

Hynix Semiconductor Inc.

Interim Consolidated Financial Statements

September 30, 2011

Hynix Semiconductor Inc.
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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of
Hynix Semiconductor Inc.

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Hynix Semiconductor Inc.(the Parent Company) and its subsidiaries. These consolidated financial statements consist of consolidated statement of financial position of Hynix Semiconductor Inc. and its subsidiaries (collectively the Group) as of September 30, 2011, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2011, and the statements of changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2011, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 34, Interim Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 34, *Interim Financial Reporting*.

Emphasis of Matters

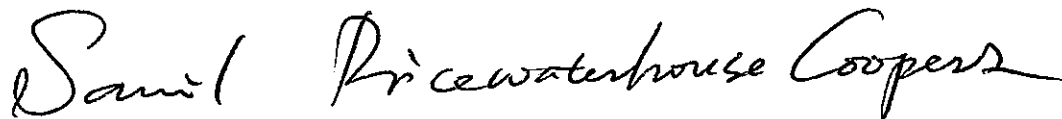
Without qualifying our opinion, we draw your attention to the following matters.

As mentioned in Note 2, these consolidated financial statements are prepared in accordance with Korean IFRS and the interpretations which are effective as of this report date. Therefore, there may be changes in the Korean IFRS and related interpretations adopted in the preparation of these consolidated financial statements when the Company prepares its first full Korean IFRS financial statements.

As discussed in Note 42 to the interim consolidated financial statements, on November 14, 2011, the Share Management Council and the Parent Company entered into an investment contract with SK Telecom Co.,Ltd. Under the terms of this contract, SK Telecom Co., Ltd. is to purchase 44.25 million shares of the Parent Company from the Share Management Council and acquire 101.85 million shares of the Parent Company that will be newly issued through an allotment to a third party.

The consolidated statement of financial position of the Group as of December 31, 2010, and the interim consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2010, and the statements of changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2010, presented herein for comparative purposes, were unreviewed.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean review standards and their application in practice.



Seoul, Korea
November 21, 2011

This report is effective as of November 21, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hynix Semiconductor Inc.
Interim Consolidated Statements of Financial Position
September 30, 2011 and December 31, 2010

<i>(in millions of Korean won)</i>	Notes	September 30, 2011	December 31, 2010
Assets			(Unreviewed)
Current assets			
Cash and cash equivalents	6, 14	₩ 1,407,276	₩ 1,253,226
Short-term financial instruments	7, 14	587,678	948,476
Trade receivables	8, 13, 14	1,611,537	1,604,952
Loans and other receivables	8, 13, 14	229,279	167,684
Inventories	9	1,313,233	1,281,519
Assets classified as held for sale	18	40,479	53,204
Other financial assets	7, 14, 38	485	-
Other current assets	10	137,042	107,025
		<u>5,327,009</u>	<u>5,416,086</u>
Non-current assets			
Investments in jointly controlled entities and associates	12	112,586	98,163
Available-for-sale financial assets	11, 14	41,722	57,044
Property, plant and equipment	15	11,163,051	10,590,580
Intangible assets	17	708,090	603,653
Investment property	16	36,116	37,186
Loans and other receivables	8, 13, 14	39,278	93,093
Other financial assets	7, 14, 38	445	8,085
Deferred income tax assets	34	446,909	444,439
Other non-current assets	10	166,390	119,454
		<u>12,714,587</u>	<u>12,051,697</u>
Total assets		<u>18,041,596</u>	<u>17,467,783</u>
Liabilities			
Current liabilities			
Trade payables	14, 36	697,993	875,174
Other payables	14	557,030	649,797
Other non-trade payables	14, 19	331,847	494,635
Provisions	21	412,102	532,123
Other financial liabilities	14, 22, 38	50,466	4,805
Borrowings	14, 20, 36	3,051,919	2,577,707
Other current liabilities	23	104,484	215,318
		<u>5,205,841</u>	<u>5,349,559</u>
Non-current liabilities			
Borrowings	14, 20, 36	4,010,713	3,463,398
Other non-trade payables	14, 19	123,010	232,893
Defined benefit liabilities	24	391,669	359,062
Other financial liabilities	14, 22, 38	7,915	54,963
Other non-current liabilities	23	35,986	31,083
		<u>4,569,293</u>	<u>4,141,399</u>
Total liabilities		<u>9,775,134</u>	<u>9,490,958</u>
Equity attributable to owners of the Parent Company			
Capital stock	25	2,978,498	2,969,023
Capital surplus	25	1,230,979	1,195,026
Accumulated other comprehensive income	27	128,474	(23,142)
Other components of equity	40	5,762	5,762
Retained earnings	26	3,923,160	3,828,503
		<u>8,266,462</u>	<u>7,976,825</u>
Non-controlling interest		(411)	1,653
Total equity		<u>8,266,462</u>	<u>7,976,825</u>
Total liabilities and equity		<u>₩ 18,041,596</u>	<u>₩ 17,467,783</u>

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2011 and 2010

<i>(in millions of Korean won, except per share amounts)</i>	Notes	Period Ended September 30			
		2011		2010	
		Three Months	Nine Months	Three Months	Nine Months
				(Unreviewed)	
Net sales	36, 41	₩ 2,291,105	₩ 7,842,652	₩ 3,251,592	₩ 9,355,422
Cost of sales	30, 36	<u>2,182,679</u>	<u>6,422,073</u>	<u>1,938,094</u>	<u>5,544,659</u>
Gross profit		108,426	1,420,579	1,313,498	3,810,763
Selling, administration and ordinary development expenses	30, 31	(400,252)	(1,122,919)	(384,414)	(1,133,122)
Other operating income	32	29,438	243,710	19,320	123,731
Other operating expenses	30, 32	<u>(14,371)</u>	<u>(48,411)</u>	<u>(24,542)</u>	<u>(119,786)</u>
Operating income(loss)	29	(276,759)	492,959	923,862	2,681,586
Financial income	33	374,895	554,247	377,971	726,340
Financial expenses	33	(651,127)	(840,715)	(270,722)	(842,505)
Income from jointly controlled entities and associates	12	1,472	7,274	2,382	2,460
Other non-operating expense	33	-	<u>(11,392)</u>	-	-
Profit(loss) before income tax		(551,519)	202,373	1,033,493	2,567,881
Income tax expense (benefit)	34	<u>11,101</u>	<u>18,456</u>	<u>(7,304)</u>	<u>308</u>
Profit(loss) for the period		<u>₩ (562,620)</u>	<u>₩ 183,917</u>	<u>₩ 1,040,797</u>	<u>₩ 2,567,573</u>
Other comprehensive income(loss)					
Currency translation differences		266,152	164,263	(111,864)	(28,223)
Available-for-sale financial assets	11, 27	(2,110)	(17,128)	(9,805)	(18,759)
Actuarial loss on defined benefit liability	24	(8)	(39)	(16)	(46)
Other comprehensive income from jointly controlled entities and associates		<u>8,374</u>	<u>3,807</u>	<u>(4,759)</u>	<u>(1,818)</u>
Total comprehensive income(loss) for the period		<u>₩ (290,212)</u>	<u>₩ 334,820</u>	<u>₩ 914,353</u>	<u>₩ 2,518,727</u>
Profit(loss) for the period attributable to:					
Equity holders of the Parent Company		₩ (561,100)	₩ 183,252	₩ 1,054,248	₩ 2,601,945
Non-controlling interest		(1,520)	665	(13,451)	(34,372)
Comprehensive income(loss) for the period attributable to:					
Equity holders of the Parent Company		₩ (291,392)	₩ 334,829	₩ 939,833	₩ 2,551,598
Non-controlling interest		1,180	(9)	(25,480)	(32,871)
Earnings(loss) per share attributable to the equity holders of the Parent Company during the period	35				
Basic earnings(loss) per share for profit(loss) attributable to the ordinary equity holders of the Parent Company		₩ (948)	₩ 309	₩ 1,786	₩ 4,408
Diluted earnings(loss) per share for profit(loss) attributable to the ordinary equity holders of the Parent Company		(948)	309	1,611	4,114

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity
Nine-Month Periods Ended September 30, 2011 and 2010

	Notes	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Paid-in Capital	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Total			
<i>(in millions of Korean won)</i>										
Balance at January 1, 2010 (Unreviewed)		₩ 2,965,833	₩ 1,238,089	₩ 1,264,961	₩ 15,427	₩ 5,769	₩ 5,490,079	₩ 474,546	₩ 5,964,625	
Comprehensive income										
Profit for the period		-	-	2,601,945	-	-	2,601,945	(34,372)	2,567,573	
Actuarial loss on defined benefit liabilities	24	-	-	(46)	-	-	(46)	-	(46)	
Other comprehensive income of jointly controlled entities and associates	12	-	-	-	(1,818)	-	(1,818)	-	(1,818)	
Gain(loss) on the valuation of available-for-sale financial assets	11	-	-	-	(11,546)	-	(11,546)	(7,213)	(18,759)	
Currency translation differences		-	-	-	(36,937)	-	(36,937)	8,714	(28,223)	
Total comprehensive income		-	-	2,601,899	(50,301)	-	2,551,598	(32,871)	2,518,727	
Transactions with equity holders of the Parent Company :										
Exercise of stock options	25	13	7	-	-	(7)	13	-	13	
Exercise of conversion rights	25	3,176	11,313	-	-	-	14,489	-	14,489	
Changes in subsidiaries' interests	25	-	(58,073)	-	-	-	(58,073)	(442,241)	(500,314)	
Total transactions with equity holders of the Parent Company		3,189	(46,753)	-	-	(7)	(43,571)	(442,241)	(485,812)	
Balance at September 30, 2010 (Unreviewed)		₩ 2,969,022	₩ 1,191,336	₩ 3,866,860	₩ (34,874)	₩ 5,762	₩ 7,998,106	₩ (566)	₩ 7,997,540	
Balance at January 1, 2011 (Unreviewed)		₩ 2,969,023	₩ 1,195,026	₩ 3,828,503	₩ (23,142)	₩ 5,762	₩ 7,975,172	₩ 1,653	₩ 7,976,825	
Comprehensive income										
Profit for the period		-	-	183,252	-	-	183,252	665	183,917	
Actuarial loss on defined benefit liabilities	24	-	-	(39)	-	-	(39)	-	(39)	
Other comprehensive income of jointly controlled entities and associates	12	-	-	-	3,807	-	3,807	-	3,807	
Gain(loss) on the valuation of available-for-sale financial assets	11	-	-	-	(16,352)	-	(16,352)	(776)	(17,128)	
Currency translation differences		-	-	-	164,161	-	164,161	102	164,263	
Total comprehensive income		-	-	183,213	151,616	-	334,829	(9)	334,820	
Transactions with equity holders of the Parent Company :										
Dividends	28	-	-	(88,541)	-	-	(88,541)	-	(88,541)	
Exercise of conversion rights	25	9,475	36,193	-	-	-	45,668	-	45,668	
Changes in scope of consolidation	25	-	-	-	-	-	-	(2,055)	(2,055)	
Others	25	-	(240)	(15)	-	-	(255)	-	(255)	
Total transactions with equity holders of the Parent Company		9,475	35,953	(88,556)	-	-	(43,128)	(2,055)	(45,183)	
Balance at September 30, 2011		₩ 2,978,498	₩ 1,230,979	₩ 3,923,160	₩ 128,474	₩ 5,762	₩ 8,266,873	₩ (411)	₩ 8,266,462	

