Hynix Semiconductor Inc.

Interim Consolidated Financial Statements

March 31, 2011

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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. and its subsidiaries. These financial statements consist of consolidated statement of financial position of Hynix Semiconductor Inc. and its subsidiaries (collectively the Group) as of March 31, 2011, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period ended March 31, 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 statement 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 statement 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.

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.

The consolidated statement of financial position of the Group as of December 31, 2010, and the interim consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period ended March 31, 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.

Samil PricewaterhouseCoopers

Seoul, Korea
May 26, 2011

This report is effective as of May 26, 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 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
March 31, 2011 and December 31, 2010

(in millions of Korean won)	Notes	March 31, 2011	December 31, 2010
Assets			(Unreviewed)
Current assets			
Cash and cash equivalents	6, 14	₩ 1,416,033	₩ 1,253,226
Short-term financial instruments	7, 14	676,351	948,476
Trade receivables	8, 13, 14	1,649,982	1,604,952
Loans and other receivables	8, 13, 14	130,515	165,107
Other financial assets	14, 38	3,748	-
Inventories	9	1,227,291	1,281,519
Other current assets	10	126,970	109,602
Assets classified as held for sale	18	44,721	53,204
		5,275,611	5,416,086
Non-current assets			
Available-for-sale financial assts	11, 14	51,855	57,044
Loans and other receivables	8, 13, 14	92,565	93,093
Other financial assets	7, 14, 38	8,304	8,085
Property, plant and equipment	15	10,623,721	10,590,580
Intangible assets	17	629,348	603,653
Deferred income tax assets		441,544	444,439
Investments in jointly controlled entities and associates	12	98,890	98,163
Investment property	16	36,858	37,186
Other non-current assets	10	118,181	119,454
		12,101,266	12,051,697
Total assets		17,376,877	17,467,783
Liabilities			
Current liabilities			
Trade payables	14, 36	680,697	875,174
Borrowings	14, 20, 36	2,762,754	2,577,707
Other payables	14	649,568	649,797
Other non-trade payables	14, 19	187,663	494,635
Other financial liabilities	14, 22, 38	3,510	4,805
Provisions	21	487,875	532,123
Other current liabilities	23	283,368	215,318
		5,055,435	5,349,559
Non-current liabilities			
Borrowings	14, 20, 36	3,467,793	3,463,398
Other non-trade payables	14, 19	235,587	232,893
Other financial liabilities	14, 22, 38	118,071	54,963
Defined benefit liabilities	24	368,451	359,062
Other non-current liabilities	23	31,551	31,083
		4,221,453	4,141,399
Total liabilities		9,276,888	9,490,958
Equity attributable to owners of the Parent Company			
Paid-in capital			
Capital stock	25	2,971,195	2,969,023
Capital surplus	25	1,203,046	1,195,026
Retained earnings	26	4,013,194	3,828,503
Accumulated other comprehensive income	27	(93,749)	(23,142)
Other components of equity	40	5,762	5,762
Non-controlling interest		541	1,653
Total equity		8,099,989	7,976,825
Total liabilities and equity		₩ 17,376,877	₩ 17,467,783

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2011 and 2010

(in millions of Korean won, except per share amounts)	Notes	Three-Month Period Ended March 31 2011		2010 (Unreviewed)	
Net sales	29	₩	2,793,185	₩	2,823,913
Cost of sales	30, 36		2,112,379		1,708,758
Gross profit			680,806		1,115,155
Selling, administration and ordinary development expense	30, 31		(348,469)		(355,290)
Other operating income	32		17,723		34,087
Other operating expenses	30, 32		(27,231)		(52,190)
Operating income			322,829		741,762
Financial income	33		209,335		274,934
Financial expenses	33		(253,265)		(202,946)
Income from jointly controlled entities and associates	12		2,519		1,052
Profit before income tax			281,418		814,802
Income tax expense	34		(7,878)		(6,703)
Profit for the period		₩	273,540	₩	808,099
Other comprehensive income					
Currency translation differences			(64,283)		(97,565)
Available-for-sale financial assets	11, 27		(5,920)		3,134
Actuarial loss on defined benefit liability	24		(17)		(15)
Other comprehensive income from jointly controlled entities and associates			(1,792)		(2,485)
Total comprehensive income for the period		₩	201,528	₩	711,168
Profit for the period attributable to:					
Equity holders of the Parent Company		₩	273,264	₩	819,633
Non-controlling interest			276		(11,534)
Comprehensive income for the period attributable to:					
Equity holders of the Parent Company		₩	202,640	₩	737,275
Non-controlling interest			(1,112)		(26,107)
Earnings per share attributable to the equity holders of the Parent Company during the period	35				
Basic earnings per share for profit attributable to the ordinary equity holders of the Company		₩	463	₩	1,390
Diluted earnings per share for profit attributable to the ordinary equity holders of the Company			462		1,305

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity
Three-Month Periods Ended March 31, 2011 and 2010

(in millions of Korean won)	Notes	Paid-in Capital and Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Total	Non-controlling Interest	Total Equity
		Attributable to equity holders of the Parent Company						
Balance at January 1, 2010 (Unreviewed)		₩ 4,203,922	₩ 1,264,961	₩ 15,427	₩ 5,769	₩ 5,490,079	₩ 474,546	₩ 5,964,625
Comprehensive income								
Profit for the period		-	819,633	-	-	819,633	(11,534)	808,099
Actuarial loss on defined benefit liability	24	-	(15)	-	-	(15)	-	(15)
Other comprehensive income of jointly controlled entities and associates	12	-	-	(2,485)	-	(2,485)	-	(2,485)
Available-for-sale financial assets		-	-	1,172	-	1,172	1,962	3,134
Currency translation differences		-	-	(81,030)	-	(81,030)	(16,535)	(97,565)
Total comprehensive income		-	819,618	(82,343)	-	737,275	(26,107)	711,168
Transactions with equity holders of the Parent Company :								
Exercise of stock options		20	-	-	(7)	13	-	13
Exercise of conversion rights		583	-	-	-	583	-	583
Total transactions with equity holders of the Parent Company		603	-	-	(7)	596	-	596
Balance at March 31, 2010 (Unreviewed)		₩ 4,204,525	₩ 2,084,579	₩ (66,916)	₩ 5,762	₩ 6,227,950	₩ 448,439	₩ 6,676,389
Balance at January 1, 2011		₩ 4,164,049	₩ 3,828,503	₩ (23,142)	₩ 5,762	₩ 7,975,172	₩ 1,653	₩ 7,976,825
Comprehensive income								
Profit for the period		-	273,264	-	-	273,264	276	273,540
Actuarial loss on defined benefit liability	24	-	(17)	-	-	(17)	-	(17)
Other comprehensive income of jointly controlled entities and associates	12	-	-	(1,792)	-	(1,792)	-	(1,792)
Available-for-sale financial assets		-	-	(4,641)	-	(4,641)	(1,279)	(5,920)
Currency translation differences		-	-	(64,174)	-	(64,174)	(109)	(64,283)
Total comprehensive income		-	273,247	(70,607)	-	202,640	(1,112)	201,528
Transactions with equity holders of the Parent Company :								
Dividends		-	(88,556)	-	-	(88,556)	-	(88,556)
Exercise of conversion rights		10,411	-	-	-	10,411	-	10,411
Others		(219)	-	-	-	(219)	-	(219)
Total transactions with equity holders of the Parent Company		10,192	(88,556)	-	-	(78,364)	-	(78,364)
Balance at March 31, 2011		₩ 4,174,241	₩ 4,013,194	₩ (93,749)	₩ 5,762	₩ 8,099,448	₩ 541	₩ 8,099,989

