the civil suits in connection to DRAM against the direct and indirect purchaser classes of three provinces of Canada are in progress.

Separately, the EC and the DOJ investigated the unfair transactions among certain Static Random Access Memory ("SRAM") manufacturers and sellers, including Hynix, and the EC and DOJ informed Hynix in November and December 2008, respectively, that they closed their investigations. Thereafter, Hynix 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 Hynix paid all in January and April 2010, respectively. Meanwhile, as of December 31, 2010, civil suits in connection with SRAM and Flash memory were filed by the direct and indirect purchaser classes of three provinces in Canada. In addition, as of December 31, 2010, the lawsuits filed by the indirect purchaser classes against the manufactures, including Hynix in connection with Flash memory are in progress in the US courts. As of December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

**25. Commitments and contingencies (cont'd)**

(4) As of December 31, 2010, the Company's pending litigation is as follows:

- ① Litigation filed by Rambus - Hynix 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 Hynix' 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 Hynix in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United 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 Hynix 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.

Hynix 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 Hynix' motion to stay of execution of the final judgment ruling that such execution should be stayed on the condition that Hynix posts a bond and provides part of its Cheong-ju plant in Korea as a collateral while Hynix 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. However, as considering the improvement in Hynix' financial condition, the United States District Court for the Northern District of California ordered to provide additional payment guarantee instead of providing part of its Cheong-ju plant in Korea as a collateral. In connection with this ruling, the Korea Development Bank and others provided payment guarantee in the amount of US\$400 million for Hynix as of September 17, 2010. Separately, Rambus also brought another lawsuit against Hynix and its subsidiary in the United States by alleging that Hynix and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. In addition, Rambus filed a lawsuit against Hynix, 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 December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

- ② Lawsuit from Hyundai Heavy Industries Co., Ltd. ("HHI") - On July 24, 1997, Hynix 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, Hynix 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. Hynix, 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 Hynix 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 Hynix and HSC. However, Hynix rejected the request by reason of the fact that Hynix 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, Hyundai Heavy Industries Co., Ltd. ("HHI") sued Hynix, HSC and the former CEO of HSC at the Seoul Central District Court in connection with Hynix' comfort letter relating to a put option provided by HHI to CIBC.



**25. Commitments and contingencies (cont'd)**

In January 2002, the court rendered a ruling that Hynix, 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, Hynix 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, Hynix made an appeal to the Seoul High Court on February 15, 2002 and, on June 14, 2006, the court rendered a ruling that Hynix and HSC should pay approximately 80% (₩192,942 million) of the claim amount. With respect to the revised ruling, Hynix paid HHI an additional amount of ₩1,926 million for the estimated portion of its share of compensation, including interest. Hynix further 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 Hynix on the ground that Hynix has the expense reimbursement obligation to HHI. On August 21, 2009, the Seoul High Court rendered a ruling that Hynix 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 Hynix. Subsequently, Hynix paid ₩86,226, in addition to the payments Hynix 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 December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

In addition, HHI initiated a separate lawsuit in December 2004 seeking Hynix, 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 Hynix, HSC and the former CEO of HSC jointly and severally pay ₩73,692 million.

Subsequently, Hynix and HSC paid the amount to HHI. However, Hynix appealed to the Seoul High Court on November 11, 2009. As of December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

- ③ Lawsuit against Hyundai Securities Co., Ltd. ("HSC") - On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against Hynix to the Seoul Central District Court with respect to the lawsuit described in ② above, seeking Hynix to pay ₩99,172 million and delay interest to HSC on the grounds that Hynix has the ultimate expense reimbursement obligation. As a result of the lawsuit, on December 17, 2010, the Seoul Central District Court ruled against Hynix as the payment to HHI made by HSC were for Hynix as an agency of Hynix and therefore, Hynix had responsibility to repay the amounts that HSC had paid to HSI. Hynix made a provisional payment amounting to ₩160,724 million to HSC and appealed to the Seoul High Court on January 7, 2011. As of December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

**25. Commitments and contingencies (cont'd)**

Separately, Hynix 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 Hynix a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that Hynix would not suffer any legal or economic losses in connection with the transactions described in ② above, and the agreement for loss compensation. As a result of the lawsuit, the Seoul Central District Court ruled against Hynix on the ground that the comfort letter is restricted to a loss incurred by the sanctions from the government and therefore, the comfort letter was an agreement for compensation for all legal or economic losses. However, Hynix appealed to the Seoul High Court on January 7, 2011. As of December 31, 2010, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on Hynix' consolidated financial statements.