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	Nine-Month Periods Ended September 30	
		2011	2010 (Unreviewed)
Cash flows from operating activities			
Cash generated from operations	39	₩ 2,263,182	₩ 4,956,981
Interest received		49,458	36,557
Interest paid		(189,160)	(217,960)
Dividends received		8,883	687
Income tax paid		(11,905)	(1,184)
Net cash generated from operating activities		<u>2,120,458</u>	<u>4,775,081</u>
Cash flows from investing activities			
Decrease in short-term financial deposits		2,142,482	37,190
Proceeds from derivatives		17,475	-
Decrease in loans and other receivables		12,693	19,522
Proceeds from disposal of held for sales assets		6,931	82,363
Proceeds from disposal of available-for-sale financial assets		-	2,292
Proceeds from disposal of other financial assets		-	33
Proceeds from disposal of property, plant and equipment		4,789	45,047
Proceeds from investment property		151	-
Proceeds from disposal of intangible assets		13,903	62
Increase in short-term financial deposits		(1,773,485)	(1,341,731)
Increase in loans and other receivables		(5,371)	(12,587)
Increase in other financial assets		(5)	-
Payments from derivatives		(2,832)	(66,992)
Increase in available-for-sale financial assets		(5,587)	(7,659)
Acquisition of investments in associate		(12,181)	-
Acquisition of property, plant and equipment		(2,915,507)	(2,529,220)
Acquisition of intangible assets		(143,599)	(55,914)
Net cash used in investing activities		<u>(2,660,143)</u>	<u>(3,827,594)</u>
Cash flows from financing activities			
Proceeds from borrowings		2,287,691	1,147,679
Repayments of borrowings		(1,507,496)	(1,899,306)
Acquisition of non-controlling interest		(240)	(507,172)
Proceeds from disposal of treasury stock		-	17
Proceeds from stock issuance (share options)		-	13
Dividends paid		(88,541)	-
Net cash provided by (used in) financing activities		<u>691,414</u>	<u>(1,258,769)</u>
Net increase (decrease) in cash and cash equivalents		151,729	(311,282)
Effect of exchange rates on cash and cash equivalents		2,981	(1,666)
Changes in scope of consolidation		(660)	-
Cash and cash equivalents at the beginning of period		1,253,226	1,212,356
Cash and cash equivalents at the end of period		<u>₩ 1,407,276</u>	<u>₩ 899,408</u>

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

Hynix Semiconductor Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2011 and 2010, and December 31, 2010

1. General Information

General information about Hynix Semiconductor Inc. (the "Parent Company") and its subsidiaries (collectively "the Group") is as follows:

The Parent Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares are listed on the Korea Exchange since 1996. The Parent Company's headquarters are located in Icheon, South Korea, and the Group has manufacturing facilities in Icheon and Cheongju, South Korea, and Wuxi, China.

As of September 30, 2011, the shareholders of the Parent Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Share Management Council ¹ :	88,500,000	14.9
Individual investors	503,671,582	85.1
	592,171,582	100.0

¹In accordance with the resolution of the Share Management Council, the members of the Share Management Council are restricted from selling their respective shares to the public (Note 42). As of September 30, 2011, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	20,185,000	3.4
Woori Bank	19,722,000	3.3
Korea Finance Corporation	15,281,000	2.6
Shinhan Bank	14,963,000	2.5
Other financial institutions	18,349,000	3.1
Total	88,500,000	14.9

Hynix Semiconductor Inc.
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As of September 30, 2011, the Group's consolidated subsidiaries are as follows:

Names of subsidiaries	Number of Shares	Ownership (%)	Locations	Remarks
Hynix Engineering Co., Ltd.	671,932	99.65	Korea	Domestic subsidiary
Hystech Co., Ltd.	236,408	99.65	Korea	Domestic subsidiary
Hynix HRD Co., Ltd.	59,102	99.65	Korea	Domestic subsidiary
Hylogitech Co., Ltd.	39,401	99.65	Korea	Domestic subsidiary
Ami Power Co. Ltd.	524,852	99.65	Korea	Domestic subsidiary
QRT Semiconductor Co.,Ltd.	20,000	100.00	Korea	Domestic subsidiary
Hynix Semiconductor America Inc.(HSA)	6,285,587	97.74	U.S.A	Overseas sales entity
Hynix Semiconductor Manufacturing America Inc.(HSMA)	200,000,100	100.00	U.S.A	Discontinued entity
Hynix Semiconductor Deutschland GmbH(HSD)	Certificate	100.00	Germany	Overseas sales entity
Hynix Semiconductor Europe Holding Ltd.(HSE)	335,640,000	100.00	England	Holding company
Hynix Semiconductor U.K. Ltd.(HSU)	186,240,200	100.00	England	Overseas sales entity
Hynix Semiconductor Asia Pte.Ltd.(HSS)	196,303,500	100.00	Singapore	Overseas sales entity
Hynix Semiconductor Indian Subcontinent Private Ltd.(HSIS)	10,000	100.00	India	Overseas sales entity
Hynix Semiconductor HongKong Ltd.(HSH)	170,693,661	100.00	HongKong	Overseas sales entity
Hynix Semiconductor (Shanghai) Co.,Ltd.(HSCS)	Certificate	100.00	China	Overseas sales entity
Hynix Semiconductor Japan Inc.(HSJ)	20,000	100.00	Japan	Overseas sales entity
Hynix Semiconductor Taiwan Inc.(HST)	35,725,000	100.00	Taiwan	Overseas sales entity
Hynix Semiconductor (China) Ltd.(HSCL)	Certificate	100.00	China	Manufacturing entity
Hynix Semiconductor (Wuxi) Ltd.(HSMC)	Certificate	100.00	China	Manufacturing entity
Hynix (Wuxi) Semiconductor Sales Ltd.(HSCW)	Certificate	100.00	China	Overseas sales entity

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Preparation

The Group adopted International Financial Reporting standards as adopted by the Republic of Korea ("Korean IFRS") for the year ending December 31, 2011. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

Hynix Semiconductor Inc.
Notes to the Interim Consolidated Financial Statements
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The consolidated financial statements of the Group were prepared in accordance with accounting principles generally accepted in the Republic of Korea ("K-GAAP") by December 31, 2010. The Group's Korean IFRS transition date according to Korean IFRS 1101, *First-time Adoption of Korean IFRS*, is January 1, 2010, and reconciliations and descriptions of the effect of the transition from K-GAAP to Korean IFRS on the Group's equity, its income and cash flows are provided in Note 5.

The interim consolidated financial statements for the nine-month period ended September 30, 2011, have been prepared in accordance Korean IFRS 1034, *Interim Financial Reporting*, and are subject to Korean IFRS 1101, *First-time Adoption of Korean IFRS*. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective or issued and early adopted at the reporting date. The Korean IFRS standards and interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim consolidated financial statements.

The consolidated statement of financial position of the Group as of December 31, 2010, presented herein comparative purposes, was audited by other auditors, whose special purpose audit report dated April 29, 2011, expressed an opinion that the said consolidated statement of financial position as of December 31, 2010, was presented in all material respects in conformity with Korean IFRS and accounting policies expected to be valid at December 31, 2011.

The preparation of financial statements in accordance with Korean IFRS 1034 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

As of September 30, 2011, the following new standards and related interpretations of Korean IFRS were published but not yet adopted by the Group since the new standards shall be applied for annual periods beginning on or after July 1, 2011

- Korean IFRS 1101, *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters Amendments to IFRS 1*
- Korean IFRS 1012 *Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets*
- Korean IFRS 1107 *Amendments to IFRS 7 Financial Instruments: Disclosures Improving Disclosures about Financial Instruments*

Consolidation

The consolidated financial statements have been prepared in accordance Korean IFRS 1027, *The consolidated financial statements and separate financial statements*.

Hynix Semiconductor Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2011 and 2010, and December 31, 2010

(a) *Subsidiaries*

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the business combination by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration includes any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group recognizes any non-controlling interest, that it is provided proportionate share of the acquiree's net assets when it is liquidated, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other non-controlling interest are measured at their acquisition date fair values, unless another measurement basis is required by Korean IFRS.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets.

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the comprehensive income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Joint venture

A joint venture is a contractual agreement to establish joint control over business, assets or entities. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at acquisition cost. The Group's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

(d) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Segment Reporting

Operating segments are established on the basis of business divisions whose internal reporting is provided to the chief operating decision-maker who is the chief executive officer (Note 41).

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in 'Korean won', which is the Parent Company's functional and the Group's presentation currency.

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(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are reflected in current operations, except qualifying cash flow hedges which are recognized in other comprehensive income. Foreign exchange gains and losses are reported in 'financial income and expenses' in the comprehensive income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the comprehensive income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the equity.

(c) Translation to the presentation currency

The results and financial position of all Group companies whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as of the reporting date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in equity (other comprehensive income).

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the comprehensive income statement as part of the gain or loss on sale. When the Group ceases to have control on a subsidiary, exchange differences, that were recorded in equity are reclassified to profit or loss where appropriate.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months.

Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. When the collection of receivables is expected within a year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value, less provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Financial Instruments

(a) Classification

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. Management determines the classification of financial instruments at initial recognition.

i) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not subject to hedge accounting and financial instruments having embedded derivatives are also included in this category.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current

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assets. The Group's loans and receivables consist of 'cash and cash equivalents', 'financial instruments', 'trade receivables', and 'loans and other receivables'.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in 'other financial assets' as non-current assets unless maturities are less than 12 months or management intends to dispose of it within 12 months after the end of the reporting period.

iv) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and are classified as 'other financial assets' in the statements of financial position. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

v) Financial liabilities measured at amortized cost

The Group classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case, the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(b) *Recognition and Measurement*

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are reflected in current operations in the comprehensive income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the comprehensive income statement within 'financial income and expenses' in the period in which they arise. The Group recognises a dividend from

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financial assets at fair value through profit or loss in the comprehensive income statement when its right to receive the dividend is established.

Fair value gains and losses on available-for-sale investments are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the comprehensive income statement as 'financial income and expenses'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the comprehensive income statement as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the comprehensive income statement as part of 'financial income' when the Group's right to receive payments is established.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of Financial Assets

(a) *Assets carried at amortized cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;

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- (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the comprehensive income statement. Also, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is reflected in current operations.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the comprehensive income statement. Impairment losses recognized in the comprehensive income statement on equity instruments are not reversed through the comprehensive income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the comprehensive income statement.

Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss is recognized as 'financial income and expenses' in the comprehensive income statement.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized as 'financial income and expenses' in the comprehensive income statement. The amounts accumulated in other comprehensive income are recognized in the comprehensive income statement in the periods when the hedged item affects profit or loss. When

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a transaction is no longer expected to occur, the cumulative gain or loss that was recognized in other comprehensive income is reclassified to financial income or expenses where appropriate.

Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation, except for certain land which was measured at fair value as deemed cost. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to expenses in the comprehensive income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	10 - 50 years
Structures	10 - 20 years
Machinery	5 - 15 years
Vehicles	5 years
Other	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income and expenses' in the comprehensive income statement.

Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during an extended period in which it prepares an asset for its intended use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. When a particular borrowing is specifically associated with expenditure on the qualifying asset, the amount of borrowing costs capitalized is limited to the actual borrowing costs less any investment income on the temporary investment of those borrowings. The Group recognizes other borrowing costs as an expense in the period in which they are incurred.

Government Grants

Government grants are recognized at their fair value when it is highly probable that the Group is able to comply with all attached conditions. Government grants relating to expenses are deferred

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and recognized in the income statement over the period when those expenses are incurred. Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the useful lives of the related assets.

Intangible Assets

(a) *Goodwill*

Goodwill is measured in the manner as described in 'Note 2. Consolidation', and goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(b) *Industrial rights*

Industrial rights are shown at historical cost. Industrial rights in a business combination are recognized as fair value at acquisition. Industrial rights have a finite useful life and are carried at cost less accumulated amortisation. Amortization is calculated using the straight-line method to allocate the cost of industrial rights over five to ten years.

(c) *Development Costs*

Costs associated with research activities are recognized as an expense as incurred. Costs that are individually identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met:

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project and has ability to use or sell it;
- It can be demonstrated how the development project will generate probable future economic benefits;
- Adequate resources to complete the development are available; and
- The expenditure attributable to the individual project during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Amortization of development costs based on the straight-line method over their useful lives begins at the commencement of the commercial production of related development products. The Group tests annually for impairment of development cost.

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(d) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is used. All membership rights are tested annually for impairment and stated at cost less accumulated impairment. Impairment losses are not reversed.

Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged as expenses in the comprehensive income statement during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at least at each financial year end and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Impairment of Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. At each reporting date, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill or intangible assets with an indefinite useful life that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale

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is considered highly probable.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the comprehensive income statement over the period of the borrowings using the effective interest method. The Group classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Hybrid Financial Instruments

Hybrid financial instruments issued by the Company are convertible bonds that contain both a liability and an equity component.