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

Hynix Semiconductor Inc.
Interim Consolidated Statements of Cash Flows
Three-Month Periods Ended March 31, 2011 and 2010

(in millions of Korean won)	Notes	Three-Month Period Ended March 31 2011		2010 (Unreviewed)	
Cash flows from operating activities					
Cash generated from operations	39	₩	613,319	₩	1,601,088
Interest received			19,174		7,474
Interest paid			(36,868)		(49,142)
Income tax refund(paid)			(1,795)		91
Net cash generated from operating activities			593,830		1,559,511
Cash flows from investing activities					
Decrease in financial deposits			901,975		94,122
Decrease in loans and other receivables			1,795		335
Proceeds from disposal of other financial assets			-		2,309
Proceeds from disposal of property, plant and equipment	15		249		13,999
Proceeds from disposal of intangible assets	16		5		-
Proceeds from derivatives			2,355		1,562
Decrease in other assets			3,806		13,172
Increase in financial deposits			(634,710)		(547,425)
Increase in loans and other receivables			(1,044)		(8,483)
Acquisition of other financial assets			(3,049)		-
Acquisition of property, plant and equipment	15		(937,222)		(676,377)
Acquisition of intangible assets	16		(35,861)		(16,986)
Payments from derivatives			(12,104)		-
Increase in other assets			-		(22,171)
Net cash used in investing activities			(713,805)		(1,145,943)
Cash flows from financing activities					
Proceeds from borrowings			641,424		86,123
Repayments of borrowings			(349,620)		(339,042)
Acquisition of non-controlling interest			(241)		-
Proceeds from stock issuance (share options)			-		13
Net cash provided by (used in) financing activities			291,563		(252,906)
Effect of exchange rates on cash and cash equivalents			(8,781)		(6,401)
Net increase in cash and cash equivalents			162,807		154,261
Cash and cash equivalents at the beginning of period			1,253,226		1,212,356
Cash and cash equivalents at the end of period		₩	1,416,033	₩	1,366,617

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

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 March 31, 2011, the shareholders of the Parent Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Share Management Council(*):	88,448,356	15.0
Individual investors	502,262,583	85.0
	590,710,939	**100.0**

(*) In 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. As of March 31, 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	18,297,356	3.2
Total	**88,448,356**	**15.0**

As of March 31, 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
Hyundai Display Technology Inc.	10,000	100.00	Korea	Domestic subsidiary
QRT Semiconductor Co., Ltd.	20,000	100.00	Korea	Domestic subsidiary
ProMOS Specific money trust(*)	-	-	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

(*) ProMos specific money trust was established for the Group's specific purposes. And since the Group has the right to obtain majority of the benefits of the trust's activities through contracts, and it is included in the consolidated subsidiaries.

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.

The interim consolidated financial statements for the three-month period ended March 31, 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 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 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.

Changes in Accounting Policy and disclosure

As of March 31, 2011, the following new standard and related interpretation of Korean IFRS was published but not yet adopted by the Group since the new standard 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 (issued in December 2010)*

Consolidation

(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 acquisition of subsidiaries 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. Non- controlling interest in the acquiree is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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 the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the comprehensive income statement.

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. Subsidiaries' accounting policy is adjusted to the Group's accounting policy, if necessary.

(b) *Transactions with non-controlling interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the Group. The difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposal of non-controlling interests are also recognized in equity. When control ceases, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in the comprehensive income statement.

(c) *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.

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.

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.

(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) *Group companies*

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 monthly 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.

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.

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.

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. 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 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 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;
  (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.

If a loan or held-to-maturity investment has a variable interest rate, current effective interest rate determined under the contract is used in measuring any impairment loss. As a practical expedient, 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 recognized in the comprehensive income statement.

(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.

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. The Group recognizes other borrowing costs as an expense in the period in which it is incurred.

Intangible Assets

(a) *Goodwill*

Goodwill represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

(b) *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.

(c) *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.

(d) *Industrial property rights*

Industrial property rights are shown at historical cost. Industrial property 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 property rights over their estimated useful lives of five to ten years.

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 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 Group 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.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Employee Benefits

(a) *Defined benefit liability*

The Group companies operate various pension schemes. The schemes are generally funded 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 statements 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) *Long-term employee benefits*

Certain Group companies provide 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 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.

(c) *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.

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 in the countries where the Group operates and generates taxable income. 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 consolidated 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 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 it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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.

Interim period income tax expense is accrued, to the extent practicable, using a separate estimated average annual effective income tax rate determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction.

Share-based payments

The Group operates share-based compensation plans, under which the Group receives services from employees as consideration for the payments 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.

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.

When there is a probability that an outflow of economic benefits will occur from litigation or disputes, but, whose amount is not reasonably estimable or a probability is remote, a corresponding matter is stated as contingency in the note of the financial statements.

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

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.

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 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

Due to its multinational business operations, the Group 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, recognised assets and liabilities in foreign currencies and net investments in foreign operations.

As of March 31, 2011 and December 31, 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:

	March 31, 2011		**December 31, 2010**	
(in millions of Korean won)	**10% increase**	**10% decrease**	**10% increase**	**10% decrease**
USD/KRW	(243,683)	243,683	(239,830)	239,830
JPY/KRW	(20,071)	20,071	(15,329)	15,329
EUR/KRW	(30,255)	30,255	(12,262)	12,262
	(294,009)	**294,009**	**(267,421)**	**267,421**

The above sensitivity analysis 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 table below summarises the impact of increases/decreases of the price per share at the active market on the securities held by the Group.

	March 31, 2011		**December 31, 2010**	
(in millions of Korean won)	**5% increase**	**5% decrease**	**5% increase**	**5% decrease**
Analysis for changes in value	2,041	(2,041)	2,219	(2,219)

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.

As of March 31, 2011, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group minimizes risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest bearing financial deposits adequately.

As of March 31, 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 three-month period ended March 31, 2011, would be ₩ 4,678 million (March 31, 2010: ₩ 6,817 million).

(b) *Credit risk*

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

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.

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 manage liquidity risk proactively.

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.

	March 31, 2011				
(in millions of Korean won)	**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)	2,151,877	1,190,159	1,938,692	622,910	5,903,638
Finance lease liabilities	78,182	59,432	131,065	204,136	472,815
Trade payables	680,697	-	-	-	680,697
Other payables	665,507	-	-	-	665,507
Other non-trade payables	187,663	193,432	40,833	27,222	449,150
Other financial liabilities (Derivative instruments)	3,510	25,924	92,146	-	121,580
Total	**3,767,436**	**1,468,947**	**2,202,736**	**854,268**	**8,293,387**

	December 31, 2010				
(in millions of Korean won)	**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
Other financial liabilities (Derivative instruments)	4,805	27,715	27,247	-	59,767
Total	**4,131,936**	**1,546,055**	**2,013,884**	**878,697**	**8,570,572**

Capital Risk Management

The Group's capital risk management purpose is maintaining optional 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 assets to reduce debt.

