

Hynix Semiconductor Inc.

Interim Non-consolidated Financial Statements

Six months ended June 30, 2009 and 2008

with independent accountants' review report

Hynix Semiconductor Inc.
June 30, 2009 and 2008

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Independent accountants' review report

The Board of Directors and Stockholders
Hynix Semiconductor Inc.

We have reviewed the accompanying interim non-consolidated statement of financial position of Hynix Semiconductor Inc. (the "Company") as of June 30, 2009, and the related interim non-consolidated statements of operations for the three months and six months ended June 30, 2009 and 2008, and changes in equity and cash flows for the six months ended June 30, 2009 and 2008. These interim non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these interim non-consolidated financial statements based on our reviews.

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

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

We have previously audited, in accordance with generally accepted auditing standards in the Republic of Korea, the non-consolidated statement of financial position of the Company as of December 31, 2008, and the related non-consolidated statements of operations, appropriations of retained earnings, changes in equity and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2009, we expressed an unqualified opinion on those statements. The accompanying statement of financial position of the Company as of December 31, 2008, which is presented for comparative purposes, does not materially differ from the above audited statement of financial position.

Without qualifying our opinion, we draw attention to the following matters:

- (1) As discussed in Note 15 (1) to the interim non-consolidated financial statements, on July 12, 2005, the Creditor Financial Institutions ("Creditor Council") which took operational control over the Company since October 4, 2001, was terminated by entering into a special agreement between the Company and the Share Management Council (formerly, the Creditor Council). Under the special agreement, the Company is required to consult with the Share Management Council in advance on events that could have a significant influence on the Company's management including (a) appointment and dismissal of directors, (b) adoption of annual budgets, (c)

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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 shares in the Company.

- (2) As discussed in Note 15 (3) to the interim non-consolidated financial statements, in June 2002, the United States Department of Justice (“DOJ”) notified the Company that the DOJ had commenced an investigation if certain Dynamic Random Access Memory (“DRAM”) manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Company entered into a plea agreement with the DOJ to pay a fine in the amount of US\$185 million in installments over the next five years without interest. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages from the breach of the US Anti-Trust Act by the Company and Hynix Semiconductor America Inc. (“HSA”), its sales subsidiary located in the United States. In relation to the lawsuits, the Company has reached settlements through separate negotiations with several major DRAM product Original Equipment Manufacturing (“OEM”) users and, on April 29, 2006 and June 10, 2009, respectively, the Company reached agreements with the direct purchasers class and some direct purchasers to pay US\$73 million and US\$120 million, respectively. As of June 30, 2009, the Company continues to negotiate the settlements with the indirect purchasers class, 35 state governments in the United States and the direct and indirect purchasers class of three provinces in Canada. In addition, as of June 30, 2009, an investigation commenced by the European Union Commission (“EU Commission”) is in-progress to determine whether the Company had breached the Anti-Trust Act. As a result, the Company recorded a liability amounting to US\$186 million as of June 30, 2009, which consists of the fine and estimated future losses expected to be incurred from such pending settlements. Separately, the EU Commission and the DOJ investigated the unfair transactions among certain Static Random Access Memory (“SRAM”) manufacturers and sellers, including the Company, and each informed the Company in November and December 2008, respectively, that they closed their investigations. And as of June 30, 2009, in connection with the SRAM and flash memory products, several civil lawsuits have been also brought against the Company by the direct and indirect purchasers class in the United States and three provinces of Canada. As of June 30, 2009, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company’s interim non-consolidated financial statements.
- (3) As discussed in ① of Note 15 (4) to the interim non-consolidated financial statements, the Company is a defendant to litigation brought by Rambus Inc. (“Rambus”), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus’ patents by the Company’s manufacture, sales, offer for sales, use or otherwise disposal of Single Data Rate (“SDR”) Synchronous Dynamic Random Access Memory (“SDRAM”) and Double Data Rate (“DDR”) SDRAM products. The litigation has been brought in Germany, France, the United Kingdom and the United States. In 2004, the European Patent Office revoked Rambus’ certain key patents subject to such litigation against the Company in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United Kingdom was dismissed, the litigation in France ceased further proceeding, and the litigation in Germany has been deferred without any progress. Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the final judgment that ordered the Company to pay for damages for the infringement of Rambus’ patent and to pay royalties of 1% for SDR SDRAM products and 4.25% for DDR SDRAM products manufactured or sold in the

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United States from February 1, 2009 to April 18, 2010, while denying Rambus' request for injunctive relief. The Company appealed the court's final judgment to the United States Court of Appeals of the Federal Circuit on April 6, 2009. The Company filed for a suspension of execution on the judgment delivered by the United States District Court of the Northern District of California on condition that several financial institutions provide payment guarantees for the Company up to a pre-determined amount, and in return, the Company is to provide its property, plant and equipment in Chun-ju, Korea, as collateral for the payment guarantees on the remaining amount in the second half of 2009. Separately, Rambus also brought another lawsuit against the Company and its subsidiary in the United States by alleging that the Company and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. Also, in 2004, Rambus filed a lawsuit against the Company, its subsidiary in the United States, and other major memory chip manufacturers alleging that these defendants kept Rambus' DRAM products from entering the market. As of June 30, 2009, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

Apart from the above litigation, as discussed in ④ of Note 15 (4), the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of June 30, 2009, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

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

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

July 29, 2009

This review report is effective as of July 29, 2009, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent accountants' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim non-consolidated financial statements and may result in modifications to this report.

Hynix Semiconductor Inc.
Interim non-consolidated statements of financial position
As of June 30, 2009 and December 31, 2008

(Korean won in thousands)

	June 30, 2009 Unaudited	December 31, 2008 Audited
Assets		
Current assets:		
Cash and cash equivalents	₩ 1,161,436,673	₩ 341,350,952
Short-term financial instruments	73,041,425	48,180,846
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩1,267,967 in 2009 (₩659,715 in 2008) (Notes 3 and 6)	508,944,853	290,419,768
Short-term loans, net of allowance for doubtful account of nil in 2009 (₩2,213 in 2008) (Note 6)	34,728,009	219,171
Other accounts receivable, net of allowance for doubtful accounts of ₩4,629,004 in 2009 (₩7,477,064 in 2008) (Note 6)	114,816,651	111,862,151
Inventories, net (Notes 4 and 23)	697,440,268	766,714,625
Prepaid expenses	68,667,888	86,938,052
Other current assets	27,650,906	33,822,992
Total current assets	<u>2,686,726,673</u>	<u>1,679,508,557</u>
Non-current assets:		
Long-term financial instruments	322,360	3,322,360
Available-for-sale securities (Notes 5, 15 and 24)	35,855,462	23,069,512
Equity method investments (Notes 5 and 6)	2,727,436,791	2,557,640,779
Long-term loans, net of allowance for doubtful accounts of nil in 2009 (₩17,422 in 2008) (Note 6)	20,536,786	37,365,497
Long-term accrued revenues, net of allowance for doubtful accounts of ₩1,186,849 in 2009 (₩1,186,849 in 2008)	-	-
Investment properties (Note 7)	66,135,982	114,554,416
Long-term advance payments	153,690,164	172,012,110
Deferred income tax assets (Note 22)	422,063,775	422,063,775
Property, plant and equipment, net (Notes 6, 7, 8 and 13)	6,931,321,667	7,678,412,873
Intangible assets, net (Notes 9 and 24)	478,895,988	495,769,252
Other assets	16,406,078	15,621,060
Total non-current assets	<u>10,852,665,053</u>	<u>11,519,831,634</u>
Total assets	<u>₩ 13,539,391,726</u>	<u>₩ 13,199,340,191</u>

(Continued)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of financial position (cont'd)
As of June 30, 2009 and December 31, 2008

(Korean won in thousands)

	June 30, 2009 Unaudited	December 31, 2008 Audited
Liabilities and equity		
Current liabilities:		
Trade accounts and notes payable (Note 6)	₩ 875,369,435	₩ 747,818,201
Short-term borrowings (Note 11)	1,363,453,484	935,054,304
Other accounts and notes payable, net of discount on present value (Notes 6 and 12)	703,331,147	818,629,989
Accrued expenses (Notes 6 and 12)	886,169,043	834,569,772
Current portion of bonds and long-term borrowings, net of discount on bonds, discount on present value, conversion rights adjustments and addition of redemption premiums (Note 12)	1,185,572,825	585,543,799
Other current liabilities (Notes 6 and 10)	167,376,965	209,005,728
Total current liabilities	<u>5,181,272,899</u>	<u>4,130,621,793</u>
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 12,13 and 15)	2,774,947,782	3,331,332,261
Other long-term accounts and notes payable, net of discount on present value (Notes 12,13 and 15)	244,453,120	227,879,255
Severance and retirement benefits	319,642,612	311,474,730
Other long-term liabilities (Notes 14, 15 and 16)	126,992,598	107,829,738
Total non-current liabilities	<u>3,466,036,112</u>	<u>3,978,515,984</u>
Total liabilities	8,647,309,011	8,109,137,777
Equity:		
Capital stock (Note 17)	2,965,768,535	2,315,654,175
Capital surplus (Note 18)	1,311,605,195	929,002,855
Capital adjustments (Notes 6 and 19)	5,778,918	5,839,683
Accumulated other comprehensive income (Notes 5, 20 and 27)	498,100,814	483,642,719
Retained earnings (Note 20)	110,829,253	1,356,062,982
Total equity	<u>4,892,082,715</u>	<u>5,090,202,414</u>
Total liabilities and equity	<u>₩ 13,539,391,726</u>	<u>₩ 13,199,340,191</u>

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of operations
For the three months and six months ended June 30, 2009 and 2008

(Korean won in thousands, except for per share amounts in units)