The liability component of a hybrid financial instrument is recognised initially at the fair value of a similar liability that does not have a conversion option. The equity component is recognised initially at the difference between the fair value of the hybrid financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a hybrid financial instrument is measured at amortised cost using the effective interest method. The equity component of a hybrid financial instrument is classified as equity if the amount of paid in capital in excess of par value is determined initially. If not, it is classified as separate financial liability and accounted for as a derivative.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to passage of

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time is recognized as an interest expense.

Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized in the comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized only to the extent that the temporary difference will reverse in the foreseeable future and taxable profit will be available against the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

Employee Benefits

(a) *Defined benefit liability*

The Group companies operate various pension schemes. The schemes are generally funded

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through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group operates both defined contribution and defined benefit plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs.

The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognized in the comprehensive income statement over the vesting periods.

(b) Share-based payments

The Group operates share-based compensation plans under which the Group receives services from employees as consideration for the payment of the difference between market price of the stock and exercise price. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the comprehensive income statement over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted considering the impact of any service and performance vesting conditions and non-vesting condition.

(c) Long-term employee benefits

The Group provides long-term employee benefits to their employees. The entitlement to these benefits is usually conditional on the employee working for more than five years. The expected costs of these benefits are accrued over the period of employment using the same accounting

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methodology as used for defined benefit plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the comprehensive income statement as they occur. These benefits are calculated annually by independent actuaries.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary retirement in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary retirement.

Share Capital

Ordinary shares and preferred shares without mandatory dividends or the obligation to be repaid are classified as equity.

Where any subsidiary purchases the Parent Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Parent Company's equity holders.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group manufactures and sells semiconductor products. Sales of goods are recognized when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns.

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The Group recognizes provisions for sales returns based on reasonable expectation reflecting sales return rates incurred historically.

(b) *Interest income*

Interest income is recognized using the effective interest method. When receivables are impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(c) *Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) *Dividend income*

Dividend income is recognized when the right to receive payment is established.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the comprehensive income statement over the lease period using a constant interest rate on the remaining balance of the liability. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Dividend Distribution

A dividend liability is recognized in the financial statements when the dividends are approved by the shareholders.

3. Risk Management

Financial Risk Management

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity

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risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's risk management activity covers financial assets such as cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade receivables and non-trade receivables. The Group's risk management activity also covers financial liabilities such as trade payables, other payable, borrowings and debentures.

(a) *Market risk*

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities in foreign currencies and net investments in foreign operations.

As of September 30, 2011 and 2010, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		September 30, 2010	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	274,633	(274,633)	267,842	(267,842)
JPY/KRW	22,725	(22,725)	13,940	(13,940)
EUR/KRW	41,886	(41,886)	7,882	(7,882)
	339,244	(339,244)	289,664	(289,664)

The sensitivity analysis above is done with foreign currency denominated assets and liabilities which are not in each Group entity's functional currency.

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statements of financial position as available-for-sale financial assets. The listed securities held by the Group are traded in active markets such as KOSPI stock index, KOSDAQ stock index and TWSE(Taiwan) index. The table below summarises the impact of increases/decreases of the price per share at the active market on the securities held by the Group.

<i>(in millions of Korean won)</i>	September 30, 2011		September 30, 2010	
	20% increase	20% decrease	20% increase	20% decrease
Effects in equity	4,902	(4,902)	7,697	(7,697)

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iii) Interest rate risk

The Group is exposed to interest rate risk through changes in interest bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. To mitigate interest rate risk, the Group enters into interest rate swap contracts under which the Group receives payments based on LIBOR and makes payments based on fixed rates.

As of September 30, 2011, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest-bearing financial deposits.

As of September 30, 2011, if interest rates fluctuate by 100bp without other variables changing, the effect on income and expenses related to borrowings and financial deposits with variable interest rates for the nine-month period ended September 30, 2011, would be ₩ 28,265 million (September 30, 2010: ₩ 23,459 million).

(b) *Credit risk*

The Group is exposed to credit risk which arises from a counterparty's non-performance of obligation. The credit risk mainly arises from operating activities and financial activities.

i) Trade and other Receivables

Credit risk is managed on group basis, and the Group is managing and analysing the credit risk for each of new clients before standard payment and delivery terms and conditions are offered. The Group operates a consistent trade receivables policy (TR Policy) to manage credit risk exposure. The purpose of the TR policy is to support timely decision-making and minimize loss by securing payment of TR. Assumed TR risk is especially mitigated with credit insurance, guarantees/collateral and internal credit limits. In order to manage the risk, Global Credit Insurance Program is structured with Korea Trade Insurance Corporation.

ii) Other assets

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures from short-term and long-term loans, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a high credit rating are accepted, and accordingly management does not expect any losses from non-performance by these counterparties.

(c) *Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular base to

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manage liquidity risk proactively. Any surplus funds held by each subsidiary in excess of necessary working capital of each subsidiary will be remitted to the Parent Company.

According to the forecasts mentioned above, the Group invests surplus funds in financial instruments with liquidity such as current accounts, time deposits, demand deposits, marketable available-for-sale securities to manage liquidity risk. As of September 30, 2011, the Group invests in cash equivalents and short-term financial instruments of approximately ₩ 1,217,928 million (December 31, 2010: ₩ 1,063,495 million) and ₩ 481,579 million (December 31, 2010: ₩ 802,367 million), respectively, which can be withdrawn instantly.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

<i>(in millions of Korean won)</i>	September 30, 2011				
	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
Borrowings (other than finance lease)	3,177,014	1,005,058	3,132,750	85	7,314,907
Finance lease liabilities	131,678	67,120	192,224	201,747	592,769
Trade payables	697,993	-	-	-	697,993
Other payables	569,948	-	-	-	569,948
Other non-trade payables	331,847	82,014	40,833	20,416	475,110
Derivatives	50,466	2,295	-	-	52,761
Financial guarantee contract	36	-	-	-	36
Total	4,958,982	1,156,487	3,365,807	222,248	9,703,524

<i>(in millions of Korean won)</i>	December 31, 2010				
	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
Borrowings (other than finance lease)	2,003,058	1,264,766	1,799,957	640,974	5,708,755
Finance lease liabilities	87,073	69,508	138,327	208,580	503,488
Trade payables	875,174	-	-	-	875,174
Other payables	667,191	-	-	-	667,191
Other non-trade payables	494,635	184,066	48,353	29,143	756,197
Derivatives	4,805	27,664	-	-	32,469
Financial guarantee contract	47	-	-	-	47
Total	4,131,983	1,546,004	1,986,637	878,697	8,543,321

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Capital Risk Management

The Group's capital risk management purpose is maintaining optimal capital structure to safeguard the Group's ability to provide continuing returns for shareholders as a going concern and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or dispose of assets to reduce debt. The debt/equity ratio and net borrowing ratio as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Total liabilities (A)	9,775,134	9,490,958
Total equity (B)	8,266,462	7,976,825
Cash and cash equivalents and others(C) ¹	1,994,954	2,201,702
Total borrowings (D)	7,062,632	6,041,105
Debt ratio (A/B)	118%	119%
Net borrowing ratio (D-C)/B	61%	48%

¹Cash and cash equivalents includes short-term financial instruments.

Fair Value Measurement

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

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The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses various valuation techniques and makes judgements based on current market conditions. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As of September 30, 2011 and December 31, 2010, available-for-sale financial assets which are measured by acquisition cost are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Hyundai Logiem Co., Ltd.	98	98
Novelis Korea Ltd.	1,699	1,699
Itest Co., Ltd.	1,166	1,166
JNT Frontier Private Equity Unit	700	-
SV M&A No.1 Equity Unit	715	-
Daishin Aju IB Investment Co.,Ltd.	172	-
Intellectual Discovery, Ltd.	4,000	-
Anobit Technologies Ltd.	3,123	3,123
Equity investment in a construction guarantee	165	165
Others	12	12
Total	11,850	6,263

4. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting date are addressed below.

Estimated Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

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Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

The Group recognises provisions for sales return as of the reporting date. The amounts are estimated based on historical data.

Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 24.

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5. Transition to Korean IFRS

Basis of Transition to Korean IFRS

(a) *The first adoption of Korean IFRS*

The Group's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011. The Group prepared the statement of financial position as of transition date and the reporting date of interim financial statements is September 30, 2011.

In preparing these interim consolidated financial statements in accordance with Korean IFRS 1101, the Group has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

(b) *Exemptions elected by the Group*

The Group has elected to apply the following optional exemptions from full retrospective application.

i) Business combination

The Group has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2010.

ii) Cumulative translation differences

The Group has elected to set the accumulated cumulative translation differences at January 1, 2010, to zero in accordance with Korean IFRS 1101.

iii) Deemed cost

The Group has elected to measure certain land at fair value as of January 1, 2010, the date of transition to Korean IFRS and uses that fair value as its deemed cost at that date.

Details of fair value of land as of January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>		
Reported amounts under K-GAAP	Adjustment	Fair Value at conversion date
259,399	181,633	441,032

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(c) *Mandatory exceptions*

The Group applied the following mandatory exceptions.

i) *Derecognition of Financial Assets*

The Group prospectively applied derecognition criteria under Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, to the transactions after the transition date. Accordingly, when a transfer of a financial asset does not qualify for derecognition under Korean IFRS before the transition date, the Group did not recognize such transaction under Korean IFRS.

ii) *Exception for Estimates*

Estimates under Korean IFRS at conversion date (January 1, 2010) are consistent with the estimates under K-GAAP when estimates used under K-GAAP do not have any error.

(d) *Reconciliations between Korean IFRS and K-GAAP*

The following reconciliations provide a quantification of the effect of the transition to Korean IFRS.

i) *Effects on financial position and results of operations:*

Effects on total assets, liabilities and equity as of January 1, 2010, the date of Korean IFRS transition, are as follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Total equity
Reported amount under K-GAAP	16,303,533	10,384,255	5,919,278
Adjustments			
Transfer of trade receivables ¹	16,275	16,275	-
Effect of subsidiaries adopting Korean IFRS ²	60,387	60,966	(579)
Revaluation of land ⁴	181,633	-	181,633
Fair value measurement ⁵	4,389	197,461	(193,072)
Employee benefits ⁶	-	(49,205)	49,205
Changes in scope of consolidation ⁷	33,451	25,291	8,160
Total	296,135	250,788	45,347
Adjusted amount under Korean IFRS	16,599,668	10,635,043	5,964,625

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Effects on total assets, liabilities and equity as of September 30, 2010, are as follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Total equity
Reported amount under K-GAAP	18,152,819	10,112,573	8,040,246
Adjustments			
Effect of subsidiaries adopting Korean IFRS ²	(249,985)	-	(249,985)
Goodwill ³	29,727	-	29,727
Revaluation of land ⁴	181,633	-	181,633
Fair value measurement ⁵	7,797	102,700	(94,903)
Employee benefits ⁶	-	(79,075)	79,075
Changes in scope of consolidation ⁷	30,009	18,262	11,747
Total	(819)	41,887	(42,706)
Adjusted amount under Korean IFRS	18,152,000	10,154,460	7,997,540

Effects on total assets, liabilities and equity as of December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Total equity
Reported amount under K-GAAP	17,584,252	9,414,758	8,169,494
Adjustments			
Effect of subsidiaries adopting Korean IFRS ²	(350,825)	176	(351,001)
Goodwill ³	39,636	-	39,636
Revaluation of land ⁴	181,633	-	181,633
Fair value measurement ⁵	7,695	97,720	(90,025)
Employee benefits ⁶	-	(30,664)	30,664
Changes in scope of consolidation ⁷	5,392	8,968	(3,576)
Total	(116,469)	76,200	(192,669)
Adjusted amount under Korean IFRS	17,467,783	9,490,958	7,976,825

Effects on net income and comprehensive income for the three-month and nine-month periods ended September 30, 2010, are as follows:

<i>(in millions of Korean won)</i>	Three months	Nine months
Reported amount under K-GAAP	1,059,553	2,546,368
Adjustments		
Effect of subsidiaries adopting Korean IFRS ²	(93,991)	(250,351)
Goodwill ³	9,909	29,727
Fair value measurement ⁵	65,450	229,237
Employee benefits ⁶	339	3,307
Changes in scope of consolidation ⁷	(463)	9,285
Total	(18,756)	21,205
Adjusted amount under Korean IFRS	1,040,797	2,567,573

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Effects on net income and comprehensive income for the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Net income
Reported amount under K-GAAP	2,656,475
Adjustments	
Effect of subsidiaries adopting Korean IFRS ²	(359,541)
Goodwill ³	39,636
Revaluation of land ⁴	-
Fair value measurement ⁵	204,851
Employee benefits ⁶	36,431
Changes in scope of consolidation ⁷	19,723
Total	(58,900)
Adjusted amount under Korean IFRS	2,597,575

¹Transfer of accounts receivable which did not qualify for derecognition.