The debt/equity ratio and net borrowing ratio as of March 31, 2011 and December 31, 2010, are as follows:

(in millions of Korean won)	March 31, 2011	December 31, 2010
Total liabilities (A)	9,276,888	9,490,958
Total equity (B)	8,099,989	7,976,825
Cash and cash equivalents (C)(*)	2,092,384	2,201,702
Total borrowings (D)	6,230,547	6,041,105
Debt ratio (A/B)	115%	119%
Net borrowing ratio (D-C)/B	51%	48%

(*) Cash 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).

The following table presents the Group's assets and liabilities that are measured at fair value at March 31, 2011 and December 31, 2010.

	March 31, 2011			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	11,663	-	11,663
Available-for-sale financial assets				
- Equity securities (at fair value)	44,242	-	-	44,242
Total	**44,242**	**11,663**	**-**	**55,905**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	121,580	-	121,580
Total	**-**	**121,580**	**-**	**121,580**

	December 31, 2010			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	7,695	-	7,695
Available-for-sale financial assets				
- Equity securities (at fair value)	50,877	-	-	50,877
Total	**50,877**	**7,695**	**-**	**58,572**
Liabilities				
Financial liabilties at fair value through profit or loss				
- Trading derivatives	-	59,768	-	59,768
Total	**-**	**59,768**	**-**	**59,768**

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 equity investments classified as trading securities or available for sale.

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.

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.

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.

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.

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.

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.

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.

5. Transition to Korean IFRS

Basis of Transition to Korean IFRS

(a) *The first adoption of Korean IFRS*

The financial statements for the year ending December 31, 2011, will be the first annual financial statements compliant with Korean IFRS. These interim financial statements have been prepared as described in Note 2.

The Group's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 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) 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.

iii) 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.

(c) *Major GAAP Differences*

i) Pension benefit: Defined benefit plans

Under K-GAAP, benefits for existing employees are calculated based on the assumption that all employees terminate their employment at the reporting date. In accordance with IFRS, projected unit credit method is used in calculating the defined benefit liability.

ii) Other long-term employee benefits

The Group provides other long-term employee benefits to its 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 methodology as used for defined benefit plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income as they occur. These benefits are calculated annually by independent actuaries.

iii) Goodwill acquired from the business combination

Under K-GAAP, goodwill was being amortised over a period of 20 years or less using the straight-line method. In accordance with IFRS, goodwill is not amortised but, instead, tested for impairment annually.

iv) Hybrid financial instruments

Convertible bond is a hybrid financial instrument which has both liability component of bond and equity component of conversion right. Under K-GAAP, equity component of hybrid financial instrument was classified as equity. However, under Korean IFRS, equity component of convertible bond denominated in foreign currency is classified as financial liability and accounted for as a derivative liability separate from the host contract.

v) Transfer or factoring of financial assets

Under K-GAAP, with a transfer of financial assets including trade receivable to a financial institution, the financial assets are derecognized on the trade-date as the Group has transferred the substantial control of the assets to the financial institution. In accordance with Korean IFRS, the financial assets are not derecognized and treated as borrowings with collateral when the Group owns significant risks and rewards of ownership of the transferred financial assets to the financial institution.

vi) Deferred income tax

Under K-GAAP, deferred tax assets and liabilities are either classified as current or non-current based on the classification of their underlying assets and liabilities. If there are no corresponding assets or liabilities, the deferred tax assets and liabilities are classified based on their expected recoverable periods. In accordance with Korean IFRS, deferred tax assets and liabilities are classified as non-current on the statements of financial position.

vii) Consolidation

Under K-GAAP, a subsidiary with assets not exceeding ₩10 billion is excluded from consolidation. However, this entity is consolidated under Korean IFRS.

(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 Total Assets, Liabilities and Equity

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

(in millions of Korean won)	**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	16,275	16,275	-
Effect of subsidiaries implemented Korean IFRS	60,387	60,966	(579)
Revaluation of land	181,633	-	181,633
Fair value measurement	4,389	197,461	(193,072)
Employee benefits	-	(49,205)	49,205
Changes in scope of consolidation	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**

Effects on the consolidated total assets, liabilities and equity as of March 31, 2010, are as follows:

(in millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**	**Net income**
Reported amount under K-GAAP	16,751,893	10,108,948	6,642,945	821,996
Adjustments				
Transfer of trade receivables	66,565	66,565	-	-
Effect of subsidiaries implemented Korean IFRS	(69,079)	-	(69,079)	(69,872)
Goodwill	9,909	-	9,909	9,909
Revaluation of land	181,633	-	181,633	-
Fair value measurement	8,124	171,636	(163,512)	29,520
Employee benefits	-	(57,686)	57,686	8,303
Changes in scope of consolidation	52,505	35,698	16,807	8,243
Total	249,657	216,213	33,444	(13,897)
Adjusted amount under Korean IFRS	**17,001,550**	**10,325,161**	**6,676,389**	**808,099**

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

(in millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**	**Net income**
Reported amount under K-GAAP	17,584,252	9,414,758	8,169,494	2,656,475
Adjustments				
Effect of subsidiaries implemented Korean IFRS	(350,825)	176	(351,001)	(359,541)
Goodwill	39,636	-	39,636	39,636
Revaluation of land	181,633	-	181,633	-
Fair value measurement	7,695	97,720	(90,025)	204,851
Employee benefits	-	(30,664)	30,664	36,431
Changes in scope of consolidation	5,392	8,968	(3,576)	19,723
Total	(116,469)	76,200	(192,669)	(58,900)
Adjusted amount under Korean IFRS	**17,467,783**	**9,490,958**	**7,976,825**	**2,597,575**

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. And the effects of the change in exchange rate on cash and cash equivalents held or due in a foreign currency are presented separately from cash flows from operating, investing and financing activities.

Cash flows from operating and financing activities are adjusted respectively because 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.