	Three months ended June 30, 2009 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2008 (Unaudited)
Sales (Notes 6 and 25)	₩ 1,603,568,363	₩ 2,801,336,995	₩ 1,847,241,167	₩ 3,419,898,180
Cost of sales (Notes 4 and 23)	1,515,208,388	3,067,803,470	1,696,111,769	3,503,393,778
Gross profit (loss)	88,359,975	(266,466,475)	151,129,398	(83,495,598)
Selling and administrative expenses (Notes 6, 7, 9 and 21)	309,561,586	607,203,668	334,980,938	604,993,856
Operating loss	(221,201,611)	(873,670,143)	(183,851,540)	(688,489,454)
Other Income (expenses):				
Interest income (Note 6)	5,814,810	10,666,378	19,905,067	46,358,454
Interest expense (Note 6)	(75,265,295)	(162,139,214)	(63,603,780)	(111,071,343)
Rental income	9,832,178	20,659,168	10,029,659	18,040,013
Bad debt expenses - other	(153,438)	(131,080)	(952,111)	(2,110,156)
Reversal of allowance for doubtful accounts	409,089	70,246	17,858,815	18,434,140
Gain (loss) on foreign currency transactions, net	64,672,935	(60,456,520)	(4,771,793)	(50,028,495)
Gain (loss) on foreign currency translation, net	261,729,468	(1,809,652)	(158,307,467)	(281,763,166)
Gain on disposal of available-for-sale securities, net (Note 5)	51,539	318,899	842,829	842,829
Equity in earnings (loss) of equity method investments, net (Notes 5 and 20)	(29,354,370)	165,736,555	(316,907,356)	(310,337,488)
Gain (loss) on disposal of property, plant and equipment, net (Note 7)	(3,312,884)	10,504,744	20,580	55,131
Gain on disposal of intangible assets	-	-	20,665,561	20,665,561
Loss on disposal of investment properties, net	(2,433,401)	(9,765,028)	-	-
Depreciation of idle assets (Note 7)	(21,697,933)	(51,955,696)	(6,864,586)	(7,468,610)
Loss on valuation of derivatives (Note 16)	(8,516,823)	(30,746,786)	(22,902,871)	(25,288,611)
Miscellaneous loss, net	(35,624,420)	(249,024,241)	(14,588,334)	(2,362,425)
Others, net	3,294,828	(14,700,437)	(4,390,456)	(8,123,078)
	<u>169,446,283</u>	<u>(372,772,664)</u>	<u>(523,966,243)</u>	<u>(694,157,244)</u>
Loss before income taxes	(51,755,328)	(1,246,442,807)	(707,817,783)	(1,382,646,698)
Benefit from income taxes (Note 22)	1,033,727	1,209,078	4,437	48,834
Net loss (Note 27)	<u>(50,721,601)</u>	<u>(1,245,233,729)</u>	<u>(707,813,346)</u>	<u>(1,382,597,864)</u>
Loss per share (Note 26):				
Basic	₩ (92)	₩ (2,344)	₩ (1,541)	₩ (3,010)
Diluted	₩ (92)	₩ (2,344)	₩ (1,541)	₩ (3,010)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of changes in equity
For the six months ended June 30, 2009 and 2008
(Korean won in thousands)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
As of January 1, 2008 (as previously stated)	₩ 2,313,783,365	₩ 852,386,611	₩ 14,660,920	₩ (53,496,800)	₩ 5,908,953,435	₩ 9,036,287,531
Cumulative effect of changes in accounting policy	-	8,298,722	-	(166,219,876)	166,670,851	8,749,697
As of January 1, 2008 (as restated)	2,313,783,365	860,685,333	14,660,920	(219,716,676)	6,075,624,286	9,045,037,228
Net loss	-	-	-	-	(1,382,597,864)	(1,382,597,864)
Exercise of stock option	226,000	118,923	(120,148)	-	-	224,775
Forfeiture of stock option	-	8,585,878	(8,585,878)	-	-	-
Stock-based compensation expenses	-	-	6,606,691	-	-	6,606,691
Changes in stock options included in earnings of equity	-	-	305,985	-	-	305,985
Effect of deferred income tax	-	(310)	-	(247,025)	89,835	(157,500)
Changes of equity arising from equity method investments	-	2,525,333	-	372,101,911	-	374,627,244
Gain on valuation of available-for-sale securities	-	-	-	115,339	-	115,339
As of June 30, 2008 (unaudited)	₩ 2,314,009,365	₩ 871,915,157	₩ 12,867,570	₩ 152,253,549	₩ 4,693,116,257	₩ 8,044,161,898
As of January 1, 2009	₩ 2,315,654,175	₩ 929,002,855	₩ 5,839,683	₩ 483,642,719	₩ 1,356,062,982	₩ 5,090,202,414
Net loss	-	-	-	-	(1,245,233,729)	(1,245,233,729)
Exercise of stock option	114,300	59,676	(60,765)	-	-	113,211
Exercise of conversion rights	60	(80)	-	-	-	(20)
Issuance of common shares	650,000,000	381,027,934	-	-	-	1,031,027,934
Changes of equity arising from equity method investments	-	1,514,810	-	2,524,957	-	4,039,767
Gain on valuation of available-for-sale securities	-	-	-	13,142,217	-	13,142,217
Effect of deferred income tax	-	-	-	(1,209,079)	-	(1,209,079)
As of June 30, 2009 (unaudited)	₩ 2,965,768,535	₩ 1,311,605,195	₩ 5,778,918	₩ 498,100,814	₩ 110,829,253	₩ 4,892,082,715

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of cash flows
For the six months ended June 30, 2009 and 2008

(Korean won in thousands)

	Six months ended June 30,	
	2009	2008
	Unaudited	
Cash flows from operating activities:		
Net loss	₩ (1,245,233,729)	₩ (1,382,597,864)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for severance and retirement benefits	35,635,613	48,858,088
Depreciation	838,519,400	941,052,468
Amortization of intangible assets	26,407,320	25,990,775
Research and development costs	48,969,893	39,080,428
Stock-based compensation expenses	-	6,606,691
Interest expense	37,714,743	33,257,368
Bad debt expense	608,252	4,801,700
Reversal of allowance for doubtful accounts	(70,246)	(18,434,140)
Bad debt expense - other	131,080	2,110,156
Loss on foreign currency translation, net	4,146,984	281,763,166
Gain on disposal of available-for-sale securities, net	-	(842,829)
Equity in earnings (loss) of equity method investments, net	(165,736,555)	310,337,488
Loss on disposal of investment properties	9,765,028	-
Gain on disposal of property, plant and equipment, net	(10,504,744)	(55,131)
Gain on disposal of intangible asset, net	-	(20,665,561)
Depreciation of idle assets	51,955,696	7,468,610
Reveral of loss on valuation of inventories	(262,176,756)	(1,852,115)
Reversal of allowance for expected contract loss	(27,376,293)	(20,618,659)
Loss on valuation of derivatives	30,746,786	25,288,611
Miscellaneous loss, net	239,260,157	5,537,021
Others, net	281,461	632,024
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(216,368,018)	94,692,026
Other accounts receivable	3,049,248	(24,834,129)
Prepaid expenses	(14,004,149)	(95,644,007)
Other current assets	13,521,007	(284,900,717)
Inventories	331,451,113	(326,684,173)
Long-term advance payments	(5,700,798)	(42,973,424)
Other non-current assets	122,117	15,715,441
Trade accounts and notes payable	129,012,129	40,214,036
Other accounts and notes payable	(148,128,694)	(181,677,302)
Accrued expenses	(184,222,424)	(1,684,054)
Other current liabilities	(30,239,230)	(47,780,401)
Other long-term accounts and notes payable	26,621,219	39,069,914
Other non-current liabilities	7,004,068	2,492,537
Payments of severance and retirement benefits, net	(27,467,732)	(22,589,721)
Total adjustments	<u>742,927,675</u>	<u>833,732,185</u>
Net cash used in operating activities	₩ (502,306,054)	₩ (548,865,679)

(Continued)

See accompanying notes.

Hynix Semiconductor Inc.
Interim non-consolidated statements of cash flows (cont'd)
For the six months ended June 30, 2009 and 2008
(Korean won in thousands)

	Six months ended June 30,	
	2009	2008
	Unaudited	
Cash flows from investing activities:		
Decrease (increase) in short-term financial instruments	₩ (24,145,578)	₩ 99,745,550
Decrease in long-term financial instruments	3,000,000	-
Decrease (increase) in short-term loans	(12,454,000)	187,679,801
Increase in long-term loans	(4,813,493)	(4,771,480)
Proceeds from disposal of available-for-sale securities	-	847,613
Proceeds from disposal of investment properties	25,910,126	-
Proceeds from disposal of property, plant and equipment	21,243,767	103,277,488
Proceeds from disposal of intangible assets	-	20,714,212
Acquisition of available-for-sale securities	-	(3,560,178)
Acquisition of equity method investments	-	(2,701,000)
Acquisition of property, plant and equipment	(141,458,328)	(1,431,680,676)
Acquisition of intangible assets	(10,870,900)	(11,191,864)
Others, net	(1,039,738)	(283,338)
Net cash used in investing activities	<u>(144,628,144)</u>	<u>(1,041,923,872)</u>
Cash flows from financing activities:		
Drawdown of short-term borrowings	457,022,523	609,018,495
Drawdown of long-term borrowings	14,114,000	150,416,516
Proceeds from issuance of bonds	-	348,227,705
Proceeds from stock option exercise	114,300	226,000
Proceeds from issuance of common shares	1,048,500,000	-
Repayments of current portion of long-term borrowings	(35,239,312)	(2,562)
Repayments of long-term borrowings	(18,146)	(35,829,331)
Stock issuance costs	(17,473,446)	(1,224)
Net cash provided by financing activities	<u>1,467,019,919</u>	<u>1,072,055,599</u>
Net increase (decrease) in cash and cash equivalents	820,085,721	(518,733,952)
Cash and cash equivalents at the beginning of the period	<u>341,350,952</u>	<u>1,358,798,659</u>
Cash and cash equivalents at the end of the period	<u><u>₩ 1,161,436,673</u></u>	<u><u>₩ 840,064,707</u></u>

See accompanying notes.

1. Corporate information

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

2. Summary of significant accounting policies

Basis of financial statement preparation

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

Significant accounting policies

The significant accounting policies adopted in the preparation of the interim non-consolidated financial statements (not presented herein) are consistent with those followed in the preparation of the annual financial statements, and should be read in conjunction with the annual financial statements as of December 31, 2008.

3. Accounts receivable factored

Outstanding accounts receivable factored with financial institutions as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009	December 31, 2008	
	Unaudited	Audited	Factoring terms
Trade accounts and notes receivable	₩ 478,641	₩ 507,459	With recourse

4. Inventories

Inventories as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009 Unaudited	December 31, 2008 Audited
Finished goods	₩ 257,450	₩ 398,268
Work in-process	513,467	636,705
Raw materials	60,966	105,887
Supplies	6,755	10,327
Materials in-transit	20,026	38,929
	<u>858,664</u>	<u>1,190,116</u>
Less: valuation allowance	(161,224)	(423,401)
	<u>₩ 697,440</u>	<u>₩ 766,715</u>

5. Investment in securities

(a) Available-for-sale securities as of June 30, 2009 and December 31, 2008 consist of the following (Korean won in millions):

	June 30, 2009 (Unaudited)				
	Number of shares	Ownership (%)	Acquisition cost	Fair value/ proportionate net asset value	Book value (*1)
Equity securities:					
Hyundai Information Technology Co., Ltd. (*2)	1,160,180	2.30	₩ 3,481	₩ 1,288	₩ 1,288
Hydi Tech Co., Ltd.	75,000	12.78	779	-	-
Hyundai Logistics Co., Ltd. (*2)	15,115	0.12	76	366	98
Yonsei Digital Co., Ltd.	138,000	7.68	155	72	-
Eqbestech Co., Ltd.	2,000	1.67	10	19	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	(696)	-
U.P.D. Co., Ltd.	1,874,400	18.56	8,747	-	-
Itest Co., Ltd.	481,780	2.83	1,166	420	1,166
Hyundai IT Corp.	25,286	0.03	63	12	12
Hydis Technology Co., Ltd.	68,140	0.21	-	5,851	-
Trigem Computer Inc.	640	0.00	1	2	2
Hynix HRD Center Co., Ltd. (*3)	59,102	98.50	1,195	2,059	1,169
Hylogitech Co., Ltd. (*3)	39,401	98.50	441	591	431
Fidelix Co., Ltd.	1,605,854	9.89	3,560	3,228	3,228
Futurescope technology Co., Ltd.	60,000	13.04	300	304	300
C&S technology Co., Ltd.	1,031,590	5.00	4,508	3,631	3,631
Pantech & Curitel Co., Ltd.	13,665,000	2.49	-	100	-
ZMOS Technology Inc.	2,000,000	5.11	995	75	995
Phison Electronics Corp.	2,506,638	1.87	11,661	17,983	17,983
Anobit Technologies Ltd.	204,248	3.69	3,123	867	3,123
Specified money trusts (*4)	16,800,000	0.23	941	720	720
Hynix Semiconductor Indian Subcontinent Private Ltd. (HSIS) (*3)	100	1.00	-	-	-
Anhui Wanyan Electronics System Inc. (WANYAN)	Certificate of investment	12.91	1,623	-	-
Globalstar Thailand Limited. (*5)	34,299	34.30	93	-	-
Pak Globalstar (Private) Ltd. (*5)	Certificate of investment	44.20	106	-	-
			<u>₩ 47,029</u>	<u>₩ 37,364</u>	<u>₩ 35,855</u>

5. Investment in securities (cont'd)

- (*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) The investment was deposited in an escrow account in relation to a pending lawsuit as of December 31, 2008. As the lawsuit was settled during the six months ended June 30, 2009, 50% of the investment was transferred to another investor and the remaining of investment of the escrow was released.
- (*3) Investments in these entities were not accounted for using the equity method of accounting as the investee's total assets were less than ₩10,000 million as of December 31, 2008 and the changes in carrying amount of investments were immaterial.
- (*4) After liquidation of the specified money trusts, the Company is expected to obtain available-for-sale securities on the number of shares and ownership percentage as above.
- (*5) Investments in these entities were not accounted for using the equity method of accounting as the investees are currently under liquidation proceedings as of June 30, 2009.