²Total effect of subsidiaries' transition to Korean IFRS.

³Amortization effects on goodwill recorded as a result of a business combination.

⁴The Group recorded some parts of land at fair value as of conversion date, and uses that fair value as its deemed cost at that date.

⁵The conversion rights of convertible bonds are classified as separate embedded derivatives and recognized at fair value.

⁶Defined benefits liability and other long-term employee benefits are estimated by applying actuarial methods.

⁷Under K-GAAP, a subsidiary with assets not exceeding ₩10 billion is excluded from consolidation.

ii) Effects on cash flows

According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income taxes that were not presented separately under K-GAAP. The effects of changes in foreign exchange rate to the cash and cash equivalents in foreign currency are separately presented from operating activities, investing activities and financing activities.

Cash flows from operating and financing activities are adjusted respectively since some transactions are treated as borrowings with collateralised trade receivables, which were treated as a selling transaction under K-GAAP. Also, other Korean IFRS transition effects are reflected on cash flows if they have an effect on cash flows.

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6. Cash and cash equivalents

Cash and cash equivalents as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Cash on hand	66	58
Checking account	61,989	34,046
Ordinary deposits	23,417	42,503
Time deposits	928,394	895,330
Specified money trust	70,000	172,000
RP	80,000	40,000
CMA	6,222	7,222
MMDA	221,653	45,486
MMF	1,613	-
MMW	11,723	12,811
MMT	2,199	3,770
Total	1,407,276	1,253,226

Restricted deposits as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010	Description
Time deposits	189,282	189,673	Pledge for guarantee relating to Rambus litigation

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7. Short-term Financial Instruments and Other Financial Assets

Short-term financial instruments and other financial assets as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Short-term financial instruments		
Time deposits	544,213	734,834
Specified money trust	30,000	65,000
RP	10,000	130,000
MMDA	1,789	2,423
Other	1,676	16,219
Sub-total	587,678	948,476
Other financial assets		
Current assets		
Derivative assets	485	-
Sub-total	485	-
Non-current Assets		
Time deposits	313	375
Bank overdraft guarantee deposits	14	14
Derivative assets	118	7,695
Held-to-maturity financial assets	-	1
Sub-total	445	8,085
Total	588,608	956,561

Restricted short-term financial instruments and other financial assets as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010	Description
	58,975	56,945	Pledged for Rambus litigation
	20,241	57,764	Pledged for borrowings
Short-term financial instruments	7,683	6,985	Pledged for consumption tax
	411	21,992	Pledged for letters of credit
	1,789	2,423	Restricted for government grants
	17,000	-	Restricted for support small business
	308	308	Pledged for borrowings
Other financial assets	14	14	Bank overdraft guarantee deposit
	5	-	Value added tax deposit
Total	106,426	146,431	

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8. Trade and Other Receivables

Details of current and non-current loans and other receivables as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Other receivables	128,553	146,941
Accrued income	8,980	16,450
Short-term loans	6,058	1,716
Guarantee deposits	279	-
Deposits	85,409	2,577
Sub-total	229,279	167,684
Non-current		
Long-term other receivables	23,735	117
Long-term loans	4,868	6,777
Long-term accrued income	-	207
Guarantee deposits	9,724	8,058
Other deposits	951	77,934
Sub-total	39,278	93,093
Total	268,557	260,777

Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Trade receivables	1,615,194	1,609,018
Less : provision for impairment	(3,657)	(4,066)
Trade receivables - net	1,611,537	1,604,952
Current loans and other receivables	233,807	172,472
Less : provision for impairment	(4,528)	(4,788)
Current other receivables - net	229,279	167,684
Non-current loans and other receivables	52,216	105,806
Less : provision for impairment	(12,938)	(12,713)
Non-current other receivables - net	39,278	93,093
Total	1,880,094	1,865,729

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Movements in the provision for impairment of trade receivables for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	4,066	3,520
Provision for receivables impairment	786	550
Receivables written off during the period as uncollectible	(324)	-
Unused amounts reversed	(100)	(52)
Effect of exchange rates	(771)	(79)
At September 30	3,657	3,939

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	4,788	4,069
Provision for receivables impairment	-	1
Receivables written off during the period as uncollectible	-	-
Unused amounts reversed	(949)	(25)
Effect of exchange rates	689	-
At September 30	4,528	4,045

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	12,713	29,754
Provision for receivables impairment	253	61
Receivables written off during the period as uncollectible	-	(17,284)
Unused amounts reversed	(56)	(18)
Effect of exchange rates	28	41
At September 30	12,938	12,554

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9. Inventories

Details of inventories as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Finished goods	566,638	439,138
Less : valuation allowance	(108,788)	(64,702)
Finished goods - net	457,850	374,436
Work in progress	700,649	709,998
Less : valuation allowance	(118,381)	(46,582)
Work in progress - net	582,268	663,416
Raw materials	148,118	139,455
Less : valuation allowance	(1,098)	(659)
Raw materials - net	147,020	138,796
Supplies	54,474	41,365
Less : valuation allowance	(89)	(93)
Supplies - net	54,385	41,272
Goods in transit	72,146	64,412
Less : valuation allowance	(436)	(813)
Goods in transit - net	71,710	63,599
Total	1,313,233	1,281,519

For the nine-month period ended September 30, 2011, ₩ 115,943 million of inventory valuation allowance was increased due to a loss in inventory valuation, (2010: ₩ 27,123 million of reversal of inventory write-down) and recognised as cost of sales in the comprehensive income statement.

10. Other Current and Non-current Assets

Details of other current and non-current assets as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current Assets		
Advance payments	6,411	4,140
Prepaid expenses	115,771	88,230
Others	14,860	14,655
Sub-total	137,042	107,025
Non-current Assets		
Long-term advance payments	128	5,273
Long-term prepaid expenses	141,120	79,147
Others	25,142	35,034
Sub-total	166,390	119,454
Total	303,432	226,479

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11. Available-for-sale Financial Assets

Details of available-for-sale financial assets as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011				December 31, 2010
	Number of Stock	Ownership (%)	Acquisition cost	Book value	Book value
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	3,481	2,036	4,583
Hyundai Logiem Co., Ltd.	15,115	0.12	76	98	98
EQ bestech Co., Ltd.	2,000	1.67	10	10	10
Novelis Korea Ltd.	63,600	0.14	1,699	1,699	1,699
Itest Co., Ltd.	481,780	1.33	1,166	1,166	1,166
Hyundai IT Corp.	25,286	0.03	63	6	12
Fidelix Co., Ltd.	1,605,854	8.79	3,560	2,843	2,473
Futures Corp Technology Co., Ltd.	60,000	10.44	300	-	-
C&S Technology Co., Ltd.	1,031,590	3.91	4,508	3,745	6,138
ZMOS Technology	2,000,000	5.11	995	-	-
Phison Electronics Corp.	3,277,054	1.85	11,661	18,589	20,875
Anobit Technologies Ltd.	204,248	2.80	3,123	3,123	3,123
Specified money trust	201,600,000	7.93	21,847	2,653	16,701
JNT Frontier Private Equity Unit	Certificate	-	700	700	-
SV M&A No.1 Equity Unit	Certificate	-	715	715	-
Daishin Aju IB Investment Co., Ltd.	Certificate	-	172	172	-
Intellectual Discovery, Ltd.	800,000	11.41	4,000	4,000	-
Equity Investment in a construction guarantee association	132	-	165	165	165
Others	-	-	6,801	2	1
Total			65,042	41,722	57,044

Changes in the book value of available-for-sale securities for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	57,044	87,167
Acquisition	5,587	7,659
Disposal	-	(1,850)
Changes in unrealized gain or loss ¹	(18,550)	(21,321)
Others	(2,359)	(3,952)
At September 30	41,722	67,703

¹Net of income tax effect of ₩ 1,422 million (2010: ₩ 2,562 million).

Changes in impairment loss on available-for-sale securities for the nine-month periods ended

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September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	(15,883)	(14,588)
Write-off	8,747	-
At September 30	(7,136)	(14,588)

12. Investments in Jointly Controlled Entities and Associates

Details of investments in jointly controlled entities and associates as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>		September 30, 2011				December 31, 2010	
Type	Investee	Number of Stock	Ownership (%)	Acquisition cost	Net asset value	Book value	Book value
Associate	Siliconfile Technologies Inc. ¹	2,358,832	29.74	22,835	6,963	15,619	15,858
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	Certificate	45.00	90,150	94,330	96,967	82,305
				112,985	101,293	112,586	98,163

¹As of September 30, 2011, fair value on the active market amounted to ₩ 5,024 million (December 31, 2010 : ₩ 5,921 million).

Changes in the book value of jointly controlled entities and associates for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	98,163	98,076
Acquisition	12,181	-
Dividend	(8,838)	-
Share of profit	7,274	2,460
Share of other comprehensive income(loss)	3,806	(1,818)
At September 30	112,586	98,718

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The summary of financial position of the investees as of September 30, 2011 and December 31, 2010, follows:

<i>(in millions of Korean won)</i>	September 30, 2011			
	Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
Siliconfile Technologies Inc.	30,951	9,521	13,781	3,280
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	220,651	469,495	219,741	260,783
Total	251,602	479,016	233,522	264,063

<i>(in millions of Korean won)</i>	December 31, 2010			
	Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
Siliconfile Technologies Inc.	26,250	9,938	9,372	2,947
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	147,225	394,101	130,644	227,780
Total	173,475	404,039	140,016	230,727

The summary of results of operations of the investees for the nine-month periods ended September 30, 2011 and 2010, follows:

<i>(in millions of Korean won)</i>	2011			2010		
	Sales	Cost of sales	Net Income(loss)	Sales	Cost of sales	Net Income(loss)
Siliconfile Technologies Inc.	58,761	(48,258)	(803)	54,605	(47,976)	(6,456)
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	286,699	(246,438)	16,695	204,112	(171,833)	9,732
Total	345,460	(294,696)	15,892	258,717	(219,809)	3,276

13. Credit Risk of Financial Instruments

The aging analysis of trade receivables and loans and other receivables as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011					
	Within due	Over due			Impaired	Total
		Less than 3 months	Over 3 months or less than 6 months	Over 6 months		
Trade receivables	1,611,632	1,883	437	138	1,104	1,615,194
Current loans and other receivables	229,305	-	-	-	4,502	233,807
Non-current loans and other receivables	39,567	-	-	-	12,649	52,216
Total	1,880,504	1,883	437	138	18,255	1,901,217

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<i>(in millions of Korean won)</i>	December 31, 2010					
	Within due	Over due			Impaired	Total
		Less than 3 months	Over 3 months or less than 6 months	Over 6 months		
Trade receivables	1,605,872	1,163	316	121	1,546	1,609,018
Current loans and other receivables	167,951	-	-	-	4,521	172,472
Non-current loans and other receivables	93,185	-	-	-	12,621	105,806
Total	1,867,008	1,163	316	121	18,688	1,887,296

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of September 30, 2011, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 36 million (December 31, 2010: ₩ 47 million) which will be paid upon request of warrantee as mentioned in Note 37.

The Group has an export sales insurance contract with Korea Trade Insurance Corporation and holds the counterparty's collateral as security.