6. Cash and cash equivalents

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Cash on hand	48,182	35,176
Checking account	63,844	39,313
Ordinary deposits	7,699	8,334
Time deposits	1,017,060	893,730
Specified money trust	120,000	172,000
RP	30,000	40,000
CMA	6,760	7,222
MMDA	106,196	40,869
MMW	13,419	12,812
MMT	2,873	3,770
Total	**1,416,033**	**1,253,226**

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

(in millions of Korean won)	March 31, 2011	December 31, 2010	Description
Time deposits	187,045	189,673	Pledge for guarantee relating to Rambus litigation

7. Short-term Financial Instruments and Other Financial Assets

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Current Assets		
Short-term financial instruments		
Time deposits	664,176	734,834
Specified money trust	-	65,000
RP	10,000	130,000
MMDA	1,816	2,423
Other	359	16,219
Sub-total	676,351	948,476
Non-current Assets		
Other financial assets		
Time deposits	375	375
Bank overdraft guarantee deposits	14	14
Derivative assets	7,914	7,695
Held-to-maturity financial assets	1	1
Sub-total	8,304	8,085
Total	**684,655**	**956,561**

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**	**Description**
Short-term financial instruments	55,360	56,945	Pledge for Rambus litigation
	9,069	57,764	Pledged for borrowings
	6,659	6,985	Pledged for consumption tax
	345	21,992	Pledged for letters of credit
	1,816	2,423	Restricted for government grants
Other financial assets	308	308	Pledged for borrowings
	14	14	Bank overdraft guarantee deposit
Total	**73,571**	**146,431**	

8. Trade and Other Receivables

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Current		
Other receivables	115,247	146,941
Accrued income	11,082	16,450
Short-term loans	4,090	1,716
Guarantee deposits	96	-
Sub-total	130,515	165,107
Non-current		
Long-term other receivables	80	117
Long-term loans	6,311	6,777
Long-term accrued income	266	207
Guarantee deposits	7,979	8,058
Other deposits	77,929	77,934
Sub-total	92,565	93,093
Total	**223,080**	**258,200**

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Trade receivables	1,653,159	1,609,018
Less : provision for impairment	(3,177)	(4,066)
Trade receivables - net	1,649,982	1,604,952
Current other receivables	135,078	169,895
Less : provision for impairment	(4,563)	(4,788)
Current other receivables - net	130,515	165,107
Non-current other receivables	105,199	105,806
Less : provision for impairment	(12,634)	(12,713)
Non-current other receivables - net	92,565	93,093
Total	**1,873,062**	**1,863,152**

Movements on the provision for impairment of trade receivables for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	4,066	3,520
Provision for receivables impairment	-	54
Receivables written off during the period as uncollectible	-	-
Unused amounts reversed	(889)	-
At March 31	**3,177**	**3,574**

Movements on the provision for impairment of current other receivables for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	4,788	4,069
Provision for receivables impairment	-	11
Receivables written off during the period as uncollectible	-	-
Unused amounts reversed	(225)	-
At March 31	**4,563**	**4,080**

Movements on the provision for impairment of non-current receivables for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	12,713	29,754
Provision for receivables impairment	1	113
Receivables written off during the period as uncollectible	-	(17,284)
Unused amounts reversed	(80)	(60)
At March 31	**12,634**	**12,523**

9. Inventories

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Finished goods	403,734	439,138
Less : valuation allowance	(63,292)	(64,702)
Finished goods - net	340,442	374,436
Work in progress	661,507	709,998
Less : valuation allowance	(17,906)	(46,582)
Work in progress - net	643,601	663,416
Raw material	149,034	139,455
Less : valuation allowance	(1,773)	(659)
Raw material - net	147,261	138,796
Supplies	48,666	41,365
Less : valuation allowance	(89)	(93)
Supplies - net	48,577	41,272
Goods in transit	47,424	64,412
Less : valuation allowance	(14)	(813)
Goods in transit - net	47,410	63,599
Total	**1,227,291**	**1,281,519**

For the three-month period ended March 31, 2011, ₩29,775 million of inventory valuation allowance was reversed (2010: ₩7,069 million of inventory write-down) and deducted from 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 March 31, 2011 and December 31, 2010, are as follows:

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Current Assets		
Advance payment	28,732	4,140
Prepaid expenses	80,954	88,230
Security deposits	2,424	2,577
Other	14,860	14,655
Sub-total	126,970	109,602
Non-current Assets		
Long-term advance payments	142	5,273
Long-term prepaid expenses	85,470	79,147
Other	32,569	35,034
Sub-total	118,181	119,454
Total	**245,151**	**229,056**

11. Available-for-sale Financial Assets

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

	March 31, 2011					December 31, 2010
(in millions of Korean won)	Number of Stock	Owner-ship (%)	Acquisition cost	Book value	Fair value (Net asset value)	Book value
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	3,481	2,628	2,628	4,583
Hyundai Logiem Co., Ltd.	15,115	0.12	76	98	221	98
EQ bestech Co., Ltd.	2,000	1.67	10	10	33	10
Novelis Korea Ltd.	63,600	0.14	1,699	1,699	723	1,699
Itest Co., Ltd.	481,780	1.33	1,166	1,166	782	1,166
Hyundai IT Corp.	25,286	0.03	63	11	11	12
Fidelix Co., Ltd.	1,605,854	8.79	3,560	3,180	3,180	2,473
C&S technology Co., Ltd.	1,031,590	3.91	4,508	5,901	5,901	6,138
Phison Electronics Corp.	3,277,054	1.85	11,661	20,253	20,253	20,875
Anobit Technologies Ltd.	204,248	2.80	3,123	3,123	666	3,123
Specified money trust(*)	201,600,000	7.93	119,544	12,269	12,269	16,701
Futures Corp Technology Co., Ltd.	60,000	10.44	300	-	(33)	-
ZMOS Technology	2,000,000	5.11	995	-	(222)	-
JNT Frontier Private Equity Unit	certificate	-	700	700	700	-
SV M&A No.1 Equity Unit	certificate	-	650	650	650	-
Equity investment in a construction guarantee	132	-	165	165	165	165
Others	-	-	6,801	2	2,694	1
Total			**158,502**	**51,855**	**50,621**	**57,044**

(*) Specified money trust has shares of ProMos as a result of exercise of put options owned by financial investors (Note 38).

Changes in the unrealized gain or loss on available-for-sale securities for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	2,469	15,427
Changes in the unrealized gain or loss(*)	(4,641)	1,172
At March 31	**(2,172)**	**16,599**

(*) Net of income tax effect of ₩ 619 million (2010: ₩ (-) 178 million)

Changes in impairment loss on available-for-sales securities for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	(15,883)	(14,588)
Write-off	8,747	-
At March 31	**(7,136)**	**(14,588)**

12. Investments in Jointly Controlled Entities and Associates

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

(in millions of Korean won)		March 31, 2011					December 31, 2010
Type	**Investee**	**Number of Stock**	**Owner-ship (%)**	**Acquisition cost**	**Net asset value**	**Book value**	**Book value**
Associate	Siliconfile Technologies Inc.(*)	2,358,832	29.74	22,835	6,691	15,690	15,858
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	Certificate	45.00	77,969	87,423	83,200	82,305
				100,804	**94,114**	**98,890**	**98,163**

(*) As of March 31, 2011, fair value on the active market amounted to ₩6,216 million (2010: ₩5,921 million).