- ④ Other litigation and patent-related claims - Apart from the above litigation, Hynix is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of December 31, 2010, Hynix 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 Hynix' consolidated financial statements.
- (5) Technology and patent license agreements - Hynix 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 ₩258,644 million as of December 31, 2010.
- (6) Contract for supply of industrial water - In March 2001, Hynix 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, Hynix is obligated to pay an aggregate amount of ₩650,106 million (₩402,548 million as of December 31, 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 - Hynix has 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.), Hynix' 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, Hynix 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 Hynix and Sithe Ichon, and ₩17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. In 2005, Hynix recognized the related liabilities and charged the losses to the statement of operations. As of December 31, 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 from 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 consolidated financial statements do not include any adjustments in relation to such uncertainty.



**25. Commitments and contingencies (cont'd)**

- (8) Strategic alliance with ProMOS - In January 2005, Hynix entered into an agreement with ProMOS Technologies Inc. ("ProMOS") under which Hynix provided ProMOS with the license to produce DRAM semiconductors using Hynix' technology, for the payment of running royalty to Hynix. In accordance with the agreement, ProMOS had been providing Hynix 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 Hynix due to its financial difficulties. Consequently, ProMOS and Hynix terminated the agreement and entered into a new settlement agreement in May 2009 in which ProMOS shall compensate Hynix for any breach on the original agreement.
- (9) Business cooperation with Numonyx - On August 5, 2008, Hynix 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 Numonyx was acquired by Micron Technology on May 7, 2010, Hynix brought the shares of HNSL Nymonyx held by exercising the call-option.
- (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, respectively, 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.

**26. Derivative financial instruments**

- (1) Swap contracts - To hedge the operational foreign currency risk, Hynix 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, Hynix 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. And, HSA entered into interest swap agreement with Comerica Bank on April 25, 2008 with maturity on April 25, 2015 in relation to borrowings amounting to US\$35 million. According to the agreement, HSA pays fixed rate interest and receives floating rate interest

Hynix regarded these swap contracts as transactions not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the years ended December 31, 2010 and 2009, Hynix recognized gains on valuation of derivatives amounting to ₩5,735 million and ₩11,296million, respectively, and losses on valuation of derivatives amounting to ₩2,278 million and nil, respectively, from the swap contracts. For the years ended December 31, 2010 and 2009, Hynix recognized gains on derivative transactions of ₩6,091 million and ₩8,442 million, respectively.

- (2) Forward contract - Hynix entered into a forward contract amounting to US\$ 10 million with Korea Exchange Bank on April 19, 2010. Hynix regarded the forward contract as a transaction not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the year ended December 31, 2010, Hynix recognized a loss on derivative transactions of ₩1,480 million.

**26. Derivative financial instruments (cont'd)**

- (3) Option contracts - Hynix 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 576,000,000 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 Hynix. As of December 31, 2010, total amounts for the specified money trust are ₩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 <sup>st</sup>	2008.11.17~ 2008.11.30	₩ 1,578
	4,000	19,200,000	ProMOS-Hana 2 <sup>nd</sup>	2009.7.1 ~ 2009.7.14	5,028
	2,000	9,600,000	ProMOS-Hana 3 <sup>rd</sup>	2009.11.17 ~ 2009.11.30	2,440
	3,000	14,400,000	ProMOS-Hana 4 <sup>th</sup>	2010.7.1 ~ 2010.7.14	3,698
	4,000	19,200,000	ProMOS-Hana 5 <sup>th</sup>	2010.11.17 ~ 2010.11.30	4,291
	6,000	28,800,000	ProMOS-Hana 6 <sup>th</sup>	2011.7.1 ~ 2011.7.14	6,323
	<u>20,000</u>	<u>96,000,000</u>			
ProMOS N.H. Ltd.	2,500	12,000,000	ProMOS-NH 1 <sup>st</sup>	2008.11.17 ~ 2008.11.30	3,909
	10,000	48,000,000	ProMOS-NH 2 <sup>nd</sup>	2009.7.1 ~ 2009.7.14	12,509
	5,000	24,000,000	ProMOS-NH 3 <sup>rd</sup>	2009.11.17 ~ 2009.11.30	6,074
	7,500	36,000,000	ProMOS-NH 4 <sup>th</sup>	2010.7.1 ~ 2010.7.14	9,202
	10,000	48,000,000	ProMOS-NH 5 <sup>th</sup>	2010.11.17 ~ 2010.11.30	10,710
	15,000	72,000,000	ProMOS-NH 6 <sup>th</sup>	2011.7.1 ~ 2011.7.14	15,789
	<u>50,000</u>	<u>240,000,000</u>			
T.Y. Pro Co., Ltd.	12,500	60,000,000	ProMOS-TongYang 1 <sup>st</sup>	2009.7.1 ~ 2009.7.14	16,650
	12,500	60,000,000	ProMOS-TongYang 2 <sup>nd</sup>	2010.7.1 ~ 2010.7.14	15,613
	12,500	60,000,000	ProMOS-TongYang 3 <sup>rd</sup>	2011.1.1 ~ 2011.1.14	13,546
	12,500	60,000,000	ProMOS-TongYang 4 <sup>th</sup>	2011.7.1 ~ 2011.7.14	13,014
	<u>50,000</u>	<u>240,000,000</u>			
	<u>₩ 120,000</u>	<u>576,000,000</u>			