14. Financial Instruments by Categories

Details of financial assets by categories as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011				
	Assets at fair value through the profit and loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Cash and cash equivalents	-	-	-	1,407,276	1,407,276
Short-term financial assets	-	-	-	587,678	587,678
Other financial assets	603	-	1	326	930
Trade receivables	-	-	-	1,611,537	1,611,537
Other receivables	-	-	-	268,557	268,557
Available-for-sale financial assets	-	41,722	-	-	41,722
Total	603	41,722	1	3,875,374	3,917,700

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December 31, 2010					
<i>(in millions of Korean won)</i>	Assets at fair value through the profit and loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Cash and cash equivalents	-	-	-	1,253,226	1,253,226
Short-term financial assets	-	-	-	948,476	948,476
Other financial assets	7,695	-	1	389	8,085
Trade receivables	-	-	-	1,604,952	1,604,952
Other receivables	-	-	-	260,777	260,777
Available-for-sale financial assets	-	57,044	-	-	57,044
Total	7,695	57,044	1	4,067,820	4,132,560

Details of financial liabilities by categories as of September 30, 2011 and December 31, 2010, are as follows:

September 30, 2011			
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Total
Trade payables	-	697,993	697,993
Other payables	-	557,030	557,030
Other non-trade payables	-	454,857	454,857
Borrowings	-	7,062,632	7,062,632
Other financial liabilities	58,381	-	58,381
Total	58,381	8,772,512	8,830,893

December 31, 2010			
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Total
Trade payables	-	875,174	875,174
Other payables	-	649,797	649,797
Other non-trade payables	-	727,528	727,528
Borrowings	-	6,041,105	6,041,105
Other financial liabilities	59,768	-	59,768
Total	59,768	8,293,604	8,353,372

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Details of gain and loss of financial assets and liabilities by categories for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Loans and receivables				
Interest income	13,990	41,680	17,745	49,648
Foreign exchange difference	161,350	45,977	(158,866)	(22,663)
Impairment reversal	228	852	338	33
Sub total	175,568	88,509	(140,783)	27,018
Available-for-sale				
Other comprehensive income	(5,011)	(17,774)	(5,314)	(12,632)
Gain or loss on disposal	-	-	-	617
Interest income	-	785	-	-
Dividend income	-	45	500	687
Sub total	(5,011)	(16,944)	(4,814)	(11,328)
Assets at fair value through the profit and loss				
Gain(loss) on valuation of derivatives	(4,020)	(7,092)	1,431	3,407
Gain on derivative transactions	-	3,865	-	-
Sub total	(4,020)	(3,227)	1,431	3,407
Liabilities measured at amortized cost				
Interest expense	(68,849)	(229,930)	(83,923)	(264,573)
Loss on redemption of debenture	-	-	-	(27,266)
Foreign exchange difference	(376,196)	(148,713)	207,241	61,179
Sub total	(445,045)	(378,643)	123,318	(230,660)
Liabilities at fair value through the profit and loss				
Gain(loss) on valuation of derivatives	29,497	928	36,804	65,677
Gain on derivative transactions	2,787	11,008	1,431	3,072
Sub total	32,284	11,936	38,235	68,749
Total	(246,224)	(298,369)	17,387	(142,814)

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15. Property, Plant and Equipment

Details of changes in property, plant and equipment during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011							Total
	Land	Buildings	Structures	Machinery	Vehicles	Others	CIP	
At January 1								
Cost	463,515	1,619,522	438,070	22,381,802	2,973	570,115	514,274	25,990,271
Accumulated depreciation	-	(372,423)	(244,835)	(14,025,954)	(2,251)	(419,287)	-	(15,064,750)
Accumulated impairment	-	(23,877)	(19,931)	(279,223)	-	(2,886)	-	(325,917)
Government grants	-	-	-	(9,024)	-	-	-	(9,024)
Net book amount	463,515	1,223,222	173,304	8,067,601	722	147,942	514,274	10,590,580
Nine-month period ended September 30								
Additions	-	55	9	2,836	-	878	2,938,179	2,941,957
Disposals	-	(41)	-	(6,757)	(1)	(176)	-	(6,975)
Depreciation charge	-	(34,187)	(18,256)	(2,468,315)	(234)	(48,638)	-	(2,569,630)
Transfers	-	28,582	24,866	2,887,683	(1)	50,166	(2,985,001)	6,295
Exchange differences	424	14,327	6,713	174,114	14	870	4,362	200,824
Closing net book amount	463,939	1,231,958	186,636	8,657,162	500	151,042	471,814	11,163,051
At September 30								
Cost	463,939	1,667,160	471,592	25,733,018	2,971	624,776	471,814	29,435,270
Accumulated depreciation	-	(411,325)	(264,968)	(16,777,198)	(2,471)	(470,818)	-	(17,926,780)
Accumulated impairment	-	(23,877)	(19,988)	(290,004)	-	(2,916)	-	(336,785)
Government grants	-	-	-	(8,654)	-	-	-	(8,654)
Net book amount	463,939	1,231,958	186,636	8,657,162	500	151,042	471,814	11,163,051

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<i>(in millions of Korean won)</i>	2010							Total
	Land	Buildings	Structures	Machinery	Vehicles	Others	CIP	
At January 1								
Cost	453,220	1,759,430	516,315	20,798,906	2,581	530,725	211,443	24,272,620
Accumulated depreciation	-	(358,351)	(299,666)	(12,494,331)	(2,002)	(370,011)	-	(13,524,361)
Accumulated impairment	-	(23,877)	(60,501)	(362,726)	-	(4,416)	-	(451,520)
Government grants	-	-	-	(9,773)	-	-	-	(9,773)
Net book amount	453,220	1,377,202	156,148	7,932,076	579	156,298	211,443	10,286,966
Nine-month period ended September 30								
Additions	-	185	4	862	291	1,331	2,543,017	2,545,690
Disposals	-	(11,689)	-	(8,713)	(9)	(1,258)	-	(21,669)
Depreciation charge	-	(34,275)	(17,936)	(2,192,265)	(280)	(49,748)	-	(2,294,504)
Transfers	10,594	(86,516)	33,889	1,996,125	135	24,010	(1,965,307)	12,930
Exchange differences	(266)	(545)	(96)	(4,290)	3	(38)	(103)	(5,335)
Closing net book amount	463,548	1,244,362	172,009	7,723,795	719	130,595	789,050	10,524,078
At September 30								
Cost	463,548	1,631,498	551,564	21,315,232	2,882	540,556	789,050	25,294,330
Accumulated depreciation	-	(363,259)	(319,400)	(13,294,545)	(2,163)	(406,580)	-	(14,385,947)
Accumulated impairment	-	(23,877)	(60,155)	(287,681)	-	(3,381)	-	(375,094)
Government grants	-	-	-	(9,211)	-	-	-	(9,211)
Net book amount	463,548	1,244,362	172,009	7,723,795	719	130,595	789,050	10,524,078

The depreciation expense of ₩ 26,523 million (2010: ₩ 3,251 million) has been capitalized as development cost for the nine-month period ended September 30, 2011.

Certain amount of the property, plant and equipment are pledged as collateral for borrowings of the Group as of September 30, 2011 (Note 37).

Capitalized financial costs relating to the additions of the property, plant and equipment for the nine-month period ended September 30, 2011, amount to ₩ 26,450 million (2010: ₩ 16,470 million).

Finance Lease Liabilities

The Group leases machinery and others from HP Financial Service Co., Ltd. under sales and leaseback, agreements. The Group also leases machinery and others from GE Capital under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 452,683 million (2010: ₩ 484,510 million) as of September 30, 2011. The machinery are pledged as collateral relating to finance lease liabilities.

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Payment schedule of minimum lease payments under financial lease as of September 30, 2011, is as follows:

<i>(in millions of Korean won)</i>	Repayment of principal	Interest expenses	Total payment
No later than 1 year	105,881	25,797	131,678
Later than 1 year and no later than 5 years	166,010	93,335	259,345
Later than 5 years	184,520	17,226	201,746
Total	456,411	136,358	592,769

Operating Lease

The Group leases machinery and others from GE Capital and Macquarie Capital under operating lease agreements. The payment schedule of minimum lease payments under operating leases as of September 30, 2011, is as follows:

<i>(in millions of Korean won)</i>	September 30, 2011
No later than 1 year	28,761
Later than 1 year and no later than 5 years	12,798
Total	41,559

Insured Assets

As of September 30, 2011, inventories and certain property, plant and equipment are insured as follows:

<i>(in millions of Korean won)</i>	Insured assets	Total coverage	Insurance company
Other casualty losses	Property, plant and equipment Inventories and other	30,100,700	Hyundai Marine & Fire
Fire Insurance	Property, plant and equipment, investment property	7,750	Insurance Co.,Ltd.
Total		30,108,450	

The insurance policies of the Group have been provided to the Korea Exchange Bank and other creditors as collaterals for borrowings as of September 30, 2011.

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16. Investment Property

Details of changes in investment property during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011			
	Land	Buildings	Structures	Total
At January 1				
Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(17,700)	(1,793)	(19,493)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	3,439	33,747	-	37,186
Nine-month period ended September 30				
Disposal	(84)	-	-	(84)
Depreciation charge	-	(986)	-	(986)
Closing net book amount	3,355	32,761	-	36,116
At September 30				
Cost	3,355	55,195	2,571	61,121
Accumulated depreciation	-	(18,686)	(1,793)	(20,479)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	3,355	32,761	-	36,116

<i>(in millions of Korean won)</i>	2010			
	Land	Buildings	Structures	Total
At January 1				
Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(16,385)	(1,793)	(18,178)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	3,439	35,062	-	38,501
Nine-month period ended September 30				
Depreciation charge	-	(986)	-	(986)
Closing net book amount	3,439	34,076	-	37,515
At September 30				
Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(17,371)	(1,793)	(19,164)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	3,439	34,076	-	37,515

The depreciation expense of ₩ 986 million (2010: ₩ 986 million) has been charged in the comprehensive income statement for the nine-month period ended September 30, 2011.

For the nine-month period ended September 30, 2011, the rental income earned from the investment property amounted to ₩ 3,615 million (2010: ₩ 3,476 million).

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Among costs associated with research and development activities, ₩ 128,378 million (2010: ₩ 31,294 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the nine-month period ended September 30, 2011. However, other development expenditures that did not meet the criteria amounted to ₩ 617,349 million (2010: ₩ 642,724 million) were recognized as an expense as incurred in the comprehensive income statement for the nine-month period ended September 30, 2011.

18. Non-current assets held for sale

Details of changes in non-current assets held for sale during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	53,204	162,416
Transfer ¹	(6,308)	(13,178)
Disposal	(7,436)	(106,636)
Impairment	-	(7,390)
Reversal of impairment	-	30,153
Other	1,019	(958)
At September 30	40,479	64,407

¹Non-current assets held for sale were transferred to the property, plant and equipment as these assets were no longer held for sale as of September 30, 2011.