Changes in investments in jointly controlled entities and associates for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	98,163	98,076
Share of profit	2,519	1,052
Share of other comprehensive income(loss)	(1,792)	(2,485)
At March 31	**98,890**	**96,643**

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

	March 31, 2011			
(in millions of Korean won)	**Current Assets**	**Non-Current Assets**	**Current liabilities**	**Non-current liabilities**
Siliconfile Technologies Inc.	26,020	9,134	9,611	3,041
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	149,696	373,470	142,395	199,296
Total	**175,716**	**382,604**	**152,006**	**202,337**

	December 31, 2010			
(in millions of Korean won)	**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 three-month periods ended March 31, 2011 and 2010, follows:

	2011			**2010**		
(in millions of Korean won)	**Sales**	**Cost of sales**	**Net Income**	**Sales**	**Cost of sales**	**Net Income**
Siliconfile Technologies Inc.	18,040	(15,097)	(563)	17,581	(15,935)	(4,851)
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	87,070	(77,000)	5,970	37,701	(24,460)	5,556
Total	105,110	(92,097)	5,407	55,282	(40,395)	705

13. Credit Risk of Financial Instruments

The aging analysis of trade and other receivables follows:

	March 31, 2011					
		Over due				
(in millions of Korean won)	**Within due**	**Over 3 months**	**Up to 6 months**	**Over 6 months**	**Impaired**	**Total**
Trade receivables	1,652,274	-	-	-	885	1,653,159
Current other receivables	130,560	-	-	-	4,518	135,078
Non-current other receivables	94,044	-	-	-	11,155	105,199
Total	**1,876,878**	**-**	**-**	**-**	**16,558**	**1,893,436**

	December 31, 2010					
		Over due				
(in millions of Korean won)	**Within due**	**Over 3 months**	**Up to 6 months**	**Over 6 months**	**Impaired**	**Total**
Trade receivables	1,608,133	-	-	-	885	1,609,018
Current other receivables	165,374	-	-	-	4,521	169,895
Non-current other receivables	94,651	-	-	-	11,155	105,806
Total	**1,868,158**	**-**	**-**	**-**	**16,561**	**1,884,719**

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

The Group has an exporting 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 March 31, 2011 and December 31, 2010, are as follows:

	March 31, 2011				
(in millions of Korean won)	**Assets at fair value through the profit and loss**	**Available-for-sale**	**Held-to-maturity**	**Loans and receivables**	**Total**
Cash and cash equivalents	-			1,416,033	1,416,033
Short-term financial assets	-	-	-	676,351	676,351
Other financial assets	11,662	-	1	389	12,052
Trade receivables	-	-	-	1,649,982	1,649,982
Other receivables	-	-	-	223,080	223,080
Available-for-sale financial assets	-	51,855	-	-	51,855
Total	**11,662**	**51,855**	**1**	**3,965,835**	**4,029,353**

	December 31, 2010				
(in millions of Korean won)	**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	-	-	-	258,200	258,200
Available-for-sale financial assets	-	57,044	-	-	57,044
Total	**7,695**	**57,044**	**1**	**4,065,243**	**4,129,983**

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

	March 31, 2011		
(in millions of Korean won)	**Liabilities at fair value through the profit and loss**	**Liabilities measured at amortized cost**	**Total**
Trade payables	-	680,697	680,697
Other payables	-	649,568	649,568
Other non-trade payables	-	423,250	423,250
Borrowings	-	6,230,547	6,230,547
Other financial liabilities	121,580	-	121,580
Total	**121,580**	**7,984,062**	**8,105,642**

	December 31, 2010		
(in millions of Korean won)	**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**

15. Property, Plant and Equipment

Details of changes in property, plant and equipment during the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011							
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Other**	**CIP**	**Total**
At January 1								
Cost	463,515	1,619,522	438,070	22,381,802	2,973	570,115	514,274	25,990,270
Accumulated depreciation	-	(372,423)	(244,835)	(14,025,954)	(2,251)	(419,287)	-	(15,064,750)
Accumulated impairment	-	(23,877)	(19,931)	(279,222)	-	(2,886)	-	(325,917)
Government grants	-	-	-	(9,024)	-	-	-	(9,024)
Net book amount	**463,515**	**1,223,222**	**173,304**	**8,067,602**	**722**	**147,942**	**514,274**	**10,590,580**
Three-month period ended March 31								
Opening net book amount	463,515	1,223,222	173,304	8,067,602	722	147,942	514,274	10,590,580
Additions	-	10	2	2,240	-	64	934,905	937,222
Disposals	-	(33)	-	(185)	-	(67)	-	(285)
Depreciation charge	-	(11,374)	(5,978)	(803,509)	(97)	(16,210)	-	(837,168)
Transfers	-	2,308	5,774	815,834	-	19,570	(842,711)	776
Exchange differences	(331)	(4,657)	(1,565)	(59,818)	(11)	(460)	(562)	(67,404)
Closing net book amount	**463,184**	**1,209,477**	**171,538**	**8,022,164**	**614**	**150,839**	**605,906**	**10,623,721**
At March 31								
Cost	463,184	1,615,712	441,832	23,055,465	2,940	587,344	605,906	26,772,383
Accumulated depreciation	-	(382,358)	(250,380)	(14,744,119)	(2,327)	(433,630)	-	(15,812,814)
Accumulated impairment	-	(23,877)	(19,914)	(280,345)	-	(2,876)	-	(327,012)
Government grants	-	-	-	(8,836)	-	-	-	(8,836)
Net book amount	**463,184**	**1,209,477**	**171,538**	**8,022,164**	**614**	**150,839**	**605,906**	**10,623,721**

(in millions of Korean won)	2010							
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Other**	**CIP**	**Total**
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**	**156,149**	**7,932,076**	**579**	**156,299**	**211,443**	**10,286,968**
Three-month period ended March 31								
Opening net book amount	453,220	1,377,202	156,149	7,932,076	579	156,299	211,443	10,286,968
Additions	10,594	3,599	14,105	42,473	124	328	605,153	676,377
Disposals	-	-	-	(1,445)	-	(217)	-	(1,662)
Depreciation charge	-	(11,479)	(5,420)	(701,951)	(87)	(17,111)	-	(736,048)
Transfers	-	(1)	-	406,866	-	2,208	(473,786)	(64,713)
Exchange differences	(384)	(11,791)	(1,765)	(101,769)	(11)	(892)	(428)	(117,040)
Closing net book amount	**463,430**	**1,357,530**	**163,068**	**7,576,251**	**605**	**140,614**	**342,382**	**10,043,880**
At March 31								
Cost	463,430	1,748,552	527,894	20,317,019	2,666	529,019	342,382	23,930,962
Accumulated depreciation	-	(367,144)	(304,696)	(12,395,291)	(2,061)	(384,014)	-	(13,453,206)
Accumulated impairment	-	(23,877)	(60,130)	(335,892)	-	(4,390)	-	(424,289)
Government grants	-	-	-	(9,585)	-	-	-	(9,585)
Net book amount	**463,430**	**1,357,530**	**163,068**	**7,576,251**	**605**	**140,614**	**342,382**	**10,043,880**

Depreciation expense of ₩831,382 million (2010: ₩735,909 million) has been charged to comprehensive income statement and ₩5,786 million (2010: ₩139 million) has been capitalized as development cost for the three-month period ended March 31, 2011.

Certain amount of the property, plant and equipment are pledged as collateral for long-term borrowings of the Group as of March 31, 2011(Note 37).

Capitalized financial costs relating to the additions of the property, plant and equipment for the three-month period ended March 31, 2011, amount to ₩6,796 million (2010: ₩813 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 ₩565,850 million (2010: ₩599,071 million) as of March 31, 2011. The machinery pledged as collateral relating to finance lease liabilities.