During the year ended December 31, 2010 and 2009, pursuant to the terms of option contracts, Hynix acquired trust benefit securities of (i) ProMOS-Hana 2<sup>nd</sup>, ProMOS-Hana 3<sup>rd</sup>, ProMOS-NH 2<sup>nd</sup>, ProMOS-NH 3<sup>rd</sup> and ProMOS-TongYang 1<sup>st</sup> and (ii) ProMOS-Hana 4<sup>th</sup>, ProMOS-Hana 5<sup>th</sup>, ProMOS-NH 4<sup>th</sup>, ProMOS-NH 5<sup>th</sup> and ProMOS-TongYang 2<sup>nd</sup>, respectively. In connection with acquisition of trust benefit securities described above, Hynix recognized losses on transactions of the derivatives amounting to ₩4,539 million and ₩11,900 million, respectively, during the years ended December 31, 2010 and 2009. In addition, Hynix recognized a loss on valuation of derivatives amounting to ₩10,903 million and ₩2,357 million, respectively, for the years ended December 31, 2010 and 2009 respectively, for the specified money trust benefit security options of which the exercisable period is to end after December 31, 2010.

Interest swap contracts - To hedge the interest rate risk, Hynix entered into interest rate swap contracts with Standard Chartered First Back Korea on August 12, 2010 with maturity of August 12, 2012 amounting to US\$ 50 million. According to the contracts, Hynix pays fixed 5.90% rate of interest in Korean Won and receives floating 3 month LIBOR+3.90% rate of interest in US dollars. For the year ended December 31, 2010, Hynix recognized a loss on valuation of derivatives amounting to ₩1,400 million and a loss on derivative transactions amounting to ₩227 million, respectively.

## **27. Capital stock**

Change in common stock of Hynix for the year ended December 31, 2010 is as follows (Korean won in millions, number of shares in thousands):

	Number of shares outstanding	Common stock
As of January 1, 2010	589,639	₩ 2,965,833
Changes in 2010:		
Exercise of conversion rights	635	3,177
Exercise of stock options	3	13
As of December 31, 2010	590,277	₩ 2,969,023

Hynix is authorized to issue 9,000,000,000 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 Hynix executed in 2003, the number of shares issued as of December 31, 2010 is 593,805 thousand shares. In accordance with the Articles of Incorporation, Hynix is authorized to retire its common stock using surplus available for dividends. The number of retired common stock through December 31, 2010 is 3,528 thousand shares. Accordingly, the number of shares issued by Hynix since 2003 of 593,805 thousand shares differs from the 590,277 thousands shares outstanding as of December 31, 2010.

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

In accordance with the Articles of Incorporation, Hynix 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. Hynix has granted a total of 7,053 thousands stock options through December 31, 2010, of which 324 thousands shares remained unexercised and outstanding as of December 31, 2010 (see Note 28).

## **28. Capital adjustments**

Capital adjustments of the Company as of December 31, 2010 and 2009 amount to ₩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 December 31, 2010 are as follows:

	First grant	Second grant	Third grant
Grant date	July 7, 2001 (Reganted on June 13, 2003)	June 13, 2003	October 24, 2005
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
Valuation method	Fair value method (Black-Scholes model)	Fair value method (Black-Scholes model)	Fair value method (Black-Scholes model)

**28. Capital adjustments (cont'd)**

	First grant	Second grant	Third grant
Number of shares:			
Granted	3,733,425	626,250	334,100
Outstanding at Jan. 1, 2009	26,260	3,000	324,200
Exercised	(23,600)	(3,000)	-
Outstanding at Dec. 31, 2009	2,660	-	324,200
Exercised	(2,660)	-	-
Outstanding at Dec. 31, 2010	-	-	324,200

Details of the stock-based compensation expenses recognized and the corresponding stock-based transactions accounted for as capital adjustments as of December 31, 2010 are as follows (Korean won in millions):

	First grant	Second grant	Third grant	Total
Accumulated stock-based compensation expenses through December 31, 2009	₩ 5,826	₩ 2,906	₩ 5,937	₩ 14,668
Stock-based compensation expenses for the year ended December 31, 2010	-	-	-	-
Stock-based compensation expenses after December 31, 2010	-	-	-	-
Total stock-based compensation expenses	5,826	2,906	5,937	14,668
Accumulated exercised amounts at December 31, 2010	(5,826)	(2,906)	-	(8,731)
Accumulated forfeited amounts at December 31, 2010	-	-	(175)	(175)
Outstanding at December 31, 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	-	-	-
Weighted-average exercise price	₩5,000	₩5,000	₩22,800