	December 31, 2008 (audited)				
	Number of shares	Ownership (%)	Acquisition cost	Fair value/ proportionate net asset value	Book value
Equity securities:					
Hyundai Information Technology Co., Ltd.	2,320,360	4.61	₩ 6,962	₩ 1,625	₩ 1,625
Hyundai Unicorns Co., Ltd.	91,440	76.20	34,290	(12,026)	-
Hydi Tech Co., Ltd.	75,000	12.78	779	(257)	75
Hyundai Logistics Co., Ltd.	30,230	0.25	151	292	196
Yonsei Digital Co., Ltd.	138,000	7.68	155	55	-
Eqbestech Co., Ltd.	2,000	1.67	10	18	10
Novelis Korea Ltd.	159	0.12	1,699	468	1,699
Hanse Telecom Co., Ltd.	7,000	0.49	385	3	-
T.on Telecom Co., Ltd.	108,000	5.78	2,700	(397)	-
U.P.D. Co., Ltd.	1,874,400	18.56	8,747	-	-
ltest Co., Ltd.	48,178	6.89	1,166	441	1,166
Hyundai IT Corp.	25,286	0.03	63	6	6
Hydis Technology Co., Ltd.	68,140	3.93	-	7,207	-
Trigem Computer Inc.	640	0.00	1	2	1
Hynix HRD Center Co., Ltd.	59,102	98.50	1,195	1,811	1,169
Hylogitech Co., Ltd.	39,401	98.50	441	539	431
Fidelix Co., Ltd.	1,605,854	9.89	3,560	1,991	1,991
Futurescope Technology Co., Ltd.	60,000	15.00	300	304	300
C&S Technology Co. Ltd.	1,031,590	5.26	4,508	2,527	2,527
Pantech & Curitel Co., Ltd.	13,665,000	2.49	-	(320)	-
ZMOS Technology Inc.	2,000,000	5.12	995	(5)	995
Phison Electronics Corp.	2,506,638	1.98	11,661	6,188	6,188
Anobit Technologies Ltd.	204,248	3.69	3,123	377	3,123
Specified money trusts	16,800,000	0.23	941	1,567	1,567
Hynix Semiconductor Indian					
Subcontinent Private Ltd. (HSIS)	100	1.00	-	-	-
Anhui Wanyan Electronics System Inc. (WANYAN)	Certificate of investment	12.91	1,623	-	-
Globalstar Thailand Ltd.	34,299	34.30	93	-	-
Pak Globalstar (Private) Ltd.	Certificate of investment	44.20	106	-	-
			<u>₩ 85,654</u>	<u>₩ 12,416</u>	<u>₩ 23,069</u>

5. Investment in securities (cont'd)

The Company recognized impairment losses on its available-for-sale securities amounting to ₩75 million during the six months ended June 30, 2009 and the accumulated impairment losses on available-for-sale securities amounted to ₩14,588 million as of June 30, 2009.

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 six months ended June 30, 2009 and the year ended December 31, 2008 are as follows (Korean won in millions):

	Six months ended June 30, 2009 (Unaudited)		
	January 1, 2009	Valuation gain (loss)	June 30, 2009
Hyundai Information Technology Co., Ltd.	₩ 1,243	₩ (146)	₩ 1,097
Hyundai IT Corp.	(57)	6	(51)
Hyundai Logistics Co., Ltd.	15	(8)	7
Hynix HRD Center Co., Ltd.	(26)	-	(26)
Hylogitech Co., Ltd.	(10)	-	(10)
Fidelix Co., Ltd.	(1,569)	1,237	(332)
C&S Technology Co., Ltd.	(1,981)	1,104	(877)
Phison Electronics Corp.	(5,473)	11,795	6,322
Specified money trusts	626	(847)	(221)
	<u>₩ (7,232)</u>	<u>₩ 13,141</u>	<u>₩ 5,909</u>

	Year ended December 31, 2008 (Audited)			
	January 1, 2008	Valuation gain (loss)	Transfer	December 31, 2008
Hyundai Information Technology Co., Ltd.	₩ 2,472	₩ (1,229)	₩ -	₩ 1,243
Hyundai IT Corp.	-	(57)	-	(57)
Hyundai Logistics Co., Ltd.	15	-	-	15
Hynix HRD Center Co., Ltd.	-	-	(26)	(26)
Hylogitech Co., Ltd.	-	-	(10)	(10)
Fidelix Co., Ltd.	-	(1,569)	-	(1,569)
C&S Technology Co., Ltd.	-	(1,981)	-	(1,981)
Phison Electronics Corp.	-	(5,473)	-	(5,473)
Specified money trusts	-	626	-	626
	<u>₩ 2,487</u>	<u>₩ (9,683)</u>	<u>₩ (36)</u>	<u>₩ (7,232)</u>

The post-tax balance of unrealized gain on available-for-sale securities is ₩4,276 million, net of deferred tax effects of ₩1,633 million, as of June 30, 2009, and the post-tax balance of unrealized loss on available-for-sale securities is ₩7,646 million, net of deferred tax effects of ₩414 million, as of December 31, 2008. 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. During the year ended December 31, 2008, the two companies were established by the spin-off of the equity method investee, Astec Co., Ltd., which has now changed its name to Hynix Engineering Co., Ltd.

5. Investment in securities (cont'd)

(b) Equity method investments as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009 (Unaudited)				
	Number of shares	Ownership (%)	Acquisition cost	Proportionate net asset value	Book value
Hynix Engineering Co., Ltd.	1,196,784	98.50	₩ 9,209	₩ 33,362	₩ 31,741
Hystech Co., Ltd.	236,408	98.50	4,071	5,141	5,165
Hyundai Display Technology Inc.	10,000	100.00	125	12,698	12,698
Siliconfile Technologies Inc. (*1)	2,358,832	29.99	22,835	8,821	20,124
Hynix Semiconductor America Inc. (HSA)	6,285,587	97.74	1,231,196	61,403	56,915
Hynix Semiconductor Manufacturing America Inc. (HSMA)	100,000	0.05	98	(35)	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	335,640,000	100.00	446,766	4,908	5,171
Hynix Semiconductor Deutschland GmbH (HSD)	Certificate of investment	100.00	80,956	32,953	34,965
Hynix Semiconductor Asia Pte., Ltd. (HSS)	196,303,500	100.00	137,532	63,150	63,673
Hynix Semiconductor Hong Kong Ltd. (HSH)	170,693,661	100.00	223,233	44,660	45,531
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	Certificate of investment	100.00	6,357	8,852	8,701
Hynix Semiconductor Japan Inc. (HSJ)	20,000	100.00	81,587	54,055	54,587
Hynix Semiconductor Taiwan Inc. (HST)	35,725,000	100.00	13,330	4,609	4,472
Hynix-Numonyx Semiconductor Ltd. (HNSL) (*2)	Certificate of investment	71.01	1,118,943	1,805,374	1,821,915
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	Certificate of investment	100.00	308,015	564,675	561,779
			<u>₩3,684,253</u>	<u>₩ 2,704,626</u>	<u>₩ 2,727,437</u>

(*1) During the year ended December 31, 2008, the Company acquired a 30% equity interest of Siliconfile Technologies Inc., listed in the KOSDAQ. The excess of the cost of the investment over the Company's proportionate net asset value amounted to ₩13,041 million at the date of acquisition and the unamortized balance of ₩11,303 million (₩12,390 million as of December 31, 2008) remained as of June 30, 2009. The market value of the securities is ₩7,548 million (₩6,982 million as of December 31, 2008) as of June 30, 2009.

(*2) During the six months ended June 30, 2009, the Company's ownership in the investment decreased from 72.29% to 71.01%, as HNSL issued new shares and HSMC acquired an additional 1.6% equity interest of HNSL.

5. Investment in securities (cont'd)

	December 31, 2008 (audited)				
	Number of shares	Ownership (%)	Acquisition cost	Proportionate net asset value	Book value
Hynix Engineering Co., Ltd.	1,196,784	98.50	₩ 9,209	₩ 32,276	₩ 29,125
Hystech Co., Ltd.	236,408	98.50	4,071	4,827	4,861
Hyundai Display Technology Inc.	10,000	100.00	125	12,315	12,315
Siliconfile Technologies Inc.	2,358,832	30.00	22,835	9,162	21,552
Hynix Semiconductor America Inc. (HSA)	6,285,587	97.74	1,231,196	59,752	56,847
Hynix Semiconductor Manufacturing America Inc. (HSMA)	100,000	0.05	98	(28)	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	335,640,000	100.00	446,766	3,016	2,658
Hynix Semiconductor Deutschland GmbH (HSD)	Certificate of investment	100.00	80,956	30,556	30,943
Hynix Semiconductor Asia Pte., Ltd. (HSS)	196,303,500	100.00	137,532	57,627	57,466
Hynix Semiconductor Hong Kong Ltd. (HSH)	170,693,661	100.00	223,233	43,422	43,495
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	Certificate of investment	100.00	6,357	7,259	7,052
Hynix Semiconductor Japan Inc. (HSJ)	20,000	100.00	81,587	40,960	40,851
Hynix Semiconductor Taiwan Inc. (HST)	35,725,000	100.00	13,330	5,867	5,455
Hynix-Numonyx Semiconductor Ltd. (HNSL)	Certificate of investment	72.29	1,118,943	1,746,764	1,732,681
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	Certificate of investment	100.00	308,015	502,536	512,340
			<u>₩ 3,684,253</u>	<u>₩ 2,556,311</u>	<u>₩ 2,557,641</u>

5. Investment in securities (cont'd)

The details of changes in carrying amount of equity method investments for the six months ended June 30, 2009 and the year ended December 31, 2008 are as follows (Korean won in millions):

	Six months ended June 30, 2009 (Unaudited)					
	Balance at Jan. 1, 2009	Equity in earnings (loss) of investee (*1)	Share of changes in:		Allowance for doubtful accounts	Balance at June 30, 2009
			Other comprehensive income	Other capital surplus		
Hynix Engineering Co., Ltd.	₩ 29,125	₩ 2,629	₩ (13)	₩ -	₩ -	₩ 31,741
Hystech Co., Ltd.	4,861	304	-	-	-	5,165
Hyundai Display Technology Inc. Siliconfile	12,315	383	-	-	-	12,698
Technologies Inc.	21,552	(1,449)	21	-	-	20,124
Hynix Semiconductor America Inc. (HSA)	56,847	36,620	(36,552)	-	-	56,915
Hynix Semiconductor Manufacturing America Inc. (HSMA)	-	(18)	(1)	-	19	-
Hynix Semiconductor Europe Holding Ltd. (HSE)	2,658	3,872	(1,359)	-	-	5,171
Hynix Semiconductor Deutschland GmbH (HSD)	30,943	5,849	(1,827)	-	-	34,965
Hynix Semiconductor Asia Pte., Ltd. (HSS)	57,466	5,892	315	-	-	63,673
Hynix Semiconductor Hong Kong Ltd. (HSH)	43,495	9,542	(7,506)	-	-	45,531
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	7,052	1,696	(47)	-	-	8,701
Hynix Semiconductor Japan Inc. (HSJ)	40,851	20,230	(6,494)	-	-	54,587
Hynix Semiconductor Taiwan Inc. (HST)	5,455	8,753	(9,736)	-	-	4,472
Hynix-Numonyx Semiconductor Ltd. (HNSL)	1,732,681	44,247	51,319	(6,332)	-	1,821,915
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	512,340	27,187	14,405	7,847	-	561,779
	<u>₩ 2,557,641</u>	<u>₩ 165,737</u>	<u>₩ 2,525</u>	<u>₩ 1,515</u>	<u>₩ 19</u>	<u>₩ 2,727,437</u>

(*1) Equity in earnings (loss) of investee is the proportionate net income or loss considering unrealized gain or loss from inter-company transactions, amortization of goodwill and foreign exchange translation from elimination of inter-company transactions, etc.