Payment schedule of minimum lease payments under financial lease as of March 31, 2011, is as follows:

(in millions of Korean won)	**March 31, 2011**
Gross finance lease liabilities - minimum lease payments	
No later than 1 year	98,705
Later than 1 year and no later than 5 years	277,098
Later than 5 years	235,694
	611,497
Future finance charges on finance leases	(138,682)
Finance lease liabilities	**472,815**

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 March 31, 2011, is as follows:

(in millions of Korean won)	**March 31, 2011**
No later than 1 year	27,429
Later than 1 year and no later than 5 years	791
Total	**28,220**

Insured Assets

As of March 31, 2011, inventories and certain property, plant and equipment are insured as follows:

(in millions of Korean won)	**Insured assets**	**Total coverage**	**Insurance company**
Other casualty losses	Property, plant and equipment Inventories and other	7,918,405	Hyundai Marine & Fire Insurance Co.,Ltd.
Fire Insurance	Property, plant and equipment, investment property	971,215	
Total		**8,889,620**	

The insurance policies of the Group have been provided to the Korea Exchange Bank and other creditors as collaterals for long-term borrowings as of March 31, 2011.

16. Investment Property

Details of changes in investment property during the three-month periods ended March 31, 2011 and 2010, are as follows:

	2011			
(in millions of Korean won)	**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**
Three-month period ended March 31				
Opening net book amount	3,439	33,747	-	37,186
Depreciation charge	-	(328)	-	(328)
Closing net book amount	**3,439**	**33,419**	**-**	**36,858**
At March 31				
Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(18,028)	(1,793)	(19,821)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	**3,439**	**33,419**	**-**	**36,858**

	2010			
(in millions of Korean won)	**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**
Three-month period ended March 31				
Opening net book amount	3,439	35,062	-	38,501
Depreciation charge	-	(328)	-	(328)
Closing net book amount	**3,439**	**34,734**	**-**	**38,173**
At March 31				
Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(16,713)	(1,793)	(18,506)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	**3,439**	**34,734**	**-**	**38,173**

The depreciation expense of ₩328 million (2010: ₩328 million) has been charged in the comprehensive income statement for the three-month period ended March 31, 2011.

For the three-month period ended March 31, 2011, the rental income earned from the investment property amounted to ₩1,177 million (2010: ₩1,111 million).

17. Intangible Assets

Details of changes in intangible assets during the three-month periods ended March 31, 2011 and 2010, are as follows:

	2011				
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Other**	**Total**
At January 1					
Cost	386,450	185,581	421,366	28,331	1,021,728
Accumulated amortization	-	(100,800)	(304,377)	(12,898)	(418,075)
Net book amount	**386,450**	**84,781**	**116,989**	**15,433**	**603,653**
Three-month period ended March 31					
Opening net book amount	386,450	84,781	116,989	15,433	603,653
Additions	-	5,448	30,413	-	35,861
Disposals	-	(806)	-	(3)	(809)
Amortization charge	-	(3,854)	(5,270)	(207)	(9,331)
Other	-	-	-	(26)	(26)
Closing net book amount	**386,450**	**85,569**	**142,132**	**15,197**	**629,348**
At March 31					
Cost	386,450	188,944	451,779	25,473	1,052,646
Accumulated amortization	-	(103,375)	(309,647)	(10,276)	(423,298)
Net book amount	**386,450**	**85,569**	**142,132**	**15,197**	**629,348**

	2010				
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Other**	**Total**
At January 1					
Cost	386,450	168,405	281,821	25,469	862,145
Accumulated amortization	-	(93,362)	(281,821)	(10,113)	(385,296)
Net book amount	**386,450**	**75,043**	**-**	**15,356**	**476,849**
Three-month period ended March 31					
Opening net book amount	386,450	75,043	-	15,356	476,849
Additions	-	12,190	4,675	122	16,987
Disposals	-	(823)	-	(4)	(827)
Amortization charge	-	(3,531)	-	(570)	(4,101)
Impairment charge	-	-	-	(350)	(350)
Other	-	11	-	(109)	(98)
Closing net book amount	**386,450**	**82,890**	**4,675**	**14,445**	**488,460**
At March 31					
Cost	386,450	178,172	286,496	25,127	876,245
Accumulated amortization	-	(95,282)	(281,821)	(10,682)	(387,785)
Net book amount	**386,450**	**82,890**	**4,675**	**14,445**	**488,460**

During three-month period ended March 31, 2011, amortisation of ₩9,139 million (2010: ₩3,545 million) is recorded as selling and administration expenses, ₩152 million (2010: ₩522 million) is recorded as ordinary development expenses and ₩40 million (2010: ₩34 million) is recorded as cost of sales in the comprehensive income statement.

Among costs associated with research and development activities, ₩30,413 million (2010: ₩4,675 million), that are directly attributable and meet capitalization criteria, were capitalized as development cost for the three-month period ended March 31, 2011. However, other development expenditures that do not meet the criteria amounted to ₩191,963 million (2010: ₩194,643 million) are recognized as an expense as incurred in the comprehensive income statement for the three-month period ended March 31, 2011.

18. Non-current assets held for sale

Details of changes in non-current assets held for sale during the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	53,204	162,416
Transfer (*)	(670)	(6,223)
Disposal	(7,013)	(33,217)
Other	(800)	-
At March 31	**44,721**	**122,976**

(*) Non-current assets held for sale of ₩670 million (2010: ₩6,223 million) were transferred to the property, plant and equipment as these assets are no longer held for sale as of March 31, 2011.

19. Other Non-trade Payables

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Current		
Accrued expense	187,663	494,635
Non-current		
Long-term other payables	113,840	121,374
Long-term accrued expense	83,644	74,739
Rent deposit payables	38,103	36,780
Sub total	235,587	232,893
Total	**423,250**	**727,528**

20. Borrowings

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Current		
Short-term borrowings	948,136	511,389
Current maturities of debentures	399,849	549,669
Current maturities of convertible bond	487,021	491,329
Current maturities of long-term borrowings	927,748	1,025,320
Sub total	2,762,754	2,577,707
Non-current		
Long-term borrowings	1,590,614	1,758,692
Debentures	1,368,952	1,186,628
Convertible bonds	508,227	518,078
Sub total	3,467,793	3,463,398
Total	**6,230,547**	**6,041,105**

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

(in millions of Korean won)	Financial Institutions	Annual Interest Rate (%) at March 31, 2011	March 31, 2011	December 31, 2010
Usance borrowings	Korea Development Bank and other	0.92 ~ 2.60	493,554	271,693
Borrowings on trade receivables collateral	Korea Exchange Bank and other	3M LIBOR +1.40 ~ 4.00	222,063	-
	China Construction Bank and other	3.30 ~ 3.31	166,087	171,362
Borrowings on import financing	Export Import Bank of Korea	3M Libor + 2.70	66,432	68,334
Total			**948,136**	**511,389**