## **29. Accumulated other comprehensive income**

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

	2010	2009
Accumulated other comprehensive income:		
Changes of equity arising from equity method		
Investments, net (Note 9)	₩ (1,126)	₩ 907
Unrealized gain on available-for-sale securities (Note 8)	2,434	15,392
Cumulative effect of foreign currency translation adjustments	125,191	155,017
	₩ 126,499	₩ 171,316

## **30. Selling and administrative expenses**

Details of selling and administrative expenses for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Salaries	₩ 192,937	₩ 125,954
Provision for severance and retirement benefits (Note 21)	18,063	11,445
Employee benefits	40,083	34,230
Rent	14,330	15,441
Depreciation (Note 12)	56,723	57,877
Amortization (Note 15)	58,094	52,997
Taxes and dues	8,530	7,420
Commissions and fees	162,529	196,542
Export expenses	18,993	12,937
Litigation fees	36,015	48,094
Research and development costs (Note 15)	809,775	798,702
Others	90,315	72,921
	₩ 1,506,387	₩ 1,434,560

## **31. Income taxes**

For the year ended December 31, 2010, domestic companies are subject to corporate income taxes, including resident surtax, at the aggregate rates of 10% on taxable income of up to ₩200 million and 22% on taxable income in excess of ₩200 million. Income tax rate for 2011 and thereafter are as follows:

	Year of assessment	
	2011	Thereafter 2012
Up to ₩200 million	10%	10%
Excess of ₩200 million	22%	20%

**31. Income taxes (cont'd)**

The income tax rate applied in measuring the deferred tax assets and liabilities are 24.2% for 2011 and 22% for 2012 and thereafter.

The components of the benefit from income taxes for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Current income taxes	₩ 8,366	₩ 15,840
Deferred income taxes:		
- Tax effect of temporary differences, net	(63,087)	(3,522)
- Tax effect of tax loss carryforwards	122,562	(46,543)
Applicable deferred income taxes recognized directly to equity	(28,117)	(3,952)
Provision (benefit) from income taxes	₩ 39,724	₩ (38,177)

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

	2010	2009
Gain (loss) before income taxes	₩ 2,696,200	₩ (370,821)
Tax at the Korea statutory income tax rate (11% and 24.2%)	₩ 654,212	₩ (94,437)
Adjustments:		
Non-deductible expenses, net	38,356	15,509
Net deferred tax assets not recognized (*1)	892,077	1,012,901
Effect of future tax rate decrease and others	(1,544,921)	(972,150)
Provision (benefit) from income taxes	₩ 39,724	₩ (38,177)

(\*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 in the future. In addition, the Company did not recognize the deferred income tax assets from deductible temporary differences, tax loss carryforwards and tax credit carryforwards which exceeds the expected taxable income.

**31. Income taxes (cont'd)**

Deferred income taxes reflect the net tax effects of tax loss carryforwards, tax credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in tax loss carryforwards and tax credit carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010			
	As of Jan. 1	Changes in 2009 tax filing (*1)	Net changes	As of Dec. 31
<b>Deductible temporary differences:</b>				
Allowance for doubtful accounts	₩ 21,928	₩ (351)	₩ (21,577)	₩ -
Loss on valuation of inventories	47,793	-	9,105	56,898
Impairment loss on investment securities	21,204	(3,156)	1,510	19,558
Valuation of investments using the equity method	1,718,527	(721)	(100,090)	1,617,716
Accumulated depreciation	312,789	-	(123,258)	189,531
Severance and retirement benefits	289,794	508	58,979	349,281
Present value discount	24,249	-	(12,579)	11,670
Embedded interest on related party loans	670,069	-	416	670,485
Compensation for damages	872,988	74,518	83,456	1,030,962
Purchase of power plant	17,212	-	-	17,212
Redemption premium	80,502	-	(2,386)	78,116
Foreign currency translations	568,433	-	(60,239)	508,194
Loss on valuation of derivatives	106,137	-	(16,884)	89,253
Others	100,286	(5,356)	119,685	214,615
Consolidated subsidiaries (*2)	203,252	-	185,768	389,020
	5,055,163	65,442	121,906	5,242,511
<b>Taxable temporary differences:</b>				
Accrued income	(5,809)	-	(10,305)	(16,114)
Gain on valuation of available-for-sale securities	(28,529)	7,390	5,895	(15,244)
Reserve for revaluation of land and building	(48,393)	-	-	(48,393)
Conversion rights adjustment	(149,667)	-	(37,748)	(187,415)
Foreign currency translations	(269,802)	-	(13,518)	(283,320)
Others	(35,977)	-	(51,433)	(87,410)
Consolidated subsidiaries (*2)	(15,212)	-	8,226	(6,986)
	(553,389)	7,390	(98,883)	(644,882)
<b>Temporary differences, net</b>	₩ 4,501,774	₩ 72,832	₩ 23,023	₩ 4,597,629
Public contribution	₩ 2,848	₩ (348)	₩ 732	₩ 3,232
Tax loss carryforwards	₩ 4,464,848	₩ (76,872)	₩ (2,700,977)	₩ 1,686,999
Tax credit carryforwards	₩ 769,431	₩ 53,027	₩ (228,875)	₩ 593,583
<b>Deferred income taxes recognized:</b>				
Deferred income tax assets	₩ 632,829	₩ -	₩ (160,462)	₩ 472,367
Deferred income tax liabilities	₩ (125,527)	₩ -	₩ 97,217	₩ (28,310)