5. Investment in securities (cont'd)

	Year ended December 31, 2008 (audited)							Balance at Dec. 31, 2008
	Balance at Jan. 1, 2008	Equity in earnings (loss) of investee	Share of changes in:		Acquisi- tion (disposal)	Other		
			Capital surplus	Other compre- hensive income				
Hynix Engineering Co., Ltd.	₩ 34,470	₩ 23	₩ 169	₩ -	₩ -	₩(5,537)	₩ 29,125	
Hystech Co., Ltd.	-	775	(121)	-	-	4,207	4,861	
Hyundai Display Technology Inc.	11,566	749	-	-	-	-	12,315	
Siliconfile Technologies Inc.	-	(1,283)	-	-	22,835	-	21,552	
Hynix Semiconductor America Inc. (HSA)	386,939	(392,114)	2,485	56,836	2,701	-	56,847	
Hynix Semiconductor Manufacturing America Inc. (HSMA)	150	(187)	1	36	-	-	-	
Hynix Semiconductor Europe Holding Ltd. (HSE)	2,002	18,880	-	(18,224)	-	-	2,658	
Hynix Semiconductor Deutschland GmbH (HSD)	24,657	2,859	-	3,427	-	-	30,943	
Hynix Semiconductor Asia Pte., Ltd. (HSS)	42,113	17,927	-	(2,574)	-	-	57,466	
Hynix Semiconductor Hong Kong Ltd. (HSH)	29,173	33,942	-	(19,620)	-	-	43,495	
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	3,466	1,472	-	2,114	-	-	7,052	
Hynix Semiconductor Japan Inc. (HSJ)	32,929	30,846	-	(22,924)	-	-	40,851	
Hynix Semiconductor Taiwan Inc. (HST)	261	46,846	-	(41,652)	-	-	5,455	
Hynix-Numonyx Semiconductor Ltd. (HNSL)	1,222,293	(23,756)	(11,360)	603,379	(57,875)	-	1,732,681	
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	292,625	41,502	25,603	152,610	-	-	512,340	
	<u>₩ 2,082,644</u>	<u>₩(221,519)</u>	<u>₩16,777</u>	<u>₩ 713,408</u>	<u>₩ (32,339)</u>	<u>₩(1,330)</u>	<u>₩2,557,641</u>	

5. Investment in securities (cont'd)

The summary of financial position of the investees as of June 30, 2009 and the results of their operations for the six months then ended, is presented as follows (Korean won in millions):

	June 30, 2009 (Unaudited)			
	Total assets	Total liabilities	Sales	Net income (loss)
Hynix Engineering Co., Ltd.	₩ 95,323	₩ 61,453	₩ 30,560	₩ 1,004
Hystech Co., Ltd.	15,577	10,358	33,087	308
Hyundai Display Technology Inc.	12,698	-	-	383
Siliconfile Technologies Inc.	44,961	15,546	32,353	370
Hynix Semiconductor America Inc. (HSA) (*1)	469,691	406,868	645,071	(2,046)
Hynix Semiconductor				
Manufacturing America Inc. (HSMA)	141,243	211,907	680	(14,650)
Hynix Semiconductor Europe Holding Ltd. (HSE)	75,998	71,090	173,202	1,921
Hynix Semiconductor Deutschland GmbH (HSD)	89,189	56,236	193,304	1,818
Hynix Semiconductor Asia Pte., Ltd. (HSS)	135,899	72,749	302,831	4,498
Hynix Semiconductor Hong Kong Ltd. (HSH)	160,120	115,459	408,521	311
Hynix Semiconductor (Shanghai) Co., Ltd. (HSCS)	19,366	10,514	42,605	1,513
Hynix Semiconductor Japan Inc. (HSJ)	202,566	148,511	344,752	15,656
Hynix Semiconductor Taiwan Inc. (HST)	368,044	363,434	619,115	(1,393)
Hynix-Numonyx Semiconductor Ltd. (HNSL)	4,788,571	2,246,148	983,156	38,087
Hynix Semiconductor (Wuxi) Ltd. (HSMC) (*1)	584,871	20,196	20,289	13,290
	<u>₩7,204,117</u>	<u>₩3,810,469</u>	<u>₩3,829,526</u>	<u>₩ 61,070</u>

(*1) Due to the differences between the accounting policies adopted by the equity method investees and those of the Company, the Company revised HSA and HSMC's financial statements. Consequently, HSA and HSMC's net income (loss) was changed from ₩9,317 million and ₩10,378 million to ₩2,046 million and ₩13,290 million, respectively, for the six months ended June 30, 2009.

The summary of financial position of the investees as of December 31, 2008 and the results of their operations for the year then ended, is presented as follows (Korean won in millions):

	December 31, 2008 (audited)			
	Total assets	Total liabilities	Sales	Net income (loss)
Hynix Engineering Co., Ltd.	₩ 98,213	₩ 65,447	₩ 97,492	₩ 3,893
Hystech Co., Ltd.	15,795	10,894	60,701	787
Hyundai Display Technology Inc.	12,315	-	-	749
Siliconfile Technologies Inc.	41,478	10,945	57,792	(2,472)
Hynix Semiconductor America Inc. (HSA)	451,136	390,002	1,491,629	(421,852)
Hynix Semiconductor				
Manufacturing America Inc. (HSMA)	150,355	205,886	294,334	(372,907)
Hynix Semiconductor Europe Holding Ltd. (HSE)	84,195	81,179	495,585	291
Hynix Semiconductor Deutschland GmbH (HSD)	86,216	55,661	484,261	(920)
Hynix Semiconductor Asia Pte., Ltd. (HSS)	144,919	87,293	835,082	1,627
Hynix Semiconductor Hong Kong Ltd. (HSH)	96,652	53,230	813,516	3,507
Hynix Semiconductor (Shanghai) Co., Ltd.(HSCS)	19,068	11,809	86,507	1,965
Hynix Semiconductor Japan Inc. (HSJ)	384,325	343,364	827,131	(10,799)
Hynix Semiconductor Taiwan Inc. (HST)	241,591	235,723	1,384,541	6,086
Hynix-Numonyx Semiconductor Ltd. (HNSL)	5,133,664	2,717,335	1,926,317	9,511
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	580,155	77,618	209,706	26,712
	<u>₩ 7,540,077</u>	<u>₩4,346,386</u>	<u>₩9,064,594</u>	<u>₩ (753,822)</u>

6. Related party transactions

- (a) The related parties of the Company and nature of their relationship with the Company as of June 30, 2009 are as follows:

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

- (b) Compensation for key management personnel for the three months and six months ended June 30, 2009 and 2008 is as follows (Korean won in millions):

	Three months ended June 30, 2009 (Unaudited)		Six months ended June 30, 2009 (Unaudited)		Three months ended June 30, 2008 (Unaudited)		Six months ended June 30, 2008 (Unaudited)	
	₩		₩		₩		₩	
Basic compensation	₩	2,067	₩	3,983	₩	2,338	₩	4,991
Post retirement benefits		(1,253)		(810)		410		1,535
Long-term service incentive		-		-		5		8
Stock compensation		-		-		11		23
Total	<u>₩</u>	<u>814</u>	<u>₩</u>	<u>3,173</u>	<u>₩</u>	<u>2,764</u>	<u>₩</u>	<u>6,557</u>

Key management personnel includes the chief executive officer, eight directors, three audit committee members and 32 other executives who have the authority and responsibilities for planning, operation and control regarding the Company's business.

6. Related party transactions (cont'd)

(c) Significant transactions with related parties for the six months ended June 30, 2009 and 2008 are as follows (Korean won in millions):

Related party	Primary activities	Transactions	Six months ended June 30,	
			2009	2008
			Unaudited	Unaudited
HSA	Sales	Sales	₩ 578,275	₩ 688,022
HSMA	Manufacturing	Interest income	-	7,842
		Disposal of property, plant and equipment	58	30
		Purchases	93	188,307
HSU	Sales	Sales	162,907	243,043
HSD	Sales	Sales	179,784	224,377
HSS	Sales	Sales	281,584	397,340
HSH	Sales	Sales	379,158	422,908
		Disposal of property, plant and equipment	162	158
HSCS	Sales	Sales	28,511	24,227
		Disposal of property, plant and equipment	-	1,392
HSJ	Sales	Sales	321,717	401,344
		Disposal of property, plant and equipment	165	355
		Purchases	67,453	89,982
		Purchase of property, plant and equipment	-	180,096
HST	Sales	Sales	588,336	729,433
HNSL	Manufacturing	Sales	7,928	10,909
		Rent income	4,110	-
		Purchases	992,091	811,887
HSMC	Manufacturing	Rent income	39	-
		Purchases	94	105,533
Domestic affiliated companies	Manufacturing and others	Rent income	8,278	7,785
		Interest income	1,201	1,033
		Other income	835	337
		Disposal of property, plant and equipment	4	2
		Service fee and other expenses	61,217	66,867
		Interest expense	806	913
Total		Sales and other income	₩ 2,543,052	₩ 3,160,537
		Purchases and others	₩ 1,121,754	₩ 1,443,585

6. Related party transactions (cont'd)

(d) Outstanding balances with related parties as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

<u>Related party</u>	<u>Primary activities</u>	<u>Accounts</u>	<u>June 30, 2009 Unaudited</u>	<u>December 31, 2008 Audited</u>
HSA	Sales	Trade accounts and notes receivable	₩ 110,912	₩ 105,471
		Other accounts receivable	11,258	10,929
		Trade accounts and notes payable	5	-
		Other accounts and notes payable	26,227	36,888
HSMA	Manufacturing	Short-term loans	12,847	-
		Other accounts receivable	38,931	38,107
		Other current assets	-	10,288
		Trade accounts and notes payable	2,375	11,113
HSU	Sales	Trade accounts and notes receivable	24,566	23,829
		Other accounts and notes payable	999	8,033
HSD	Sales	Trade accounts and notes receivable	16,970	19,554
		Other accounts and notes payable	1,016	3,578
HSS	Sales	Trade accounts and notes receivable	40,548	21,995
		Other accounts and notes payable	10,163	648
		Long-term borrowings	12,847	-
HSH	Sales	Trade accounts and notes receivable	60,210	26,350
		Other accounts and notes payable	686	1,443
HSCS	Sales	Trade accounts and notes receivable	8,774	9,419
		Other accounts and notes payable	-	16
HSJ	Sales	Trade accounts and notes receivable	30,184	43,254
		Trade accounts and notes payable	13,820	24,447
		Other accounts and notes payable	61,011	178,673

6. Related party transactions (cont'd)

<u>Related party</u>	<u>Primary activities</u>	<u>Accounts</u>	June 30, 2009 Unaudited	December 31, 2008 Audited
HST	Sales	Trade accounts and notes receivable	₩ 126,567	₩ 5,608
		Other accounts receivable	328	812
		Other accounts and notes payable	4,773	22,614
		Other current liabilities	76,866	21,920
HNSL	Manufacturing	Trade accounts and notes receivable	2,839	1,834
		Other accounts receivable	3,255	19,029
		Trade accounts and notes payable	312,636	240,761
HSMC	Manufacturing	Other accounts receivable	40	81
		Trade accounts and notes payable	128,888	126,077
Domestic affiliated companies	Manufacturing and others	Trade accounts and notes receivable	1,127	1,297
		Other accounts receivable	2,184	2,451
		Other current assets	3,331	2,176
		Long-term loans	40,641	35,641
		Trade accounts and notes payable	95	97
		Other accounts and notes payable	21,671	25,346
		Short-term borrowings	8,582	8,582
		Accrued expenses	2,730	2,326
Total		Receivables	<u>535,512</u>	<u>378,125</u>
		Payables	<u>685,390</u>	<u>712,562</u>
		Allowance provided for receivables above	₩ 58	₩ 422
		Reversal of allowance provided for receivables above	₩ 364	₩ 541

- (e) The Company is contingently liable for guarantees provided on obligations and indebtedness of the subsidiaries amounting to ₩66,087 million and ₩53,059 million as of June 30, 2009 and December 31, 2008, respectively.
- (f) In addition to transactions with related parties above, the Company entered into cross-currency swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank in relation to the unsecured public offering of bonds and corresponding interest (Note 16 (1)). The balances of loans provided to the employees as of June 30, 2009 and December 31, 2008 were ₩1,777 million and ₩1,963million, respectively.