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

(in millions of Korean won)	**Financial Institutions**	**Annual Interest Rate (%) at March 31, 2011**	**March 31, 2011**	**December 31, 2010**
Local currency loans				
Funds for equipment	Kookmin Bank	5.2	44	46
Funds for equipment	Kookmin Bank	CD(91days) + 2.00	32,143	38,571
Borrowings for childcare facilities	NH Bank	2.0	308	308
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures (1 year) + 1.6	200,000	200,000
Finance lease liabilities	HC Financial Services Co., Ltd.	5.80 ~ 6.50	4,103	5,898
Security purchase	NH, Hana, Dongyang Bank	3.8	34,100	46,600
Sub total			270,698	291,423
Foreign currency loans				
General borrowings	Export Import Korea Bank	3M Libor + 3.40	197,451	203,104
General borrowings	NH Bank	3M Libor + 0.69	55,325	75,893
General borrowings	SC First Bank	3M Libor + 3.90	55,360	56,945
Syndicated loans	Korea Exchange Bank	3M Libor + 1.90	465,024	478,338
Mortgage loans	HITECH	8.13 ~ 15.73	330,464	360,281
Finance lease liabilities	GE Capital	6.66 ~ 14.60	108,089	127,774
Syndicated loans	ICBC and other	1.7 ~ 2.0	414,110	557,498
General borrowings	Development Bank of Singapore	6.5	276,811	285,604
Finance lease liabilities	Lian Xian	6.12	360,613	369,803
General borrowings	Comerica Bank	6.48	36,820	38,065
Other	Other	-	35,946	41,553
Sub total			2,336,013	2,594,858
Less: Discount on present value			(88,349)	(102,269)
Current maturities			(927,748)	(1,025,320)
Total non-current borrowings			**1,590,614**	**1,758,692**

Debentures as of March 31, 2011 and December 31, 2010, consist of:

(in millions of Korean won)	**Latest Maturity Date**	**Annual Interest Rate (%) at March 31, 2011**	**March 31, 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	6.51	-	150,000
206th	May 15, 2011	6.97	200,000	200,000
208th	Oct. 05, 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	-
Unsecured notes in foreign currency				
Foreign 5th (unsecured) (*2)	June 27, 2017	7.88	553,600	569,450
Secured debenture	Feb. 20, 2012	7.50	50	50
			1,753,650	1,719,500
Add: Adjust embedded derivatives (*2)			21,737	23,060
Less: Discount on debentures			(6,586)	(6,263)
Current maturities			(399,849)	(549,669)
Total			**1,368,952**	**1,186,628**

(*1) The Group entered into swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank for the principal and interest of the debenture.

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

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

(in millions of Korean won)	**Maturity Date**	**Annual Interest Rate (%) at March 31, 2011**	**March 31, 2011**	**December 31, 2010**
Convertible bond in local currency				
207th	Sep. 05, 2013	3.00	474,831	484,964
Convertible bond in foreign currency				
Foreign 6th	Dec. 14, 2012	4.50	39,527	40,659
Foreign 7th	May 14, 2015	2.65	553,600	569,450
			1,067,958	1,095,073
Add: Call premium on bonds			76,482	78,114
Less: Conversion rights adjustment			(138,426)	(151,941)
Discount on bonds			(10,766)	(11,839)
Current maturities			(487,021)	(491,329)
Total			508,227	518,078

Detailed terms and conditions of conversion rights of convertible bonds as of March 31, 2011, are as follows:

	Details		
	Local 207th	**Foreign 6th**	**Foreign 7th**
Face value of convertible bond	KRW 474,831,000,000	USD 35,700,000	USD 500,000,000
Converible 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	20,354,000 shares	916,000 shares	16,483,000 shares
Convertible periods	Oct. 5, 2008 ~ Aug. 5, 2013	Dec. 15, 2008 ~ Nov. 29, 2012	May 15, 2011 ~ Apr. 29, 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 three-month period ended March 31, 2011 and 2010, are as follows:

	2011		
(in millions of Korean won)	**Sales returns**	**Legal claims**	**Total**
At January 1	14,276	517,847	532,123
Addition	-	1,611	1,611
Reversal and utilization	(2,660)	(29,581)	(32,241)
Foreign exchange difference and other	-	(13,618)	(13,618)
At March 31	**11,616**	**476,259**	**487,875**

	2010		
(in millions of Korean won)	**Sales returns**	**Legal claims**	**Total**
At January 1	11,872	634,550	646,422
Addition	3,622	-	3,622
Reversal and utilization	-	(165)	(165)
Foreign exchange difference and other	-	(25,133)	(25,133)
At March 31	**15,494**	**609,252**	**624,746**

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).

22. Other Financial Liabilities

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Current		
Derivative liabilities (Note 38)	3,510	4,805
Non-current		
Derivative liabilities (Note 38)	118,071	54,963
Total	**121,581**	**59,768**

23. Other Current and Non-current Liabilities

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

(in millions of Korean won)	March 31, 2011	December 31, 2010
Current		
Deferred income	2,691	2,928
Withholdings	23,601	29,103
Deposits received	781	357
Advance receipts	153,613	174,299
Dividends payable	88,541	-
Income tax payable	14,106	8,588
Other	35	43
Sub total	283,368	215,318
Non-current		
Long-term withholdings	3,818	3,776
Other long-term employee benefit liabilities	27,600	27,307
Other	133	-
Sub total	31,551	31,083
Total	**314,919**	**246,401**

24. Defined Benefit Liabilities

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Present value of obligations	381,501	372,296
Fair value of plan assets	(13,050)	(13,234)
Liability in the statement of financial position	**368,451**	**359,062**

The amounts recognized in the comprehensive income statements for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Current service cost	16,263	12,957
Interest cost	6,215	5,363
Expected return on plan assets	(133)	(155)
Total expenses	**22,345**	**18,165**

The line items, in which severance benefits are included for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Cost of sales (manufacturing costs)	13,625	11,010
Selling, administrative and ordinary development expenses	8,720	7,155
Total	**22,345**	**18,165**

The actuarial losses recognized as other comprehensive income for the three-month period ended March 31, 2011, amount to ₩ 17 million (2010: ₩ 15 million), and cumulative actuarial losses recognized as other comprehensive income as of March 31, 2011, amount to ₩ 58,455 million.

As of March 31, 2011, the Group funded at approximately 2.82% 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 three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	372,296	291,558
Current service cost	16,263	12,956
Interest expense	6,215	5,365
Benefits paid	(13,217)	(19,490)
Other	(56)	30
At March 31	**381,501**	**290,419**

Changes in the fair value of plan assets for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	13,234	14,063
Expected return on plan assets	132	152
Benefits paid	(305)	(673)
Actuarial gains(losses)	(17)	(15)
Other	6	(1)
At March 31	**13,050**	**13,526**

The actual return on plan assets for the three-month period ended March 31, 2011, was ₩ 115 million (2010: ₩ 137 million).

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

	March 31, 2011	**December 31, 2010**
Future salary increase	4.25%~5.70%	4.29%~5.76%
Discount rate	1.77%~7.50%	1.77%~7.50%
Expected rate of return(*)	2.48%~5.69%	4.57%~5.84%

(*) Expected rate of return of plan assets is calculated by weighted average of actual rate of return.