(\*1) Changes in tax filing are related to adjustments from the tax filing for the year ended December 31, 2009.

(\*2) Net increase in temporary differences with respect to the consolidated subsidiaries includes the effect from foreign currency translations on the beginning balance and changes in the current year.



**31. Income taxes (cont'd)**

	2009			
	As of Jan. 1	Changes in 2008 tax filing	Net changes	As of Dec. 31
Deductible temporary differences:				
Allowance for doubtful accounts	₩ 29,168	₩ (332)	₩ (6,908)	₩ 21,928
Loss on valuation of inventories	464,720	-	(416,927)	47,793
Impairment loss on investment securities	64,434	-	(43,230)	21,204
Valuation of investments using the equity method	1,942,073	-	(223,546)	1,718,527
Accumulated depreciation	418,890	2,073	(108,174)	312,789
Severance and retirement benefits	244,366	-	45,428	289,794
Present value discount	32,055	3,326	(11,132)	24,249
Embedded interest on related party loans	669,889	-	180	670,069
Compensation for damages	718,800	-	154,188	872,988
Purchase of power plant	16,999	-	213	17,212
Redemption premium	80,536	-	(34)	80,502
Foreign currency translations	954,018	-	(385,585)	568,433
Loss on valuation of derivatives	145,634	-	(39,497)	106,137
Others	27,607	9,508	63,171	100,286
Consolidated subsidiaries	584,263	-	(381,011)	203,252
	6,393,452	14,575	(1,352,864)	5,055,163
Taxable temporary differences:				
Accrued income	(3,409)	-	(2,400)	(5,809)
Gain on valuation of available-for-sale securities	(1,884)	-	(26,645)	(28,529)
Reserve for revaluation of land and building	(54,267)	-	5,874	(48,393)
Conversion rights adjustment	(187,069)	-	37,402	(149,667)
Foreign currency translations	(82,778)	-	(187,024)	(269,802)
Others	(18,978)	-	(16,999)	(35,977)
Consolidated subsidiaries	(4,369)	-	(10,843)	(15,212)
	(352,754)	-	(200,635)	(553,389)
Temporary differences, net	₩ 6,040,698	₩ 14,575	₩ (1,553,499)	₩ 4,501,774
Public contribution	₩ 2,905	₩ (2,180)	₩ 2,123	₩ 2,848
Tax loss carryforwards	₩ 3,206,505	₩ (5,887)	₩ 1,264,230	₩ 4,464,848
Tax credit carryforwards	₩ 843,193	₩ 133,710	₩ (207,472)	₩ 769,431
Deferred income taxes recognized:				
Deferred income tax assets	₩ 545,468	₩ -	₩ 87,361	₩ 632,829
Deferred income tax liabilities	₩ (81,701)	₩ -	₩ (43,826)	₩ (125,527)