7. Property, plant and equipment

(a) Details of property, plant and equipment as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009 (Unaudited)			
	Cost	Accumulated depreciation	Accumulated Impairment losses	Net book value
Land	₩ 277,759	₩ -	₩ -	₩ 277,759
Buildings	1,368,577	(274,476)	(27,625)	1,066,476
Structures	452,007	(282,868)	(60,116)	109,023
Machinery and equipment	15,727,132	(10,229,967)	(292,807)	5,204,358
Vehicles	933	(766)	-	167
Other	467,571	(317,696)	(3,699)	146,176
Construction-in-progress	127,363	-	-	127,363
	<u>₩ 18,421,342</u>	<u>₩ (11,105,773)</u>	<u>₩ (384,247)</u>	<u>₩ 6,931,322</u>

	December 31, 2008 (Audited)			
	Cost	Accumulated depreciation	Accumulated Impairment losses	Net book value
Land	₩ 278,000	₩ -	₩ -	₩ 278,000
Buildings	1,370,739	(256,638)	(27,625)	1,086,476
Structures	451,925	(274,724)	(60,116)	117,085
Machinery and equipment	15,817,311	(9,682,173)	(286,746)	5,848,392
Vehicles	997	(793)	-	204
Other	472,244	(293,193)	(3,717)	175,334
Construction-in-progress	172,922	-	-	172,922
	<u>₩ 18,564,138</u>	<u>₩ (10,507,521)</u>	<u>₩ (378,204)</u>	<u>₩ 7,678,413</u>

7. Property, plant and equipment (cont'd)

- (b) Changes in the net book value of property, plant and equipment for the six months ended June 30, 2009 and the year ended December 31, 2008 are as follows (Korean won in millions):

	Six months ended June 30, 2009 (Unaudited)						June 30, 2009
	Jan. 1, 2009	Additions	Disposals	Transfer (*1)	Depreciation		
Land	₩ 278,000	₩ 97	₩ (339)	₩ 1	₩ -	₩ -	₩ 277,759
Buildings	1,086,476	10	(65)	(1,982)	(17,963)		1,066,476
Structures	117,085	-	-	82	(8,144)		109,023
Machinery and equipment	5,848,392	-	(10,241)	200,305	(834,098)		5,204,358
Vehicles	204	-	-	-	(37)		167
Other	175,334	1	(173)	1,247	(30,233)		146,176
Construction- in-progress	172,922	141,350	-	(186,909)	-		127,363
	<u>₩ 7,678,413</u>	<u>₩ 141,458</u>	<u>₩ (10,818)</u>	<u>₩ 12,744</u>	<u>₩ (890,475)</u>		<u>₩ 6,931,322</u>

(*1) During the six months ended June 30, 2009, the Company transferred investment properties amounting to ₩12,744 million to the property, plant and equipment due to the holding purpose change from sale to manufacturing.

	Year ended December 31, 2008 (Audited)						Dec. 31, 2008
	Jan. 1, 2008	Additions	Disposals	Transfer (*1)	Depreciation	Impairment	
Land	₩ 276,228	₩ 1,681	₩ -	₩ 91	₩ -	₩ -	₩ 278,000
Buildings	860,328	10,404	(3,473)	253,044	(33,827)	-	1,086,476
Structures	191,921	-	-	6,848	(25,443)	(56,241)	117,085
Machinery and equipment	6,292,816	35,403	(114,538)	1,754,232	(1,810,362)	(309,159)	5,848,392
Vehicles	289	57	(54)	-	(88)	-	204
Other	170,614	20,270	(21,152)	66,243	(59,764)	(877)	175,334
Construction- in-progress	605,258	1,917,812	(149,504)	(2,200,644)	-	-	172,922
	<u>₩ 8,397,454</u>	<u>₩ 1,985,627</u>	<u>₩ (288,721)</u>	<u>₩ (120,186)</u>	<u>₩ (1,929,484)</u>	<u>₩ (366,277)</u>	<u>₩ 7,678,413</u>

(*1) During the year ended December 31, 2008, the Company transferred certain items of property, plant and equipment that are held for disposal with a total carrying value of ₩120,186 million to investment properties, and thereafter recorded impairment losses on those investment properties amounting to ₩5,632 million.

Capitalized interest costs for the six months ended June 30, 2009 and 2008 were ₩1,619 million and ₩15,593 million, respectively.

8. Leases

- (a) The Company entered into lease agreements for machinery and equipment with HP Financial Services and GE Capital during the six months ended June 30, 2009, which were recorded as capital leases pursuant to the terms of the agreements.

The details of capital lease obligations of the Company as of June 30, 2009 are as follows (Korean won in millions):

	Principal	Interest	Total
July 1, 2009 ~ June 30, 2010	₩ 66,350	₩ 10,455	₩ 76,805
July 1, 2010 ~ June 30, 2011	66,201	6,101	72,302
July 1, 2011 ~ June 30, 2012	52,310	1,379	53,689
	₩ 184,861	₩ 17,935	₩ 202,796

For the six months ended June 30, 2009 and 2008, the depreciation expense related to machinery and equipment under capital lease amounted to ₩27,916 million and ₩8,444 million, respectively.

- (b) The Company entered into commercial operating leases for certain machinery and equipment with GE Capital and Macquarie Capital. Future minimum rentals payable under such operating leases as of June 30, 2009 are as follows (Korean won in millions):

	Future minimum rentals payable
July 1, 2009 ~ June 30, 2010	₩ 123,583
July 1, 2010 ~ June 30, 2011	79,917
July 1, 2011 ~ June 30, 2012	14,376
	₩ 217,876

9. Intangible assets

- (a) Changes in the net book value of intangible assets for the six months ended June 30, 2009 and the year ended December 31, 2008 are as follows (Korean won in millions):

	Six months ended June 30, 2009 (Unaudited)			Year ended December 31, 2008 (Audited)		
	Goodwill	Industrial property rights	Total	Goodwill	Industrial property rights	Total
Beginning balance	₩ 426,086	₩ 69,683	₩ 495,769	₩465,722	₩ 63,034	₩ 528,756
Additions	-	10,871	10,871	-	21,163	21,163
Disposals	-	(1,337)	(1,337)	-	(57)	(57)
Amortization	(19,818)	(6,589)	(26,407)	(39,636)	(12,581)	(52,217)
Impairment loss	-	-	-	-	(1,876)	(1,876)
Ending balance	₩ 406,268	₩ 72,628	₩ 478,896	₩ 426,086	₩ 69,683	₩ 495,769

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

- (b) Research and development costs incurred and charged to operations for the six months ended June 30, 2009 and 2008 amounted to ₩390,734 million and ₩375,401 million, respectively, and were recorded as selling and administrative expenses.

10. Other current liabilities

Other current liabilities as of June 30, 2009 and December 31, 2008 consist of the following (Korean won in millions):

	June 30, 2009 Unaudited	December 31, 2008 Audited
Advances received	₩ 79,540	₩ 109,675
Unearned revenue	6,085	5,825
Withholdings	10,657	11,021
Accrual for loss on purchase commitment	13,943	41,320
Derivative payables	57,152	41,165
	<u>₩ 167,377</u>	<u>₩ 209,006</u>

11. Short-term borrowings

Short-term borrowings as of June 30, 2009 and December 31, 2008 consist of the following (Korean won in millions):

	Annual interest rate (%)	June 30, 2009 Unaudited	December 31, 2008 Audited
Usance financing	2.60 ~ 8.75	₩ 567,799	₩ 881,822
Borrowings from Hyundai Display Technology Inc.	9.00	8,582	8,582
Borrowings from Korean Exchange Bank etc.	6.60 ~ 7.03	250,002	-
Foreign currency denominated loans	6.00	25,694	25,150
Bank overdrafts	-	-	19,500
Borrowings from Kookmin Bank	8.41	11,376	-
Syndicated loans	4.13	500,000	-
		<u>₩ 1,363,453</u>	<u>₩ 935,054</u>

12. Bonds and long-term borrowings, and other long-term accounts and notes payable

(a) The details of bonds and long-term borrowings as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	Maturity	Annual interest rate (%)	June 30, 2009 Unaudited	December 31, 2008 Audited
Bonds:				
Local currency (unsecured):				
Public offering (*1)	Dec. 26, 2009	5.35	₩ 60,000	₩ 60,000
Public offering (*1)	May 25, 2012	5.70	150,000	150,000
Public offering	Sep. 5, 2012	6.19	150,000	150,000
Public offering	Dec. 20, 2010	6.88	70,000	70,000
Public offering	Feb. 15, 2011	6.51	150,000	150,000
Public offering	May 15, 2011	6.97	200,000	200,000
Foreign currency (unsecured):				
Public offering	Jun. 27, 2017	7.88	642,350	628,750
Private placement	Dec. 14, 2009	3M Libor + 0.95	128,470	125,750
Convertible bonds (*2)	Dec. 14, 2012	4.50	539,353	539,353
	Sep. 5, 2013	3.00	500,000	500,000
			2,590,173	2,573,853
Long-term borrowings:				
Local currency denominated:				
Kookmin Bank		5.20	55	81
		CD(91)+0.84	90,000	90,000
National Agricultural Cooperative Federation		2.00	308	308
HP Financial Services		5.80 ~ 6.50	26,583	33,049
			116,946	123,438
Foreign currency denominated:				
The Export-Import Bank of Korea		3M Libor + 80bps	231,247	230,542
		3M Libor + 67bps	64,235	62,875
National Agricultural Cooperative Federation		3M Libor + 69bps	128,470	125,750
HSS		-	12,847	-
Korea Exchange Bank and others		3M Libor + 115bps	770,820	754,500
GE Capital		6.66 ~ 7.60	158,278	179,502
			1,365,897	1,353,169
			4,073,016	4,050,460
Discount on bonds			(18,715)	(20,785)
Redemption premium			80,536	80,536
Conversion right adjustments			(169,033)	(187,069)
Discount on present value			(5,284)	(6,266)
Current portion, net of discount on bonds, discount on present value, conversion right adjustments and addition of redemption premium			(1,185,572)	(585,544)
			₩ 2,774,948	₩ 3,331,332

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

(*1) *The Company entered into cross-currency swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank in relation to these bonds and corresponding interest (Note 16(1)).*

(*2) *The Company issued unsecured foreign currency convertible bonds amounting to US\$583 million on December 14, 2007 in the Singapore Stock Exchange. Additionally, the Company issued unsecured convertible bonds amounting to ₩500,000 million on September 5, 2008 in the Korea Exchange. The terms and conditions of the issuance are as follows:*