19. Other Non-trade Payables

Details of other non-trade payables as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Accrued expenses	331,847	494,635
Sub total	331,847	494,635
Non-current		
Long-term other payables	95,523	121,374
Long-term accrued expense	2,874	74,739
Rent deposit payables	24,613	36,780
Sub total	123,010	232,893
Total	454,857	727,528

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20. Borrowings

The carrying amounts of borrowings as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Short-term borrowings	1,519,137	511,389
Current maturities of debentures	499,770	549,669
Current maturities of convertible bonds	-	491,329
Current maturities of long-term borrowings	1,033,012	1,025,320
Sub total	<u>3,051,919</u>	<u>2,577,707</u>
Non-current		
Long-term borrowings	1,491,955	1,758,692
Debentures	1,503,881	1,186,628
Convertible bonds	1,014,877	518,078
Sub total	<u>4,010,713</u>	<u>3,463,398</u>
Total	<u>7,062,632</u>	<u>6,041,105</u>

Short-term borrowings as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Financial Institutions	Annual Interest Rate(%) at September 30, 2011	September 30, 2011	December 31, 2010
Usance borrowings	Korea Development Bank and other	0.66 ~ 5.92	916,932	271,693
Borrowings on Trade receivables collateral	Shinhan Bank and other	3M Libor + 1.35~3.65	428,344	-
	Agricultural Bank of China and other	3.07~4.31	64,441	159,938
Refinancing	China Construction Bank and other	3.16~3.24	38,650	11,424
Borrowings on import financing	Export Import of Korea	3M Libor+1.96~2.40	70,770	68,334
Total			<u>1,519,137</u>	<u>511,389</u>

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Long-term borrowings as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Financial Institutions	Annual Interest Rate(%) at September 30, 2011	September 30, 2011	December 31, 2010
Local currency loans				
Funds for equipment	Kookmin Bank	5.20	40	46
Funds for equipment	Kookmin Bank	CD(91days)+2.00	19,286	38,571
Borrowings for childcare facilities	NH Bank	2.00	308	308
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures(1year)+1.6	150,000	200,000
Finance lease liabilities	HP Financial Services Co., Ltd.	5.80~6.49	2,308	5,898
Security purchase	NH, Hana, Dongyang Bank	-	-	46,600
Sub total			171,942	291,423
Foreign currency loans				
General borrowings	Export Import Korea Bank	-	-	203,104
General borrowings	NH Bank	3M Libor + 0.69	39,284	75,893
General borrowings	SC First Bank ¹	3M Libor + 3.00~3.90	172,207	56,945
General borrowings	Korea Development Bank	3M Libor + 3.24	117,950	-
General borrowings	Hana Bank	3M Libor + 3.10	53,077	-
Syndicated loans	Korea Exchange Bank	3M Libor + 1.90	424,620	478,338
Mortgage loans	HITECH	8.13~15.73	338,690	401,821
Finance lease liabilities	GE Capital	5.7~7.16	64,727	127,774
Syndicated loans	Agricultural Bank of China and other	1.75~3.31	792,038	557,498
General borrowings	Development Bank of Singapore	-	-	285,604
Finance lease liabilities	Lian Xian	6.12	389,375	369,803
General borrowings	Comerica Bank	6.48	38,821	38,065
Other	Other	10.65	1	13
Sub total			2,430,790	2,594,858
Total			2,602,732	2,886,281
Less: Discount on present value			(77,765)	(102,269)
Current maturities			(1,033,012)	(1,025,320)
Long-term borrowings			1,491,955	1,758,692

¹The Group entered into interest swap contracts with SC First bank for the interest on the foreign currency loans.

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Debentures as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Maturity Date	Annual Interest Rate(%) at September 30,2011	September 30, 2011	December 31, 2010
Unsecured notes in local currency:				
202nd ¹	May 25, 2012	5.70	150,000	150,000
203rd	Sep. 05, 2012	6.19	150,000	150,000
205th	Feb. 15, 2011	-	-	150,000
206th	May 15, 2011	-	-	200,000
208th	Oct. 06, 2011	7.90	200,000	200,000
209th	Sep. 09, 2013	6.35	300,000	300,000
210th	Jan. 14, 2015	6.35	200,000	-
211th	May 05, 2016	6.20	400,000	-
Unsecured notes in foreign currency				
Foreign 5th ²	June 27, 2017	7.88	589,750	569,450
Secured debenture	Feb. 20, 2012	-	-	50
Sub total			1,989,750	1,719,500
Add: Adjust embedded derivatives ²			21,712	23,060
Less: Discount on debentures			(7,811)	(6,263)
Current maturities			(499,770)	(549,669)
Debentures			1,503,881	1,186,628

¹The Group entered into interest swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank for the principal and interest of the foreign currency loans.

²Hybrid financial instruments in which callable options (early settlement options) are accounted for as embedded derivatives.

Convertible bonds as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Maturity Date	Annual Interest Rate(%) at September 30, 2011	September 30, 2011	December 31, 2011
Convertible bond in local currency				
207th	Sep. 05, 2013	3.00	440,741	484,964
Convertible bond in foreign currency				
Foreign 6th	Dec. 14, 2012	4.50	42,108	40,659
Foreign 7th	May 14, 2015	2.65	589,750	569,450
Sub total			1,072,599	1,095,073
Add: Call premium on bonds			70,991	78,114
Less: Conversion rights adjustment			(119,323)	(151,941)
Discount on bonds			(9,390)	(11,839)
Current maturities			-	(491,329)
Convertible bonds			1,014,877	518,078

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Detailed terms and conditions of conversion rights of convertible bonds as of September 30, 2011, are as follows:

	Details		
	Local 207th	Foreign 6th	Foreign 7th
Face value of convertible bond	KRW 440,741,000,000	USD 35,700,000	USD 500,000,000
Convertible rate at face value	100%	100%	100%
Conversion term	Par value of ₩23,328	Par value of ₩ 35,862 (KRW 919.9/USD)	Par value of ₩ 34,394 (KRW 1,133.8/USD)
Number of convertible shares	18,893,000 shares	916,000 shares	16,483,000 shares
Convertible periods	Oct.5,2008~Aug.5,2013	Dec.14,2008~Nov.29,2012	May 15,2011~Apr.28,2015
Deemed exercise date	The first date of year of conversion	The first date of year of conversion	The first date of year of conversion

21. Provisions

Changes in provisions during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		
	Sales returns	Legal claims	Total
At January 1	14,275	517,848	532,123
Addition	-	20,088	20,088
Reversal and utilization	(11,044)	(210,854)	(221,898)
Foreign exchange difference and other	-	81,789	81,789
At September 30	3,231	408,871	412,102

<i>(in millions of Korean won)</i>	2010		
	Sales returns	Legal claims	Total
At January 1	11,872	634,550	646,422
Addition	5,158	2,169	7,327
Reversal and utilization	-	(89,058)	(89,058)
Foreign exchange difference and other	-	(11,951)	(11,951)
At September 30	17,030	535,710	552,740

Provisions for sales returns

The Group estimates the expected sales returns based on historical results, and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses are recorded as provisions for sales returns.

Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 37).

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22. Other Financial Liabilities

Details of other financial liabilities as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Derivative liabilities (Note 38)	50,466	4,805
Non-current		
Derivative liabilities (Note 38)	7,915	54,963
Total	58,381	59,768

23. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Deferred income	2,774	2,928
Withholdings	19,933	29,103
Deposits received	921	357
Advance receipts	64,671	174,299
Income tax payable	16,155	8,588
Other	30	43
Sub total	104,484	215,318
Non-current		
Long-term withholdings	3,984	3,776
Other long-term employee benefit liabilities	31,884	27,307
Provisions	118	-
Sub total	35,986	31,083
Total	140,470	246,401

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24. Defined Benefit Liabilities

Defined benefit liabilities recognized in the statements of financial position as of September 30, 2011 and December 31, 2010, are determined as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Present value of obligations	404,288	372,296
Fair value of plan assets	(12,619)	(13,234)
Liability in the statement of financial position	391,669	359,062

The amounts recognized in the comprehensive income statements for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three Months	Nine Months	Three Months	Nine Months
Current service cost	16,312	48,928	12,951	38,889
Interest cost	6,220	18,661	5,365	16,095
Expected return on plan assets	(135)	(406)	(155)	(468)
Total expenses	22,397	67,183	18,161	54,516

The line items, in which severance benefits are included for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three Months	Nine Months	Three Months	Nine Months
Cost of sales (manufacturing costs)	13,799	41,115	11,265	33,318
Selling, administrative and ordinary development expenses	8,598	26,068	6,896	21,198
Total expenses	22,397	67,183	18,161	54,516

The actuarial losses recognized as other comprehensive income for the nine-month period ended September 30, 2011, amount to ₩ 39 million (2010: ₩ 46 million), and cumulative actuarial losses recognized as other comprehensive income as of September 30, 2011, amount to ₩ 57,459 million.

As of September 30, 2011, the Group funded at approximately 2.58% of the total retirement benefit obligations through an insurance plan with Samsung Insurance Co., Ltd. and Korea Life Insurance Co., Ltd.

Changes in the defined benefit obligations for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	372,296	291,558
Current service cost	48,928	38,889
Interest expense	18,661	16,095
Benefits paid	(35,736)	(40,035)
Actuarial gain(loss)	-	-
Other	139	25
At September 30	404,288	306,532

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Changes in the fair value of plan assets for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	13,234	13,496
Expected return on plan assets	406	468
Benefits paid	(988)	(1,527)
Actuarial gains(losses)	(39)	(46)
Other	6	560
At September 30	12,619	12,951

The actual return on plan assets for the nine-month period ended September 30, 2011, was ₩ 272 million (2010: ₩ 471 million).

The principal actuarial assumptions used as of September 30, 2011 and December 31, 2010, were as follows:

	September 30, 2011	December 31, 2010
Future salary increase	4.25%~5.70%	4.25%~5.70%
Discount rate	1.77%~6.93%	1.77%~7.50%
Expected rate of return ¹	2.48%~6.67%	4.74%~5.84%

¹Expected rate of return of plan assets is calculated by weighted average of actual rate of return.

Plan assets as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Deposits	4,553	10,863
Other	8,066	2,371
Total	12,619	13,234

25. Share Capital and Capital Surplus

Details of share capital and capital surplus as of September 30, 2011, are as follows:

(in thousands of shares, except for par value and paid-in capital)

Authorized shares	Outstanding shares	Outstanding shares after the merger of shares¹	Par value	Paid in capital
9,000,000	5,586,149	595,700	₩ 5,000	₩ 2,978,498 million

¹As of September 30, 2011, the actual number of shares which the shareholders own is 592,172 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

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Changes in share capital and capital surplus during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	Total owned shares	Paid in Capital	Capital Surplus			Total
		Share capital	Share premium	Conversion right consideration	Other	
At January 1, 2010	589,638	2,965,833	633,028	76,985	528,076	4,203,922
Exercise of conversion rights	635	3,176	12,477	(1,164)	-	14,489
Exercise of stock options	3	13	7	-	-	20
Effect of changes in Subsidiaries' interests ¹	-	-	-	-	(58,073)	(58,073)
At September 30, 2010	590,276	2,969,022	645,512	75,821	470,003	4,160,358
At January 1, 2011	590,277	2,969,023	645,513	75,821	473,692	4,164,049
Exercise of conversion rights	1,895	9,475	39,664	(3,471)	-	45,668
Others ²	-	-	-	-	(240)	(240)
At September 30, 2011	592,172	2,978,498	685,177	72,350	473,452	4,209,477

¹ The changes in ownership interests that did not result in a loss of control over a subsidiary and resulted from transactions (Issue of share capital, acquisition of non-controlling interests) of the shares of HSCL.

² Transaction costs directly related to acquisition of non-controlling interests.

In accordance with the Articles of Incorporation, shares can be retired to distribute dividends to the shareholders, and the total of number of shares retired as of September 30, 2011, is 3,528 thousand shares.

26. Retained Earnings

Retained earnings as of September 30, 2011 and December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Legal reserve ¹	8,854	-
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	3,678,800	3,592,997
Total	3,923,160	3,828,503

¹The Commercial Code of the Republic of Korea requires the Parent Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Parent company's majority shareholders.

²Discretionary reserve is a reserve for technology development.

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27. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Gain(loss) arising on revaluation of available-for-sale financial assets	(13,883)	2,470
Changes of equity arising from equity-method investments	1,773	(2,033)
Cumulative effect of foreign currency translation adjustments	140,584	(23,579)
Total	128,474	(23,142)

28. Dividends

Dividend distribution to the Parent Company's shareholders amounted to ₩ 88,541 million for the year ended December 31, 2010. The dividends were paid in April 2011.

29. Classification of Operating Income

Material items included in operating income

Other operating income and expenses are considered in calculating operating income under Korean IFRS. Other operating income and expenses were not included in calculating operating income under K-GAAP. Additional information of other operating income and expenses are described in Notes 31 and 32.