**31. Income taxes (cont'd)**

	Temporary differences	Reversal of temporary differences		Deferred income taxes	
		2011	2012 and thereafter	2011	2012 and thereafter
Deductible temporary differences:					
Loss on valuation of inventories	₩ 56,898	₩ 56,898	₩ -	₩ 13,769	₩ -
Impairment loss on investment securities	19,558	-	19,558	-	4,303
Valuation of investments using the equity method (*1)	1,617,716	25,211	1,592,505	6,101	350,351
Accumulated depreciation	189,531	17,838	171,693	4,317	37,772
Severance and retirement benefits	349,281	-	349,281	-	76,842
Present value discount	11,670	-	11,670	-	2,567
Embedded interest on related party loans	670,485	-	670,485	-	147,507
Compensation for damages	1,030,962	811,010	219,952	196,264	48,389
Purchase of power plant	17,212	-	17,212	-	3,787
Redemption premium	78,116	-	78,116	-	17,185
Foreign currency translations	508,194	137,044	371,150	33,165	81,653
Loss on valuation of derivatives	89,253	42,196	47,057	10,211	10,353
Others	214,615	82,836	131,779	20,046	28,991
Consolidated subsidiaries	389,020	389,020	-	151,616	-
	5,242,511	1,561,958	3,680,458	435,489	809,700
Taxable temporary differences:					
Accrued income	(16,114)	(16,114)	-	(3,900)	-
Gain on valuation of available-for-sale securities	(15,244)	-	(15,244)	-	(3,354)
Reserve for revaluation of land and building	(48,393)	-	(48,393)	-	(10,646)
Conversion rights adjustment	(187,415)	(57,353)	(130,062)	(13,879)	(28,613)
Foreign currency translations	(283,320)	(97,753)	(185,567)	(23,656)	(40,825)
Others	(87,410)	(4,395)	(83,015)	(1,063)	(18,263)
Consolidated subsidiaries	(6,986)	-	(6,986)	(1,334)	(877)
	(644,882)	(175,615)	(469,267)	(43,832)	(102,578)
Temporary differences, net	₩ 4,597,629	₩ 1,386,438	₩ 3,211,191	₩ 391,657	₩ 707,122
Public contribution	3,232	455	2,777	110	611
Tax loss carryforwards	1,686,999	1,449,860	237,139	350,866	78,889
Tax credit carryforwards	593,583	228,964	364,619	191,426	371,000
Total deferred income tax assets	₩ 6,881,443	₩ 3,065,717	₩ 3,815,726	934,059	1,157,622
Valuation allowance				(546,665)	(1,100,958)
Deferred income tax assets (*2)				₩ 387,394	₩ 56,664

(\*1) The expected amount of temporary differences to be reversed prior to 2011 for valuation of investments using the equity method is related to elimination of unrealized gains arising from inter-company transactions

(\*2) Deferred income tax assets are classified as current or non-current based on classification of the related assets or liabilities on the statements of financial position. Tax loss carryforwards and tax credit carryforwards are classified based on the time when they are expected to be utilized before they expire. Accordingly, current deferred income tax assets and non-current deferred income tax assets were ₩353,860 million and ₩90,198 million, respectively, as of December 31, 2010.

**31. Income taxes (cont'd)**

The Company recognized deferred tax asset for the tax effects of temporary differences and tax loss carryforwards to the extent that taxable income will be available in the future. The deferred tax assets as of December 31, 2010 amounted to ₩444,058 million.

Tax loss carryforwards and tax credit carryforwards outstanding as of December 31, 2010 will expire as follows (Korean won in millions):

	Year	Amounts
Tax loss carryforwards	2012	₩ 1,823
	2013	42,281
	2015	11,187
	2016 and thereafter	1,631,708
		<u>₩ 1,686,999</u>
Tax credit carryforwards	2011	₩ 206,137
	2012	195,055
	2013	132,987
	2014	56,565
	2016 and thereafter	2,839
		<u>₩ 593,583</u>

Details of deferred income taxes charged directly to or deducted from equity as of December 31, 2010 are as follows (Korean won in millions):

	January 1, 2010	Net changes	December 31, 2010
Changes in retained earnings of equity method investments	₩ (757)	₩ -	₩ (757)
Loss on valuation of available-for-sale securities (included in accumulated other comprehensive income or loss)	(4,650)	1,298	(3,352)
Changes of equity arising from equity method investments (included in accumulated other comprehensive income or loss)	(4)	(74)	(78)
Premium for conversion rights (included in other capital surplus)	(51,050)	(29,375)	(80,425)
	<u>₩ (56,461)</u>	<u>₩ (28,151)</u>	<u>₩ (84,612)</u>

### 32. Other income and expenses

Details of others, net in other income (expenses) for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Gain on derivative valuation	₩ 5,735	₩ 11,296
Gain on derivative transactions	6,091	8,442
Dividend income	687	409
Reversal of impairment loss on investments	29,937	-
Donation	(1,672)	(2,312)
Impairment loss on intangible assets	(1,476)	(3,251)
Impairment loss on available-for-sale securities	(1,295)	(75)
Loss on disposal of intangible assets	(3,406)	-
Loss on disposal of trade accounts and notes receivable	(2,549)	(2,782)
Loss on derivative transactions	(6,246)	(11,900)
Loss on inventory obsolescence	-	(36)
	₩ 25,751	₩ (209)

### 33. Per share amounts

The Company's per share amounts for the years ended December 31, 2010 and 2009 are calculated as follows (Korean won in millions, except for per share amounts):

	2010	2009
Basic gain per share		
Net gain (loss) attributable to equity holders of the parent	₩ 2,647,889	₩ (347,785)
Weighted-average number of shares of common stock outstanding (*1)	590,275,971	560,891,460
Basic gain (loss) per share (Korean won in units)	₩ 4,486	₩ (620)

(\*1) *Weighted-average number of shares of common stock outstanding for the year ended December 31, 2010 is calculated as follows:*