	Issuance on December 14, 2007 (*1)	Issuance on September 5, 2008 (*2)
Total face value of bonds	US\$583,400,000	₩500,000 million
Gross proceeds from the issuance of bonds	US\$583,400,000	₩500,000 million
Maturity	December 14, 2012	September 5, 2013
Redemption value at maturity	100% of face value (yeild to maturity at 4.5%)	100% of face value (yeild to maturity at 5.8%)
Terms of early redemption	On June 14, 2010 upon request from the bondholders or after three years from the date of issuance upon request from the Company	On September 5, 2011 upon request from the bondholders or after three years from the date of issuance upon request from the Company
Terms and conditions for conversion:		
Conversion ratio	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
Conversion period	December 15, 2008 through November 29, 2012	October 5, 2008 through August 5, 2013
Total number of shares convertible	14,884,337 shares	21,433,457 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

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

(*2) *The Company recorded a premium for conversion rights amounting to ₩28,476 million (net of tax of ₩10,801 million) as other capital surplus.*

12. 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 June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

Creditor	Description	June 30,	December 31,
		2009 Unaudited	2008 Audited
US Department of Justice	Anti-trust fine (Note 15 (3))	₩ 205,552	₩ 88,025
Veolia Water Industrial Development Co., Ltd.	Obligations in relation to supply of industrial water (Note 15 (6))	276,864	309,692
Hynix Engineering Co., Ltd.	Compensation for contract termination & related losses (Note 15 (7))	8,992	13,488
		491,408	411,205
	Discount on present value	(80,072)	(88,452)
	Current portion, net of discount of ₩26,557 and ₩26,868 as of June 30, 2009 and December 31, 2008, respectively, included in other accounts and notes payable	(166,883)	(94,874)
		<u>₩ 244,453</u>	<u>₩ 227,879</u>

- (c) The repayment schedules of the above bonds, long-term borrowings and other long-term accounts and notes payable as of June 30, 2009 are as follows (Korean won in millions):

Period	Bonds		Long-term borrowings		Other long-term accounts and notes payable	Total
	Bonds	Convertible bonds(*1)	Local currency	Foreign currency		
July 2009 to June 2010	₩ 188,470	₩ 539,353	₩ 52,146	₩ 475,658	₩ 193,440	₩ 1,449,067
July 2010 to June 2011	420,000	-	35,524	301,566	140,953	898,043
July 2011 to June 2012	150,000	-	28,936	567,260	54,051	800,247
July 2012 to June 2013	150,000	-	68	21,412	41,441	212,921
July 2013 to June 2014	-	500,000	86	-	12,952	513,038
July 2014 and thereafter	642,350	-	186	-	48,571	691,107
	<u>₩ 1,550,820</u>	<u>₩ 1,039,353</u>	<u>₩ 116,946</u>	<u>₩ 1,365,896</u>	<u>₩ 491,408</u>	<u>₩ 4,564,423</u>

- (*1) Convertible bonds amounting to ₩539,353 million carry an early redemption option allowing bondholders the redemption of the issue on June 14, 2010 prior to the stated maturity date on December 14, 2012. The Company has no right to defer redemption of the bonds against the request from the bondholders. Accordingly, as of June 30, 2009, the convertible bonds were reclassified as part of current assets under Korean GAAP.

13. Pledged assets

Detail of assets pledged by the Company as collateral for long-term debt and other obligations as of June 30, 2009 is as follows (Korean won in millions):

Asset	Pledged to	Pledged amount	
Property, plant and equipment (*1)	The Export-Import Bank of Korea and others	₩	3,399,986
Land	I-cheon district tax office		1,448
		₩	<u>3,401,434</u>

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

Other than the guarantees provided to related companies, as described in Note 6, the Company also provided guarantees for indebtedness of employees amounting to ₩64 million as of June 30, 2009 and guarantees for indebtedness of a special purpose company, ProMOS N.H. Limited amounting to ₩60,000 million, for the period from August 21, 2008 to September 20, 2011.

Restricted deposits as of June 30, 2009 and December 31, 2008 amounted to ₩64,235 million and ₩48,503 million, respectively.

14. Other long-term liabilities

Other long-term liabilities as of June 30, 2009 and December 31, 2008 consist of the following (Korean won in millions):

	June 30, 2009 Unaudited	December 31, 2008 Audited
Leasehold deposits received	₩ 3,264	₩ 3,742
Withholdings	2,841	2,320
Long-term accrued expenses	5,888	1,529
Long-term derivatives payable	114,999	100,239
	<u>₩ 126,992</u>	<u>₩ 107,830</u>

15. Commitments and contingencies

- (1) Special agreement with Creditor Financial Institutions' Council - On July 12, 2005, the Creditor Financial Institutes ("Creditor Council") which took operational control over the Company since October 4, 2001, was terminated by entering into a special agreement between the Company and the Share Management Council (formerly, the Creditor Council). Under the special agreement, the Company is required to consult with the Share Management Council in advance on events that could have a significant influence on the Company's management including (a) appointment and dismissal of directors, (b) adoption of annual budgets, (c) investments in subsidiaries, (d) mergers, acquisitions or other strategic projects, and (e) organization and operation of corporate controlling structures. The special agreement remains in effect until the members of the Share Management Council substantially sell their equity shares in the Company.
- (2) Countervailing duty - In 2003, the European Commission ("EC") of the European Union ("EU") had determined that the EU's Dynamic Random Access Memory ("DRAM") product manufacturers had suffered damage from the Company's debt restructuring by the Creditor Council and, consequently, imposed 34.8% in countervailing duty on imports of the DRAM product manufactured in Korea into the EU jurisdiction. The EC adjusted the rate to 32.9% in April 2006, in accordance with a recommendation made by the World Trade Organization ("WTO"). However, on April 9, 2008, as a result of interim review initiated in March 2006, the EU determined to repeal the countervailing duty imposed on the Company's DRAM product, effective as of December 31, 2007. Consequently, importation of the Company's DRAM products manufactured in Korea into the EU jurisdiction is no longer subject to countervailing duty effective from December 31, 2007.

In 2003, the Department of Commerce ("DOC") and the International Trade Commission ("ITC") of the United States had determined that the United States DRAM product manufacturers had suffered damage from the Company's debt restructuring by the Creditor Council and, consequently, imposed 44.29% in countervailing duty on imports of the DRAM product manufactured in Korea into the United States. The DOC adjusted the rate of countervailing duty to 58.11%, 31.86%, 23.78% and 4.91% in its first, second, third and fourth annual reviews in April 2006, February 2007, March 2008, and February 2009, 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 the Company's DRAM product retroactively to August 11, 2008. As a result, importation of the Company's DRAM products manufactured in Korea into the United States is no longer subject to countervailing duty. As of June 30, 2009, the fifth annual review is in process for the refund of countervailing duty that was overpaid in 2007.

In relation to a countervailing duty investigation against the Company as requested by DRAM product manufacturers in Japan in June 2004, the Japanese government made a ruling to impose a 27.2% countervailing duty on DRAM products that are manufactured in Korea and imported into Japan, effective on January 27, 2006. With respect to the ruling, on March 14, 2006, the Korean government filed a complaint to the WTO against the Japanese government alleging that the ruling made by the Japanese government was unfair and, on July 13, 2007, the WTO panel ruled that the countervailing duty imposed by the Japanese government was a breach of the Agreement on Subsidies and Countervailing Measures ("SCM Agreement"). On December 17, 2007, the WTO officially accepted the panel and the Appellate Body's report that the countervailing duty imposed by the Japanese government was found to be inconsistent with the SCM Agreement, and urged the Japanese government to follow the WTO's recommendation. As a result, on August 29, 2008, the Japanese government reduced the rate of countervailing duty from 27.2% to 9.1%; however, decided to maintain existing countervailing measures. The Korean government regarded this action as unfaithful observance of WTO's recommendation and, as a result, on September 23, 2008, a WTO dispute panel was established by the request of the Korean government. The Japanese government, however, requested to pause the dispute panel and the Korean government accepted the proposal, thereupon the dispute panel procedure was paused on March 5, 2009.

15. Commitments and contingencies (cont'd)

In addition, apart from the dispute panel, the Japanese government also initiated a Changed Circumstance Review to decide whether to lift the countervailing duty since October 15, 2008 by the request of the Company, and the Japanese government disclosed essential facts to the Company of recognizing the change circumstances on February 3, 2009. As a result, the final countervailing duty was abolished on April 23, 2009, and Japanese government has not imposed any countervailing duty on DRAM products manufactured in Korea by the Company since then. As of June 30, 2009, the refund procedure on the duty overcharged between 2006 and 2007 is in progress.

- (3) US Anti-Trust Act - In June 2002, the United States Department of Justice ("DOJ") notified the Company that the DOJ had commenced an investigation if certain Dynamic Random Access Memory ("DRAM") manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Company entered into a plea agreement with the DOJ to pay a fine in the amount of US\$185 million in installments over the next five years without interest. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages from the breach of the US Anti-Trust Act by the Company and Hynix Semiconductor America Inc. ("HSA"), its sales subsidiary located in the United States. In relation to the lawsuits, the Company has reached settlements through separate negotiations with several major DRAM product Original Equipment Manufacturing ("OEM") users and, on April 29, 2006 and June 10, 2009, respectively, the Company reached agreements with the direct purchasers class and some direct purchasers to pay US\$73 million and US\$120 million. As of June 30, 2009, the Company continues to negotiate the settlements with the indirect purchaser class, 35 state governments in the United States and the direct and indirect purchasers class of three provinces in Canada. In addition, as of June 30, 2009, an investigation commenced by the European Union Commission ("EU Commission") is in progress to determine whether the Company had breached the Anti-Trust Act. As a result, the Company recorded a liability amounting to US\$186 million as of June 30, 2009, which consists of the fine and estimated future losses expected to be incurred from such pending settlements. Separately, the EU Commission and the DOJ investigated unfair transactions among certain Static Random Access Memory ("SRAM") manufacturers and sellers, including the Company, and each informed the Company in November and December 2008, respectively, that they closed their investigations. And as of June 30, 2009, in connection with the SRAM and flash memory products, several civil lawsuits have been also brought against the Company by the direct and indirect purchasers class in the United States and three provinces of Canada. As of June 30, 2009, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

- (4) As of June 30, 2009, the Company had the following pending litigation and claims:

- ① Litigation filed by Rambus - The Company is a defendant to litigation brought by Rambus Inc. ("Rambus"), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Company's manufacture, sales, offer for sales, use or otherwise disposal of Single Data Rate ("SDR") Synchronous Dynamic Random Access Memory ("SDRAM") and Double Data Rate ("DDR") SDRAM products. The litigation has been brought in Germany, France, the United Kingdom and the United States. In 2004, the European Patent Office revoked Rambus' certain key patents subject to such litigation against the Company in the EU jurisdiction. Accordingly, in 2005, the litigation in the United Kingdom was dismissed, the litigation in France ceased further proceeding, and the litigation in Germany has been deferred without any progress. Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the final judgment that ordered the Company to pay for damages for the infringement of Rambus' patent 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 18, 2010 while denying Rambus' request for injunctive relief. The Company appealed the court's final judgment to the United States Court of Appeals of the Federal Circuit on April 6, 2009.

15. Commitments and contingencies (cont'd)

Meanwhile, the United States District Court for the Northern District of California accepted the Company's motion to stay of execution of the final judgment ruling that execution of the final judgment should be stayed on condition that the Company posts a bond and provides part of its Cheong-ju plant in Korea as a collateral while the Company pursues the appeal to the United States Court of Appeals for the Federal Circuit. This ruling prevents Rambus from seeking to collect on its judgment while the appeal is pending. Separately, Rambus also brought another lawsuit against the Company and its subsidiary in the United States by alleging that the Company and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. Also, in 2004, Rambus filed a lawsuit against the Company, its subsidiary in the United States, and other major memory chip manufacturers alleging that the defendants kept Rambus' DRAM products from entering the market. As of June 30, 2009, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements.