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30. Expenses by Nature

Expenses that are recorded as cost of sales, selling, administration and ordinary development expenses and other operating expenses in the comprehensive income statements for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Changes in inventories of finished goods and work in process	(4,520)	(2,264)	(107,255)	(179,291)
Raw materials and consumables used	610,209	1,779,456	552,282	1,588,036
Employee benefit expenses	304,891	932,666	363,453	1,020,124
Depreciation, amortization and impairment	908,596	2,605,691	846,045	2,315,113
Royalty expense	51,465	124,196	32,855	98,182
Commission expense	85,731	255,126	79,381	260,248
Utilities expense	108,858	307,284	98,613	272,399
Repair expense	200,700	646,107	201,795	519,434
Outsourcing expense	210,455	624,865	202,164	501,421
Other	120,917	320,276	77,717	401,901
Total	2,597,302	7,593,403	2,347,050	6,797,567

Employee-related expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Wages and salaries	268,635	791,001	326,382	907,167
Defined benefits	22,397	67,183	18,161	54,516
Other long-term employee benefits	1,447	7,167	1,968	5,131
Social security costs and other	12,412	67,315	16,942	53,310
Total	304,891	932,666	363,453	1,020,124

31. General Operating Expenses(Selling, administration and ordinary development expenses)

General operating expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Salaries	44,484	131,511	51,213	142,484
Severance benefits	3,534	10,640	2,934	8,699
Employee benefits	12,988	36,940	10,105	27,596
Commission expense	35,872	105,570	34,210	127,133
Depreciation	13,804	42,095	13,179	42,193
Amortization	16,258	34,551	3,819	11,164
Research and development	221,782	617,349	225,063	642,724
Exporting expense	5,817	19,134	4,810	13,564
Legal cost	10,575	25,873	8,711	26,818
Rental expense	3,739	10,886	4,201	12,403
Taxes and dues	1,864	6,382	2,369	6,286
Other	29,535	81,988	23,800	72,058
Total	400,252	1,122,919	384,414	1,133,122

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32. Other Operating Income and Expense

Other operating income for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Rental income	4,368	12,917	4,354	12,797
Gain on disposal of assets held-for-sale	138	6,440	2,338	10,382
Gain on disposal of property, plant and equipment	737	820	3,197	26,141
Gain on disposal of intangible assets	9,352	9,353	-	-
Other	14,843	214,180	9,431	74,411
Total	29,438	243,710	19,320	123,731

Other operating expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Loss on disposal of assets held-for-sale	328	6,945	1,430	34,656
Loss on disposal of property, plant and equipment	2,261	2,342	160	2,764
Loss on disposal of intangible assets	1,900	3,415	944	2,589
Donation	124	1,250	327	1,440
Loss on disposal of trade receivables	377	1,112	292	935
Amortization of suspended assets	3,574	11,373	7,060	25,531
Other	5,807	21,974	14,329	51,871
Total	14,371	48,411	24,542	119,786

The other operating income and expenses, included in calculating the operating income during the nine-month periods ended September 30, 2011 and 2010, were not included in calculating the operating income under the previous accounting standard (K-GAAP).

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33. Finance Income, Finance Expenses and other non-operating expenses

Details of finance income and expenses recognized in the comprehensive income statements for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Finance income:				
Interest income	13,990	42,465	17,745	49,648
Dividend income	-	45	500	687
Foreign exchange differences	295,771	471,867	320,061	597,312
Gain from derivative instruments	65,134	39,870	39,665	78,076
Other	-	-	-	617
Total Finance income	374,895	554,247	377,971	726,340
Finance expense:				
Interest expenses	68,849	229,930	83,923	264,573
Foreign exchange differences	545,407	579,625	186,799	544,746
Loss from derivative instruments	36,871	31,160	-	5,920
Loss on redemption of debentures	-	-	-	27,266
Total Finance expense	651,127	840,715	270,722	842,505
Net finance income (expense)	(276,232)	(286,468)	107,249	(116,165)

The Group has filed a lawsuit against certain officers of the former management seeking damages due to mismanagement in the past. In 2010, the High Court returned a verdict against the defendants and awarded the Group damages. During the nine-month period ended September 30, 2011, the Supreme Court partially reversed the previous decision issued by High Court, and the case has been remanded for rehearing in the High Court. As a consequence, the Group paid ₩ 11,392 million to the defendants and, recorded as other non-operating expenses during the nine-month period ended September 30, 2011.

34. Income Tax Expense

The income tax expense (benefit) was recognized in the statements of comprehensive income based on the expected annual tax rate.

35. Earnings per Share

Basic earnings per share is calculated by dividing the profit(loss) attributable to shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the three-month and nine-month periods ended September 30, 2011 and 2010.

<i>(in millions of Korean won except for shares and per share amounts)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Profit(loss) attributable to ordinary shareholders	(561,100)	183,252	1,054,248	2,601,945
Weighted average number of ordinary shares outstanding	592,171,582	592,171,582	590,276,439	590,275,660
Basic earnings(loss) per share	(948)	309	1,786	4,408

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Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent company has two categories of dilutive potential ordinary shares: convertible bond and share options. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Parent company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

<i>(in millions of Korean won except for shares and per share amounts)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Profit(loss) attributable to ordinary shares	(561,100)	183,252	1,054,248	2,601,945
Add : Convertible bond related costs	-	-	(41,200)	(16,486)
Adjusted profit attributable to ordinary shares	(561,100)	183,252	1,013,048	2,585,459
Adjusted weighted average number of ordinary shares outstanding ¹	592,171,582	592,221,552	628,788,793	628,389,638
Diluted earnings(loss) per share	(948)	309	1,611	4,114

¹Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

<i>(in shares)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Weighted average number of ordinary shares outstanding	592,171,582	592,171,582	590,276,439	590,275,660
Dilutive potential ordinary shares				
- Convertible bond	-	-	38,512,354	38,093,741
- Share options	-	49,970	-	20,237
Adjusted weighted average number Of ordinary shares outstanding	592,171,582	592,221,552	628,788,793	628,389,638

36. Related Party Transactions

Significant transactions for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Sales	Purchases	Sales	Purchases
Associates	25,776	478	22,017	67
Jointly controlled entities	723	306,537	519	237,552
Total	26,499	307,015	22,536	237,619

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The balances of significant transactions as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	Receivables	Payables	Receivables	Payables
Associates	7,362	28	5,425	-
Jointly controlled entities	4,955	306,148	3,723	328,691
Total	12,317	306,176	9,148	328,691

Key management compensation

Key management includes the chief executive officer, 14 subsidiary's executives, 38 directors, 13 internal auditors and 43 others. The compensation paid to key management for the nine-month periods ended September 30, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	Details	2011	2010
Short-term employee benefits	Wages, salaries, bonus and other	15,500	12,324
Post-employment benefits	Retirement payment and other	1,844	1,313
Other long-term benefits	Long-term employment allowance	1	13
Total		17,345	13,650

37. Commitments and contingencies

Special agreement with Creditor Financial Institutions' Council

On July 12, 2005, the Creditor Financial Institutions ("Creditor Council") operational control over the Parent Company since October 4, 2001, was terminated by entering into a special agreement between the Parent Company and the Share Management Council (formerly the Creditor Council). Under the special agreement, the Parent Company is required to consult with the Share Management Council in advance on events that could have significant influence on the Parent Company' 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 governance structures. The special agreement remains in effect until the members of the Share Management Council substantially sell their equity interests in the Parent Company (Note 42).

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

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Anti-Trust Act

In June 2002, the United States Department of Justice (“DOJ”) notified the Group that the DOJ had commenced an investigation whether 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 Group entered into a plea agreement with the DOJ to pay a fine in the amount of US\$ 185 million in instalments over the next five years without interest. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages for the breach of the US Anti-trust Act by the Parent Company and Hynix Semiconductor America Inc. (“HSA”), its sales subsidiary located in the United States.

In relation to the lawsuits, the Group reached settlements through separate negotiations with the direct purchaser classes and individual companies. Also, in November 2010, the Group reached settlements with the indirect purchaser classes to pay US\$ 50 million.

Meanwhile, as of September 30, 2011, lawsuits filed by the indirect purchaser classes against the manufactures, including the Group, in connection with Flash memory are pending in the US courts. In addition, civil suits filed by the direct and indirect purchaser classes of three provinces in Canada in connection with DRAM, SRAM and Flash memory are also pending.

As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group’s consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements’ current expectation in relation to such uncertainty.

Group’s pending litigations as of September 30, 2011

(a) Litigation filed by Rambus

The Group is a defendant in litigations brought by Rambus Inc. (“Rambus”), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus’ patents by the Group’ 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 litigations have 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 Group in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United Kingdom was dismissed, the litigation in France ceased further proceedings, and the litigation in Germany has been deferred without any progress.

Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the judgment that ordered the Group to pay for damages for the infringement of Rambus’ patents and to pay royalties of 1% for SDR SDRAM products and 4.25% for DDR SDRAM products manufactured or sold in the United States from February 1, 2009 to April 17, 2010. The Group appealed the court’s final judgment to the United States Court of Appeals for the Federal Circuit on April 6, 2009.

The United States District Court for the Northern District of California accepted the Group’s motion to stay the execution of the final judgment and ruled that such execution should be stayed on the condition that the Group post a bond and provide part of its Cheong-ju plant in Korea as a collateral while the Group pursues the filing of the appeal at the United States Court of Appeals for

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the Federal Circuit. This ruling prevents Rambus from seeking to collect its damages while the appeal is pending. However, considering the improvement in the Group's financial condition, the United States District Court for the Northern District of California ordered to provide additional payment guarantee instead of providing part of its Cheong-ju plant in Korea as a collateral. In connection with this ruling, the Korea Development Bank and other banks provided payment guarantee in the amount of US\$ 400 million for the Group.

On May 13, 2011, the United States Court of Appeals annulled the original judgment issued by the United States District Court for the Northern District of California and the case has been remanded for rehearing. The Court of Appeals' ruling showed that Rambus illegally destroyed relevant evidences and ordered the District Court to review whether there was a bad faith in Rambus' illegal act of destroying the evidences and it has prejudiced the Group's defense claim, and to take relevant actions after the review. If the judgment issued in May 2011 by the Court of Appeals is not revoked by the rehearing or Supreme Court in the future, the US\$ 400 million of payment guarantee provided by the Korea Development Bank and other banks will be withdrawn and the royalty attributable to the period from February 1, 2009 to April 17, 2010, which is deposited in an escrow account of HSA, will be released.

Separately, Rambus also brought another lawsuit against the Group and its US subsidiary by alleging that the Group and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. In addition, Rambus filed a lawsuit against the Group together with its US subsidiary, and other major memory chip manufacturers alleging that the defendants precluded Rambus' DRAM products from entering the market and the trial started on June 15, 2011. As of September 30, 2011, the jury was still deliberating on the case.

As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

(b) Lawsuit from Hyundai Heavy Industries Co., Ltd. ("HHI")

On July 24, 1997, the Group sold 13 million shares of Hyundai Investment & Securities Co., Ltd. ("HIS") to Canadian Imperial Bank of Commerce ("CIBC"). In relation to this transaction, HHI entered into a share option agreement with CIBC in which HHI was obligated to buy back the 13 million shares of HIS if CIBC exercised its put option. In return, the Group and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Group, 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 Group would not suffer any legal or economic losses in connection with the above transaction. Upon CIBC's exercise of its put option, HHI repurchased the shares and requested approximately US\$ 220 million of compensation for damage which is equivalent to the repurchase price to the Group and HSC.

However, the Group rejected the request by asserting that the Group was not a party connected directly to the transaction between HHI and CIBC and the comfort letter was not a legal guarantee. In response, on July 28, 2000, HHI sued the Group, HSC and the former CEO of HSC at the Seoul Central District Court.

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In January 2002, the court rendered a ruling that the Group, HSC and the former CEO of HSC jointly and severally pay 70% of the claim amount (₩ 171,822 million) and interest thereon to HHI. In 2004, the Group paid HHI ₩ 123,677 million, which represented the estimated portion of its share of compensation pursuant to the ruling and interest thereon. However, the Group made an appeal to the Seoul High Court on February 15, 2002, and on June 14, 2006, the court rendered a ruling that the Group and HSC should pay approximately 80% of the claim amount (₩ 192,942 million).

With respect to the revised ruling, the Group paid HHI an additional amount of ₩ 1,926 million for the estimated portion of its share of compensation, including interest. The Group further contested this case by making an appeal to the Supreme Court of Korea on June 30, 2006, and in a third ruling, the Supreme Court upheld the second ruling in part for HSC and the former CEO of HSC. The Supreme Court, however, reversed and remanded the second ruling for the Group on the grounds that the Group has the expense reimbursement obligation to HHI. On August 21, 2009, the Seoul High Court rendered a ruling that the Group should pay ₩ 167,219 million and related interest after deducting payments previously made by HSC, recognizing the obligation based on the comfort letter provided by the Group. Subsequently, the Group paid ₩ 86,226 million, in addition to the payments the Group already made to HHI pursuant to the first and second rulings.