	Number of shares	Weight	Weighted numbers
Common stock outstanding at Jan. 1, 2010(*2)	589,638,561	365	215,218,074,765
Exercise of conversion rights (Exercise considered at Jan. 1, 2010)	635,333	365	231,896,545
Exercise of stock options (Mar. 22, 2010)	2,660	285	758,100
	<u>590,276,554</u>		<u>215,450,729,410</u>

*Weighted-average number of shares of common stock outstanding:*

*215,450,729,410 / 365 days = 590,275,971*

*(204,725,382,925 / 365 days = 560,891,460 for the year ended December 31, 2009)*

	2010
<u>Diluted earning per share</u>	
Net income	₩ 2,647,889
Interest expense of convertible bond	60,791
Diluted net income	2,708,680
Weighted-average number of shares of common stock and convertibles outstanding (*1)	621,638,257
Diluted earning per share (Korean won in units)	₩ 4,357

### **33. Per share amounts (cont'd)**

The basic and diluted loss per share for the year ended December 31, 2009, were both ₩620 as all potential dilutive shares are anti-dilutive.

(\*1) *Weighted-average number of shares of common stock and convertibles outstanding for the year ended December 31, 2010 is calculated as follows*

	<i>Number of shares</i>
Weighted-average number of shares of common stock outstanding	<u>590,275,971</u>
Weighted-average number of shares of convertibles	
Convertible bond	31,343,896
Stock options	18,390
Weighted-average number of shares of common stock and convertibles outstanding	<u>621,638,257</u>

### **34. Dividends**

The 2010 dividends will be proposed for the stockholders' approval at the annual ordinary stockholders' meeting to be held on March 30, 2011.

Details of dividends declared for the year ended December 31, 2010 are as follows (Korean won in unit):

	<u>Common stock</u>
Number of shares (A)	590,277 thousand
Dividend per share (B)	150
Dividends (A x B)	<u>₩ 88,541 million</u>

The dividend payout ratio for the year ended December 31, 2010 is as follow (Korean won in millions):

	<u>2010</u>
Dividends (A)	₩ 88,541
Net income (B)	2,647,889
Dividend payout ratio (A/B)	<u>3.34%</u>

The dividend yield ratio for the year ended December 31, 2010 is as follow (Korean won in unit):

	<u>2010</u>
Dividend per share (A)	₩ 150
Market value per share at statement of the reporting date (B)	24,000
Dividend yield ratio (A/B)	<u>0.63%</u>

### **35. Comprehensive income (loss)**

The details of comprehensive income for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Net gain (loss)	₩ 2,656,476	₩ (332,644)
Other comprehensive income ( loss):		
Changes of equity arising from equity method investments	(2,033)	907
Gain (loss) on valuation of available-for-sale securities (net of tax: ₩1,297 and ₩(4,236) for the years ended December 31, 2010 and 2009, respectively)	(12,958)	23,038
Changes of equity arising from equity method investments (net of tax: ₩(74) and ₩284 for the years ended December 31, 2010 and 2009, respectively)	(10,997)	(387,616)
Comprehensive loss	₩ 2,630,488	₩ (696,315)
Attributable to:		
Equity holders of the parents	₩ 2,603,072	₩ (660,112)
Minority interests	27,416	(36,203)
	₩ 2,630,488	₩ (696,315)

### **36. Supplementary cash flow information**

Significant transactions not involving cash flows for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Transfer of current portion of long-term advance payments to advance payments and prepaid expenses	₩ 54,178	₩ 84,015
Transfer of property, plant and equipment to investment properties	1,301	40,521
Transfer of construction-in-progress to each class of property, plant and equipment	3,109,831	408,513
Transfer of investment properties to property, plant and equipment	15,639	13,060
Transfer of convertible bonds to current portion	490,974	596,706
Transfer of long-term payables to current portion	3,632,909	1,010,974

### **37. Segment information**

The Company has two reportable operating segments - semiconductor and others. The segments are internally classified with regard to the attributes of the major products.

The following table provides information for each operating segment as of and for the years ended December 31, 2010 and 2009 (Korean won in millions):

	2010			
	Semiconductor	Others	Reconciling adjustments	Total
Sales	₩ 25,573,681	₩ 223,823	₩ (13,698,837)	₩ 12,098,667
Operating income (loss)	3,212,332	(2,529)	63,286)	3,273,089
Total assets	23,149,124	156,017	(5,720,890)	17,584,251

**37. Segment information (cont'd)**

	2009			
	Semiconductor	Others	Reconciling adjustments	Total
Sales	₩ 16,987,224	₩ 126,981	₩ (9,207,855)	₩ 7,906,350
Operating income (loss)	38,910	(2,836)	155,895	191,970
Total assets	20,774,384	135,307	(4,606,158)	16,303,533