- ② Lawsuit from Hyundai Heavy Industries Co., Ltd. - On July 28, 2000, Hyundai Heavy Industries Co., Ltd. ("HHI") sued the Company, Hyundai Securities Co., Ltd. ("HSC") and the former CEO of HSC in the Seoul Central District Court in connection with the Company's comfort letter relating to a put option provided by HHI to the Canadian Imperial Bank of Commerce ("CIBC").

On July 24, 1997, the Company sold 13 million shares of Hyundai Investment & Securities Co., Ltd. ("HSI") to 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 HSI if CIBC exercised its put option. In return, the Company and HSC provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Company, in turn, received a similar letter from HSC in which HSC acknowledged that all of the above transactions were initiated by HSC and that HSC guaranteed that the Company would not suffer any legal or economic losses in connection with the above transactions. Upon the CIBC's exercise of its put option, HHI repurchased the shares in July 2000 and then filed a lawsuit against the Company and HSC claiming that the Company and HSC should compensate HHI for the repurchase price of approximately US\$220 million. In January 2002, the court rendered a ruling that the Company, HSC and the former CEO of HSC jointly and severally pay 70% (₩171,822 million) of the claim amount and interest thereon to HHI. In 2004, the Company paid HHI a total of ₩123,677 million, which represented the estimated portion of its share pursuant to the pronouncement of provisional execution of the ruling.

However, the Company entered an appeal to the Seoul Appellate Court on February 15, 2002 and, on June 14, 2006, the court rendered a ruling that the Company and HSC should pay approximately 80% (₩192,942 million) of the claim amount. With respect to the revised ruling, the Company paid HHI an additional amount of ₩1,926 million for the estimated portion of its share in the increased compensation, including interest. The Company further contested this case by entering an appeal to the Supreme Court of Korea on June 30, 2006 and in a third ruling, the Supreme Court upheld the second ruling in part for HSC and the former CEO of HSC. The Supreme Court, however, reversed and remanded the second ruling for the Company on the ground that the Company has the expense redemption obligation to the HHI. The lawsuit described above is in progress in the Seoul High Court and the Company recorded the amount of ₩73,379 million as liabilities on the basis of the third ruling of the Supreme Court. As of June 30, 2009, the ultimate outcome of this lawsuit cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements. In addition, HHI initiated a separate lawsuit in December 2004 claiming that the Company, HSC and the former CEO of HSC to compensate for the taxes levied on HHI and any related losses incurred by HHI amounting to ₩48,770 million in connection with HHI's repurchase of shares.

15. Commitments and contingencies (cont'd)

In this regard, the Company has apportioned its estimated share of the loss with HSC and, including related accrued interest, the Company recorded ₩42,279 million as a liability as of June 30, 2009. The ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements as of June 30, 2009.

- ③ Lawsuit against Korea Deposit Insurance Corporation - In June 2000, the Company agreed to provide Hyundai Investment & Securities Co., Ltd. ("HIS") with capital contributions in-kind consisting of the equity securities of Hyundai Logistics Co., Ltd., Hyundai Information Technology Co., Ltd., and Hyundai Autonet Co., Ltd., if HIS failed to recover from its equity deficit by December 31, 2000. These securities were deposited in escrow with three securities companies appointed by the Company and HIS. HIS failed to recover from its equity deficit by December 31, 2000 and, accordingly, in February 2001, the securities were invested in-kind to increase the capital of HIS. Portions of those securities were withheld from the investment in-kind and remained in escrow accounts with the securities companies as a provision for expected income taxes and other expenses to be incurred.

In February 2004, upon acquisition of HIS by the Prudential Group in the United States, the Company, HIS and Korea Deposit Insurance Corporation ("KDIC") agreed on the termination of HIS's rights and duties on the remaining securities in escrow accounts and the treatment of these securities to be resolved between the Company and KDIC.

The Company has made repeated requests to HIS and KDIC to return the uninvested portion of securities and proceeds from the disposal of Hyundai Autonet Co., Ltd. securities. The balance was not returned to the Company and, as a result, on December 30, 2005, the Company filed a lawsuit against KDIC in the Seoul Central District Court seeking confirmation of its ownership of the balance. The Seoul Central District Court; however, made a ruling on March 22, 2007 that the Company was only entitled to a claim of ₩456 million of the balance and the remaining request was turned down. On October 24, 2008, the Seoul High Court ruled that the Company was entitled to a claim of 50% of the balance and the securities. On November 21, 2008, the Company appealed to the Supreme Court and the Supreme Court rendered the dismissal ruling of trial discontinuance on March 26, 2009. As a result, the second ruling that the Company won for the 50% claimed was irrevocably determined and a related allowance amounting to ₩20,671 million was reversed and reflected as a non-operating income for the six months ended June 30, 2009.

- ④ Other litigation and patent-related claims - Apart from the above litigation, the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of June 30, 2009, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's interim non-consolidated financial statements
- (5) Technology and patent license agreements - The Company has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method. Lump-sum royalty payable in the future for the above patent license agreements totalled ₩526,213 million as of June 30, 2009.
- (6) Contract for supply of industrial water - In March 2001, the Company and Veolia Water Industrial Development Co., Ltd. ("VWID", formerly, Vivendi Water Industrial Development Co., Ltd.) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. The contract was subsequently extended to March 2018 in December 2006 and amended in March 2007 again due to the establishment of

15. Commitments and contingencies (cont'd)

additional plants. According to the amended contract, the Company is obligated to pay an aggregate amount of ₩650,106 million (₩493,814 million as of June 30, 2009) as base service charges and an additional service charge calculated at a predetermined rate on the amount of water used from January 2007 to March 2018.

- (7) Repurchase agreement of Sithe Ichon power plants - The Company 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.), the Company's subsidiary, entered into an agreement to purchase the power generating facility from Sithe Ichon for ₩119,000 million. In connection with the agreement, in July 2005, the Company entered into an agreement with Sithe Ichon and Hynix Engineering providing Sithe Ichon a guarantee for Hynix Engineering's performance under the purchase contract and also an agreement with Hynix Engineering to pay Hynix Engineering ₩56,319 million, which consisted of ₩39,106 million of compensation to Sithe Ichon for the early termination of the previously entered service agreement between the Company and Sithe Ichon, and ₩17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. As of June 30, 2009 and December 31, 2008, the Company recorded the related liability at its present value of ₩8,717 million and ₩12,790 million, respectively. According to this agreement, the compensation for expected losses on disposal of assets above is to be settled based on actual losses sustained from the disposal, and accordingly, an additional loss could be incurred. The accompanying interim non-consolidated financial statements do not include any adjustments in relation to such uncertainty.
- (8) Strategic alliance with ProMOS - In January 2005, the Company entered into an agreement with ProMOS Technologies Inc. ("ProMOS") under which the Company provided ProMOS with the license to produce DRAM semiconductors using the Company's technology, for the payment of running royalty to the Company. In accordance with the agreement, ProMOS had been providing the Company with 300mm wafer products manufactured under the license. However, Promos was no longer able to continue its commitment as agreed upon in the agreement with the Company due to its recent financial difficulties. Consequently, ProMOS and the Company terminated the agreement and entered into a new settlement agreement during the six months ended June 30, 2009 in which ProMOS shall compensate the Company for a breach on the original agreement.
- (9) Business cooperation with Numonyx - On August 5, 2008, the Company and Numonyx B.V. entered into an agreement to expand its joint development programs to broaden NAND product lines and to bring future product and technology innovations designed to address challenges facing NAND technology over the next five years.

16. Derivative financial instruments

- (1) Swap and forward contract - To hedge the operational foreign currency risk, the Company entered into cross-currency swap contracts i) with Korea Exchange Bank and Korea Development Bank on December 26, 2006 with maturity on December 26, 2009 in relation to unsecured bonds from a public offering amounting to ₩60,000 million and ii) with Korea Exchange Bank, Korea Development Bank and Woori Bank on May 25, 2007 with maturity on May 25, 2012 in relation to unsecured bonds from a public offering amounting to ₩150,000 million. According to the contracts, the Company pays floating rate interest and the notional principal amounts in United States dollars and receives fixed rate interest and the notional principal amounts in Korean won.

The Company also entered into a foreign exchange forward contract with Korea Exchange Bank with notional amount of US\$40 million on March 18, 2008. According to the contract, the Company settled US\$20 million each on October 31, 2008 and November 28, 2008, respectively.

The Company regarded these swap and forward contracts as transactions not qualifying as hedges and the adjustment to fair value was reflected in current operations. For the six months ended June 30, 2009 and 2008, the Company recognized a loss on valuation of derivatives of ₩6,228 million and ₩23,902 million, respectively, from the swap contracts. For the six months ended June 30, 2009 and 2008, the Company recognized a gain on derivative transactions of ₩1,932 million and ₩644 million, respectively, from the swap contracts. And the Company recorded a loss on derivative transactions of ₩274 million from the swap contracts for the six months ended June 30, 2008.

- (2) Option contracts - The Company entered into option contracts for specified money trust benefit securities with financial investors on August 21, 2008. Financial investors invested on specified money trust in Korea Exchange Bank for underwriting 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 the Company. As of June 30, 2009, 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):

16. Derivative financial instruments (cont'd)

(3)

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

During the year ended December 31, 2008, pursuant to the option contracts, the Company acquired trust benefit securities of ProMOS-Hana 1st and ProMOS-NH 1st, recognizing a loss on derivative transactions of ₩4,545 million. The Company recognized a loss on valuation of the derivatives of ₩24,518 million during the six months ended June 30, 2009 in relation to the specified money trust benefit security options where the exercisable period will be closed on July 1, 2009 and thereafter.

17. Capital stock

Changes in common stock of the Company for the six months ended June 30, 2009 are as follows (Korean won in millions):

	Number of shares outstanding	Common stock
As of January 1, 2009	459,602,790	₩ 2,315,654
Changes in 2009:		
Issue for common shares on January 16, 2009	60,000,000	300,000
Exercise of stock options on February 18, 2009	18,260	91
Exercise of conversion rights on May 6, 2009	12	-
Issue for common shares on May 19, 2009	70,000,000	350,000
Exercise of stock options on June 23, 2009	4,600	24
As of June 30, 2009 (Unaudited)	<u>589,625,662</u>	<u>₩ 2,965,769</u>

The Company is authorized to issue 9,000,000,000 shares of capital stock with a par value of ₩5,000 per share, of which 5,583,603,506 shares were originally issued. Due to the effect of a reverse stock split that the Company executed in 2003, the number of shares issued as of June 30, 2009 is 593,153,707 shares. In accordance with the Articles of Incorporation, the Company is authorized to retire its common stock using surplus available for dividends. The number of retired common stock through June 30, 2009 is 3,528,045 shares. Accordingly, the number of shares issued by the Company since 2003 of 593,153,707 shares differs from 589,625,662 shares outstanding as of June 30, 2009.

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

In accordance with the Articles of Incorporation, the Company is authorized to grant stock options to its employees and directors up to 15% of its issued common stock if approval of the stock holders is obtained through a resolution of the stockholders, and up to 1% of its issued common stock requires only a resolution of the Board of Directors. The Company has granted a total of 7,052,597 stock options through June 30, 2009, of which 330,600 shares remained unexercised and outstanding as of June 30, 2009 (see Note 19).

18. Capital surplus

Details of capital surplus of the Company as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009 Unaudited	December 31, 2008 Audited
Paid-in capital in excess of par value	₩ 632,845	₩ 251,758
Gain on capital reduction	479,244	479,244
Others	199,516	198,001
	<u>₩ 1,311,605</u>	<u>₩ 929,003</u>

The increase in paid-in capital in excess of par value was due to the result of exercise of stock options and additional common shares issued during the six months ended June 30, 2009.