HHI, however, made another appeal to the Supreme Court of Korea on September 10, 2009, claiming additional compensation of ₩ 13,136 million, and the litigation mentioned above is in progress. As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

In addition, HHI initiated a separate lawsuit in December 2004 seeking the Group, HSC and the former CEO of HSC to compensate for the taxes levied on HHI and any related losses incurred by HHI amounting to ₩ 50,303 million in connection with HHI's repurchase of shares. As a result of the litigation described above, the Seoul Central District Court rendered its ruling on October 22, 2009, that the Group, HSC and the former CEO of HSC jointly and severally shall pay the total amount of compensation and related interest. Subsequently, the Group and HSC paid ₩ 73,692 million pursuant to the first ruling.

However, the Group appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Group and HSC should only pay ₩ 48,770 million and related interest. The Group is still deciding whether to appeal to a higher court after reviewing the ruling of the Seoul High Court.

As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

(c) Lawsuit against Hyundai Securities Co., Ltd. ("HSC")

On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against the Group at the Seoul Central District Court with respect to the lawsuit described above, seeking the Group to pay

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₩ 99,172 million and interest to HSC on the grounds that the Group has the ultimate expense reimbursement obligation.

As a result of the lawsuit, on December 17, 2010, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HSI. The Group made a provisional payment amounting to ₩ 160,724 million to HSC and appealed to the Seoul High Court on January 7, 2011. On September 28, 2011, the Seoul High Court rejected the Group's appeal by stating that the Group was liable to HSC as ruled by the Seoul Central District Court. Thus, the Group will appeal to the Supreme Court.

As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements.

Separately, the Group filed a lawsuit against the HSC at the Seoul Central District Court in connection with the agreed payment claim of ₩ 211,829 million and interest on the grounds that HSC provided the Group with a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that the Group would not suffer any legal or economic losses in connection with the transactions described above, and the agreement for loss compensation. As a result of the lawsuit, the Seoul Central District Court ruled against the Group on the grounds that the comfort letter is restricted to a loss incurred by the sanctions from the government and therefore, the comfort letter was not an agreement for compensation for all legal or economic losses. However, the Group appealed to the Seoul High Court on January 7, 2011.

On September 22, 2011, the Seoul High Court rejected the Group's appeal stating the same reason as judged in the first ruling. After considering any benefit from an appeal to a higher court, the Group decided not to appeal any more. Therefore, this lawsuit has been finalized.

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Group seeking the Group to pay ₩ 27,917 million and delay interest on the grounds that the Group is finally liable to HSC's payment to HHI in relation to the taxes levied on HHI and any related losses incurred by HHI in connection with HHI's repurchase of shares of HIS. During the nine-month period ended September 30, 2011, the Group accepted the legal suit at the Seoul Central District Court and made a provisional payment amounting to ₩ 30,235 million to HSC to avoid any delay interest in case of unfavorable ruling against the Group.

As of September 30, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

(d) Other litigation and patent-related claims

Apart from the above litigation, the Group is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of September 30, 2011, the Group 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

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material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

The Group 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.

Contract for supply of industrial water

In March 2001, the Group 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 due to the establishment of additional plants. According to the amended contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

Repurchase agreement of Sithe Ichon power plants

The Parent 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, the Sithe Ichon and Hynix Engineering Co., Ltd. ("Hynix Engineering", formerly Astec Co., Ltd.), the Parent 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 Parent Company entered into an agreement with Sithe Ichon and Hynix Engineering under which the Parent Company provides Sithe Ichon a guarantee for Hynix Engineering's performance under the purchase contract, and also the Parent Company entered into an agreement with Hynix Engineering to pay ₩ 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 Parent Company and Sithe Ichon, and ₩ 17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. In 2005, the Parent Company recognized the related liabilities and charged the losses in the statement of operations. As of September 30, 2011, the aforementioned agreement and all the related assets have been transferred to Ami Power Co., Ltd. ("Ami Power"), a newly incorporated entity that was spun off from Hynix Engineering. According to this agreement, the compensation for losses on disposal of Ami Power's assets above is to be settled based on actual losses sustained from the disposal, and accordingly, an additional loss could be incurred, which cannot be determined as of September 30, 2011. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

Post-process service contract with HITECH

The Parent Company entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase machinery of US\$ 177 million and US\$ 128 million, from the Parent Company and the Parent Company's subsidiary (HSMC), respectively. According to the contract, HITECH should use the machinery

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only for the purpose of providing the post-process service to the Group exclusively for the five years from its establishment and the Group is liable to guarantee a certain level of margin to HITECH.

Assets provided as collaterals

Details of assets provided as collaterals as of September 30, 2011, are as follows:

<i>(in millions of Korean won)</i>	Book value	Pledged amount	Remark
Land	417,410		
Buildings	821,324		
Structures	63,393	4,197,481	Borrowings and others ¹
Machinery	6,019,660		
Total	7,321,787	4,197,481	

¹The Group provides newly acquired assets as additional collaterals every six months for revolving credit facility and syndicated loan which were obtained in July 2005 and May 2007, respectively.

Guarantees provided to others

Details of guarantees provided to others as of September 30, 2011, are as follows:

<i>(in millions of Korean won)</i>	Amount	Remark
Employees	36	Guarantees for employees' borrowings relating to employee stock ownership

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38. Derivative Financial Instruments

The Group has managed foreign exchange risk and cash-flow interest risk through interest and principal swaps, forward exchange, interest swap and currency option, and other derivative instruments. In addition, the Group bifurcated the call option and convertible option, and separately accounted for these as derivative instruments which were embedded in the unsecured public debenture and foreign convertible bond. The Group recognized those options at fair value and resulting gain or loss is reflected in current operations.

Details of derivative financial assets and liabilities as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Current				
Foreign currency forward contract	-	6,044	-	230
Foreign currency option contract	485	2,773	-	-
Interest and principal swap	-	35,870	-	-
Interest rates swap	-	5,779	-	4,575
Sub- total	485	50,466	-	4,805
Non-current				
Interest and principle swap	-	-	-	25,861
Interest rates swap	-	2,295	-	1,803
Embedded derivative instruments	118	5,620	7,695	27,299
Sub- total	118	7,915	7,695	54,963
Total	603	58,381	7,695	59,768

Details of gains and losses from derivative instruments during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest and principal swap	-	10,009	4,758	-
Interest rates swap	485	1,926	-	711
Foreign currency forward contract	-	6,044	9,082	467
Foreign currency option contract	-	2,773	3,685	1,654
Embedded derivative instruments	21,680	7,577	-	-
Total	22,165	28,329	17,705	2,832

<i>(in millions of Korean won)</i>	2010			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest and principal swap	5,441	-	4,522	-
Interest rates swap	-	4,082	-	-
Foreign currency forward contract	-	-	-	1,480
Embedded derivative instruments	68,083	358	-	-
Total	73,524	4,440	4,522	1,480

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39. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Profit for the period before income tax	202,373	2,567,881
Adjustments		
Defined benefits	67,183	54,515
Depreciation	2,570,616	2,295,490
Amortization	35,075	11,883
Loss on foreign currency translation	280,777	94,346
Loss on disposal of assets held-for-sale	6,945	34,656
Impairment loss on assets held-for-sale	-	7,390
Loss from redemption of debentures	-	27,265
Loss on disposal of property, plant and equipment	2,342	2,763
Loss on disposal of intangible assets	3,416	2,589
Interest expenses	229,930	259,061
Gain on foreign currency translation	(132,381)	(146,480)
Gain on disposal of assets held-for-sale	(6,440)	(10,382)
Recovery of impairment loss for assets held-for-sale	-	(30,153)
Gain on equity-method investments	(7,513)	(4,380)
Gain on disposal of property, plant and equipment	(820)	(26,141)
Interest income	(9,353)	-
Gain (loss) on derivative instruments	(42,465)	(49,648)
Gain on disposal of available for sale financial assets	(8,709)	(72,156)
Others	1,032	1,762
Changes in operating assets and liabilities		
Increase in trade receivables	179,675	(257,840)
Increase in loans and other receivables	26,396	(29,108)
Increase inventories	(8,166)	(224,670)
Increase in other assets	(68,680)	(79,079)
Increase(Decrease) in trade payables	(291,621)	213,908
Increase in other payables	(144,024)	186,425
Decrease in non-trade payables	(17,084)	(4,131)
Increase(Decrease) in provision	(209,792)	78,198
Decrease in other liabilities	(360,782)	91,525
Payment of defined benefit liability	(34,748)	(38,508)
Cash Generated from Operations	2,263,182	4,956,981

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40. Share-based Payments

The Group grants share options to directors and selected employees with approval of the shareholders and the Board of Directors. As of September 30, 2011, details of the share options are as follows:

- Type of shares issued for the exercise of share options: Registered ordinary shares
- Grant method: Distribute newly issued common shares
- Exercisable condition: Over two years of employment after the grant dates
- Details of the stock options which have been granted as of September 30, 2011, are as follows:

Grant dates	Number of shares to be issued (thousands)	Exercise price Per share	Exercise period
October 24, 2005	334	₩ 22,800	Oct. 25, 2007~Oct. 24, 2012

Changes in details of share-based payments during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	5,762	5,769
Exercised/ Expired	-	(7)
At September 30	5,762	5,762

Changes in details of options and weighted-average exercisable prices during the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in thousands of shares, except for price)</i>	2011		2010	
	Weighted average exercise price	Options	Weighted average exercise price	Options
At January 1	₩ 22,800	324	₩ 22,655	327
Granted	-	-	-	-
Exercised	-	-	5,000	(3)
Expired	-	-	-	-
At September 30	₩ 22,800	324	₩ 22,800	324

The weighted average fair value of options was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price at the grant date, exercise price, volatility of share price, dividend yield, an expected option life and an annual risk-free interest rate. For the nine-month period ended September 30, 2011, there is no expense recognized in the comprehensive income statement for share options granted to directors and employees.

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41. Segment Information

The reportable operating segments derive their revenue primarily from the manufacture and sale of semiconductors.

The segment information for revenue and operating income for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	2011			2010		
	Semiconductor	Other	Total	Semiconductor	Other	Total
Total segment revenue	7,808,401	193,939	8,002,340	9,318,551	179,560	9,498,111
Inter-segment revenue	-	(159,688)	(159,688)	-	(142,689)	(142,689)
Revenue from external customers	7,808,401	34,251	7,842,652	9,318,551	36,871	9,355,422
Operating income	479,784	13,175	492,959	2,673,032	8,554	2,681,586

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the nine-month period ended September 30, 2011, the share of each type of products among the total revenue is approximately 72.1% and 25.6% (2010 : 82.3% and 16.6%), respectively.

The Group's revenue information by geographical segments for the three-month and nine-month periods ended September 30, 2011 and 2010, follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Domestic	160,453	543,920	223,284	596,136
China	48,225	187,110	33,445	117,723
Southeast Asia	1,077,452	3,845,068	1,644,105	5,010,643
United States	769,488	2,434,556	948,957	2,453,155
Europe	235,487	831,998	401,801	1,177,765
Total	2,291,105	7,842,652	3,251,592	9,355,422

The Group's non-current assets (excluding financial assets and deferred income tax assets) information by geographical segments as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Domestic	8,783,506	8,064,079
China	3,260,777	3,257,844
Southeast Asia	2,453	3,046
United States	26,447	25,526
Europe	464	379
Total	12,073,647	11,350,874

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Details of net sales for the three-month and the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Sales of goods	2,283,113	7,819,702	3,235,154	9,312,473
Sales of Services	6,417	19,758	10,327	25,173
Royalty income	1,575	3,192	6,111	17,776
Total	2,291,105	7,842,652	3,251,592	9,355,422

42. Event after the Reporting Period

On November 14, 2011, the Share Management Council and the Parent Company entered into an investment contract with SK Telecom Co.,Ltd. Under the terms of this contract, SK Telecom Co., Ltd. is to purchase 44.25 million shares of the Parent Company from the Share Management Council and acquire 101.85 million shares of the Parent Company that will be newly issued through an allotment to a third party.

43. Approval of Interim Consolidated Financial Statements

The September 30, 2011 interim consolidated financial statements were approved by the Board of Directors on October 26, 2011.