The Company's sales by geographic segment for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010					
	Domestic	North America	Asia	Europe	Reconciling adjustments	Total
Sales	₩ 12,197,248	₩ 3,297,729	₩ 8,765,369	₩ 1,537,158	₩ (13,698,837)	₩ 12,098,667
Internal sales	(11,404,941)	(15,289)	(2,272,882)	(5,725)	13,698,837	-
Net sales	792,307	3,282,440	6,492,487	1,531,433	-	12,098,667
Operating income	3,086,461	8,303	110,807	4,232	63,286	3,273,089
Total assets	16,096,018	897,614	5,824,975	486,534	(5,720,890)	17,584,251

	2009					
	Domestic	North America	Asia	Europe	Reconciling adjustments	Total
Sales	₩ 7,648,439	₩ 1,881,923	₩ 6,591,525	₩ 992,318	₩ (9,207,855)	₩ 7,906,350
Internal sales	(7,040,386)	(18,789)	(2,141,986)	(6,694)	9,207,855	-
Net sales	608,053	1,863,134	4,449,539	985,624	-	7,906,350
Operating income (loss)	(118,683)	5,575	143,139	6,043	155,895	191,969
Total assets	13,560,074	696,105	6,145,719	507,793	(4,606,158)	16,303,533

**38. Impact of adoption of K-IFRS**

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.

**Preparation for the adoption of K-IFRS**

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 commissioned an external advisory body in 2009 to assess the accounting policy changes arising from the adoption of K-IFRS as part of its first stage implementation exercise. During the second phase, the Company identified all the accounting alternatives and chose its accounting policies. In addition, re-configuring and realigning its accounting information system and consolidation reporting system as part of its second stage implementation exercise. The Company has prepared K-IFRS financial statements for the date of transition and thereafter.

**38. Impact of adoption of K-IFRS (cont'd)**

**Significant accounting differences between K-IFRS and current Korean GAAP**

The differences between K-IFRS and Korean GAAP (K-GAAP) that are expected to give use to a significant impact on the Company's consolidated financial statements as of December 31, 2010 are summarized as follows:

Accounts	Current K-GAAP	K-IFRS
First-time adoption of K-IFRS - Fair value or revaluation as deemed cost	Not applicable	Measures land at fair value and uses the fair value as its deemed cost as of January 1, 2010 (the date of transition)
First-time adoption of K-IFRS - Cumulative translation differences	Not applicable	Deems all cumulative translation differences at nil as of January 1, 2010 (the date of transition)
First-time adoption of K-IFRS - Investments in subsidiaries and affiliates	Not applicable	Uses its previous K-GAAP carrying amount as deemed cost for the investments in subsidiaries and affiliates as of January 1, 2010 (the date of transition)
First-time adoption of K-IFRS - Business combination	Not applicable	Dose not restate retrospectively past business combinations that occurred prior to January 1, 2010 (the date of transition) under IFRS 3 <i>Business combinations</i>
Employee benefits	Records benefit liabilities as payables assuming all employees with at least one year of service, are to terminate their employment as of the reporting date and recognizes accumulating compensated absence when the Company's obligation to pay cash is determined	Records as present value of benefit using projected the unit credit method based on actuarial assumptions and on a discount basis
Goodwill	Amortizes goodwill acquired as a result of business combinations using the straight-line method	Dose not amortize goodwill and tests for any impairment annually
Derecognition of financial assets	Derecognizes a financial asset when it meets the conditions of transfer defined in K-GAAP	According to derecognition principles, continues to recognize to the extent of continuing involvement considering transfer of risks and rewards, control of the asset and others
Presentation of deferred tax assets and liabilities	Presents deferred tax assets and liabilities based on the classification of related assets/liabilities	Presents deferred tax assets and liabilities as non-current assets and liabilities
Equity method investments	In non-consolidated financial statements, applies the equity method to investments in subsidiaries and affiliates	In separate financial statements, elects the cost-method to investments in subsidiaries and affiliates
Change in in-scope entities for consolidation	Excludes subsidiaries from consolidation when their total assets fall below ₩10,000 million under the Act on External Audit of Stock Companies	Includes all subsidiaries in consolidation when control exists regardless of total asset thresholds

**39. Impact of adoption of K-IFRS (cont'd)**

**Change in-scope entities for consolidation**

The Company is required to prepare consolidated financial statements under KGAAP or K-IFRS, and changes in-scope entities are as follow:

<u>Changes in scope</u>	<u>Reason for inclusion</u>	<u>Names of subsidiaries under K-IFRS</u>
Increase the number of subsidiaries included in consolidation	Subsidiaries whose total assets fall below ₩10,000 million as of the end of prior year are excluded from consolidation under the Act on External Audit of Stock Companies redundant. However, they shall be included under K-IFRS	Hynix HRD Center Co., Ltd., Hylogitech Co., Ltd., QRT Semiconductor Inc., Hynix Semiconductor India Inc., ProMOS Specified money trusts (SPE)