19. Capital adjustments

Capital adjustments of the Company as of June 30, 2009 and December 31, 2008 amount to ₩5,779 million and ₩5,839 million, respectively, which are related to the stock options granted by the Company. Details of the stock options granted by the Company as of June 30, 2009 are as follows:

	First grant	Second grant	Third grant	Fourth grant	Fifth grant
Grant date	July 7, 2001 (Regranted on June 13, 2003)	June 13, 2003	October 24, 2005	June 29, 2007	December 29, 2007
Exercise price	₩5,000 per share	₩5,000 per share	₩22,800 per share	₩26,700 per share	₩20,750 per share
Exercisable period	June 14, 2005 ~ June 13, 2010	June 14, 2005 ~ June 13, 2010	October 25, 2007 ~ October 24, 2012	December 29, 2007 ~ January 4, 2008	June 29, 2008 ~ July 5, 2008
Valuation method	Fair value method (Black-Scholes model)				
Number of shares:					
Granted	3,733,425	626,250	334,100	1,179,411	1,179,411
Outstanding at Jan. 1, 2008	67,460	7,000	324,200	1,179,411	1,179,411
Exercised	(41,200)	(4,000)	-	-	(328,962)
Forfeited	-	-	-	(1,179,411)	(850,449)
Outstanding at Dec. 31, 2008	26,260	3,000	324,200	-	-
Exercised	(19,860)	(3,000)	-	-	-
Outstanding at June 30, 2009	<u>6,400</u>	<u>-</u>	<u>324,200</u>	<u>-</u>	<u>-</u>

Details of the stock-based compensation expenses recognized the corresponding stock options accounted for as capital adjustments as of June 30, 2009 are as follows (Korean won in millions):

	First grant	Second grant	Third grant	Total
Accumulated stock-based compensation expenses through December 31, 2008	₩ 5,825	₩ 2,906	₩ 5,937	₩ 14,668
Stock-based compensation expenses for the six months ended June 30, 2009	-	-	-	-
Stock-based compensation expenses after June 30, 2009	-	-	-	-
Total stock-based compensation expenses	5,825	2,906	5,937	14,668
Accumulated exercised amounts at June 30, 2009	(5,808)	(2,906)	-	(8,714)
Accumulated forfeited amounts at June 30, 2009	-	-	(176)	(176)
Outstanding at June 30, 2009	<u>₩ 17</u>	<u>₩ -</u>	<u>₩ 5,761</u>	<u>₩ 5,778</u>

19. Capital adjustments (cont'd)

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	Fourth grant	Fifth grant
Risk-free interest rate	5.67%	4.16%	5.15%	5.19%	5.67%
Expected life of option	4.51 years	5.51 years	4.50 years	0.51 years	0.51years
Expected volatility	113.99%	108.60%	103.89%	32.43%	38.90%
Expected dividend yield ratio	-	-	-	-	-
Expected forfeiture rate	0.00%	0.00%	0.00%	7.43%	7.43%

20. Accumulated other comprehensive income and retained earnings

Details of accumulated other comprehensive income and retained earnings of the Company as of June 30, 2009 and December 31, 2008 are as follows (Korean won in millions):

	June 30, 2009 Unaudited	December 31, 2008 Audited
Accumulated other comprehensive income:		
Changes of equity arising from equity method investments, net (Note 5)	₩ 493,824	₩ 491,289
Unrealized gain (loss) on available-for-sale securities (Note 5)	4,276	(7,646)
	<u>₩ 498,100</u>	<u>₩ 483,643</u>
Retained earnings:		
Voluntary reserves	₩ 235,506	₩ 235,506
Unappropriated retained earnings (undisposed deficit)	(124,677)	1,120,557
	<u>₩ 110,829</u>	<u>₩ 1,356,063</u>

21. Selling and administrative expenses

Details of selling and administrative expenses for the three months and six months ended June 30, 2009 and 2008 are as follows (Korean won in millions):

	Three months ended June 30, 2009	Six months ended (Unaudited)	Three months ended June 30, 2008	Six months ended (Unaudited)
Salaries	₩ 19,930	₩ 37,189	₩ 21,576	₩ 40,998
Provision for severance and retirement benefits	1,443	4,147	4,559	7,891
Other employee benefits	4,247	8,822	5,083	11,186
Depreciation (Notes 7 and 8)	11,929	23,689	16,129	27,948
Amortization (Note 9)	13,220	26,407	13,030	25,991
Commissions and fees	42,597	77,886	25,878	50,272
Litigation fees	9,419	11,650	13,236	15,139
Research and development costs (Note 9)	193,281	390,734	210,813	375,401
Others	13,496	26,680	24,677	50,168
	<u>₩ 309,562</u>	<u>₩ 607,204</u>	<u>₩ 334,981</u>	<u>₩ 604,994</u>

22. Income taxes

The major components of provision for income taxes for the six months ended June 30, 2009 and 2008 are as follows (Korean won in millions):

	Six months ended June 30,	
	2009	2008
	<u>Unaudited</u>	<u>Unaudited</u>
Current income taxes	₩ -	₩ 109
Deferred income taxes:		
Tax effect of temporary differences	-	57,262
Tax effect of tax loss carryforwards	-	(57,262)
Current and deferred income taxes recognized directly to equity	<u>(1,209)</u>	<u>(158)</u>
Benefit from income taxes	<u>₩ (1,209)</u>	<u>₩ (49)</u>

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

	Six months ended June 30,	
	2009	2008
	<u>Unaudited</u>	<u>Unaudited</u>
Loss before income taxes	<u>₩ (1,246,443)</u>	<u>₩ (1,382,647)</u>
Income taxes expense at income tax rate (24.2% in 2009, 27.5% in 2008)	₩ (301,615)	₩ (380,197)
Adjustments:		
Non-deductible expenses, net	9,580	86,125
Deferred tax assets not recognized (*1)	1,082,797	849,294
Effect of unrecognized tax loss carryforwards and others	<u>(791,971)</u>	<u>(555,271)</u>
Benefit from income taxes	<u>₩ (1,209)</u>	<u>₩ (49)</u>

(*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 of investments in the future. In addition, deferred income tax assets arising from deductible temporary differences and tax loss carryforwards were recognized only to the extent of the amount not exceeding the expected future taxable income.*

23. Cost of sales

The components of cost of sales for the three months and six months ended June 30, 2009 and 2008 are computed as follows (Korean won in millions):

	Three months ended June 30, 2009 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2008 (Unaudited)
Beginning balance of finished goods	₩ 216,186	₩ 273,075	₩ 279,337	₩ 201,519
Cost of goods manufactured	1,776,692	3,535,480	2,038,678	4,019,399
Reversal of loss on valuation of inventories	(145,785)	(262,177)	(52,152)	(1,852)
Reversal of allowance for expected contract loss	(24,710)	(27,376)	(11,478)	(20,619)
Total	1,822,383	3,519,002	2,254,385	4,198,447
Transfer to other accounts	(98,728)	(243,080)	(168,063)	(305,709)
Adjustments for expected returns	(7,032)	(6,705)	2,893	3,759
Ending balance of finished goods	(201,414)	(201,414)	(393,103)	(393,103)
Cost of sales	<u>₩ 1,515,209</u>	<u>₩ 3,067,803</u>	<u>₩ 1,696,112</u>	<u>₩ 3,503,394</u>

24. Other income and expense

Details of others, net in other income (expense) for the three months and six months ended June 30, 2009 and 2008 consist of the following (Korean won in millions):

	Three months ended June 30, 2009 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2008 (Unaudited)
Gain on valuation of derivatives	₩ 10,169	₩ -	₩ -	₩ -
Gain on transaction of derivatives	1,426	1,932	644	644
Dividends	80	80	-	-
Donations	(940)	(1,645)	(99)	(245)
Amortization of intangible assets	(511)	(1,337)	(371)	(781)
Loss on disposal of trade accounts and notes receivable	(6,913)	(13,638)	(4,565)	(7,459)
Others	(17)	(92)	-	(282)
	<u>₩ 3,294</u>	<u>₩ (14,700)</u>	<u>₩ (4,391)</u>	<u>₩ (8,123)</u>

25. Segment information

The following table presents the sales of the Company by geographical segments for the three months and six months ended June 30, 2009 and 2008 (Korean won in millions):

	Three months ended June 30, 2009 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2008 (Unaudited)
Korea	₩ 121,483	₩ 209,825	₩ 99,881	₩ 193,054
North America	345,245	571,094	352,619	689,312
Asia	945,687	1,679,107	1,141,354	2,070,521
Europe	191,154	341,311	253,387	467,011
Total	₩ 1,603,569	₩ 2,801,337	₩ 1,847,241	₩ 3,419,898

26. Per share amounts

The Company's per share amounts for the three months and six months ended June 30, 2009 and 2008 are calculated as follows (Korean won in millions, except for per share amounts):

	Three months ended June 30, 2009 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2008 (Unaudited)
Basic loss per share:				
Net loss	₩ 50,722	₩ 1,245,234	₩ 707,813	₩ 1,382,598
Weighted-average number of shares of common stock outstanding (*1)	553,467,266	531,273,881	459,273,828	459,268,116
Basic loss per share (Korean won in units)	₩ 92	₩ 2,344	₩ 1,541	₩ 3,010

(*1) Weighted-average number of shares of common stock outstanding for the six months ended June 30, 2009 is computed as follows:

	Number of shares	Weight	Weighted numbers
Common stock outstanding at Jan. 1, 2009(*)	459,602,802	181	83,188,107,162
Issue of common shares (Jan. 16, 2009)	60,000,000	166	9,960,000,000
Exercise of stock options (Feb. 18, 2009)	18,260	133	2,428,580
Issue of common shares (May 19, 2009)	70,000,000	43	3,010,000,000
Exercise of stock options (June 23, 2009)	4,600	8	36,800
	<u>589,625,662</u>		<u>96,160,572,542</u>

(*) The amount includes 12 shares of common stock issued as a result of the conversion of convertible bonds during the six months ended June 30, 2009.

Weighted-average number of shares of common stock outstanding:
 $96,160,572,542 / 181 \text{ days} = 531,273,881$
 $(83,586,797,096 / 182 \text{ days} = 459,268,116 \text{ for the six months ended June 30, 2008})$

Weighted-average number of shares of common stock outstanding adjusted for the effect of dilutive shares is same as weighted-average number of shares of common stock outstanding for the six months ended June 30, 2009.

The basic and diluted loss per share for the year ended December 31, 2008, were both ₩10,273 as all potential dilutive shares are anti-dilutive.

27. Comprehensive loss

The details of comprehensive loss for the three months and six months ended June 30, 2009 and 2008 are as follows (Korean won in millions):

	Three months ended June 30, 2009 (Unaudited)	Six months ended (Unaudited)	Three months ended June 30, 2008 (Unaudited)	Six months ended (Unaudited)
Net income (loss)	₩ (50,722)	₩ (1,245,234)	₩ (707,813)	₩ (1,382,598)
Other comprehensive income (loss):				
Gain on valuation of available-for-sale securities (net of tax: ₩(1,204) and ₩(1,219) for the three months and six months ended June 30, 2009, respectively, ₩(53) and ₩(41) for the three months and six months ended June 30, 2008, respectively)	7,114	11,923	185	74
Equity adjustment arising from equity method investments (net of tax: ₩170 and ₩10 for the three months and six months ended June 30, 2009, respectively, ₩(60) and ₩(206) for the three months and six months ended June 30, 2008, respectively)	(208,585)	2,535	164,348	371,896
Comprehensive income (loss)	<u>₩ (252,193)</u>	<u>₩ (1,230,776)</u>	<u>₩ (543,280)</u>	<u>₩ (1,010,628)</u>

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

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