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Deposits	10,756	10,863
Other	2,294	2,371
Total	**13,050**	**13,234**

25. Share Capital and Capital Surplus

Details of share capital and capital surplus as of March 31, 2011, are as follows:

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

Authorized shares	**Outstanding shares**	**Outstanding shares after the merge of shares(*)**	**Par value**	**Paid-in Capital**
9,000,000	5,584,688	594,239	₩ 5,000	₩ 2,971,195 million

(*) As of March 31, 2011, the actual number of shares which the shareholders own total 590,711 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus during the three-month periods ended March 31, 2011 and 2010, are as follows:

		Paid in Capital	Capital surplus			
(in millions of Korean won and in thousands of shares)	**Total owned shares**	**Share capital**	**Share premium**	**Conversion right consideration**	**Other**	**Total**
At January 1, 2010	589,638	2,965,833	633,028	76,985	528,076	4,203,922
Exercise of conversion rights	26	130	500	(47)	-	583
Exercise of stock options	3	13	7	-	-	20
At March 31, 2010	**589,667**	**2,965,976**	**633,535**	**76,938**	**528,076**	**4,204,525**
At January 1, 2011	590,277	2,969,023	645,513	75,821	473,692	4,164,049
Exercise of conversion rights	434	2,172	9,035	(796)	-	10,411
Other	-	-	-	-	(219)	(219)
At March 31, 2011	**590,711**	**2,971,195**	**654,548**	**75,025**	**473,473**	**4,174,241**

In accordance with the Articles of Incorporation, shares can be retired to distribute dividends to the shareholders, and the total of capital shares retired as of March 31, 2011, is 3,528 thousand shares.

26. Retained Earnings

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Legal reserve(*1)	8,854	-
Discretionary reserve(*2)	235,506	235,506
Unappropriated retained earnings	3,768,834	3,592,997
Total	**4,013,194**	**3,828,503**

(*1) The 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.

(*2) Discretionary reserve is a reserve for technology development.

27. Accumulated Other Comprehensive Income

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Gain(loss) arising on revaluation of available-for-sale financial assets	(2,172)	2,469
Changes of equity arising from equity-method investments	(3,825)	(2,033)
Cumulative effect of foreign currency translation adjustments	(87,752)	(23,578)
Total	**(93,749)**	**(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 dividend was paid in April 2011.

29. Net Sales

Net sales for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Net sales		
Sales of goods	2,785,552	2,814,323
Sales of service	6,810	4,986
Royalty income	823	4,604
Total	**2,793,185**	**2,823,913**

30. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling, administration and ordinary development expenses and other operating expenses in the comprehensive income statements for the three-month periods ended March 31, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Changes in inventories of finished goods and work in process	(53,809)	29,434
Raw materials and consumables used	576,710	505,440
Employee benefit expenses	282,934	252,772
Depreciation, amortization and impairment	839,898	710,654
Royalty expense	35,766	32,670
Commission expense	83,814	96,119
Utilities expense	106,957	92,982
Repair expense	206,711	147,671
Outsourcing expense	201,845	126,377
Other	207,253	122,119
Total	**2,488,079**	**2,116,238**

Employee-related expenses for the three-month periods ended March 31, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Wages and salaries	231,324	217,324
Defined benefits	22,451	18,265
Other long-term employee benefits	1,424	1,407
Social security costs	27,735	15,776
Total	**282,934**	**252,772**

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

General operating expenses for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Salaries	37,731	34,852
Severance benefits	3,531	2,877
Employee benefits	11,013	9,162
Commission expense	34,908	54,977
Depreciation	14,206	14,322
Amortization	9,138	3,545
Research and development	191,963	194,643
Exporting expense	6,248	4,376
Freight expense	7,772	5,099
Rental expense	3,585	4,064
Taxes and dues	2,271	2,201
Other	26,103	25,172
Total	**348,469**	**355,290**

32. Other Operating Income and Expense

Other operating income for the three-month periods ended March 31, 2011 and 2010, consists of:

(in millions of Korean won)	**2011**	**2010**
Rental income	4,294	4,150
Gain on disposal of assets held-for-sale	3,322	3,540
Gain on disposal of property, plant and equipment	14	12,961
Other	10,093	13,436
Total	**17,723**	**34,087**

Other operating expenses for the three-month periods ended March 31, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Loss on disposal of assets held-for-sale	6,529	23,586
Loss on disposal of property, plant and equipment	50	625
Donation	1,012	649
Amortization of suspensed assets	4,091	10,815
Other	15,549	16,515
Total	**27,231**	**52,190**

The other operating income and expenses, included in calculating the operating income during the three-month periods ended March 31, 2011 and 2010, were not included in calculating the operating income under the previous accounting standard (K-GAAP).

33. Finance Income and Expense

Details of finance income and expenses recognized in the comprehensive income statements for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Finance income:		
Interest income	13,400	12,016
Dividend income	2	-
Exchange differences	186,129	249,074
Gain from derivative instruments	9,804	13,226
Other	-	618
Total Finance income	**209,335**	**274,934**
Finance expense:		
Interest expenses	79,865	87,594
Exchange differences	107,734	114,603
Loss from derivative instruments	65,666	749
Total Finance expense	**253,265**	**202,946**
Net finance income (expense)	**(43,930)**	**71,988**

34. Income Tax Expense

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

35. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the three-month periods ended March 31, 2011 and 2010.

(in millions of Korean won, except for shares and per share amounts)	**2011**	**2010**
Profit attributable to ordinary shareholders	273,264	819,633
Weighted average number of ordinary shares outstanding(*)	590,710,939	589,664,805
Basic earnings per share	**463**	**1,390**

(*) Weighted average number of ordinary shares outstanding is calculated as follows:

2011	Periods	Number of shares	Days	Weighted number of shares
Beginning balance	Jan. 1, 2011 ~Mar. 31, 2011	590,276,554	90	53,124,889,860
Conversion of convertible bonds (January 1)	Jan. 1, 2011 ~Mar. 31, 2011	434,385	90	39,094,650
Total				**53,163,984,510**

Weighted average number of ordinary shares outstanding: 53,163,984,510 / 90 = 590,710,939 shares

2010	Periods	Number of shares	Days	Weighted number of shares
Beginning balance	Jan. 1, 2011 ~Mar. 31, 2011	589,638,561	90	53,067,470,490
Conversion of convertible bonds (January 1)	Jan. 1, 2011 ~Mar. 31, 2011	25,948	90	2,335,320
Exercise of stock options	Mar. 22, 2010 ~Mar. 31, 2010	2,660	10	26,600
Total				**53,069,832,410**

Weighted average number of ordinary shares outstanding: 53,069,832,410 / 90 = 589,664,805 shares

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.

(in millions of Korean won, except for shares and per share amounts)	**2011**	**2010**
Profit attributable to ordinary shares	273,264	819,633
Add: Convertible bond related costs	24	(2,834)
Adjusted profit attributable to ordinary shares	273,288	816,798
Adjusted weighted average number of ordinary shares outstanding(*)	591,690,582	625,959,521
Diluted earnings per share	462	1,305

(*) Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

(in shares)	**2011**	**2010**
Weighted average number of ordinary shares outstanding	590,710,939	589,664,805
Dilutive potential ordinary shares		
- Convertible bonds	915,744	36,282,678
- Share options	63,899	11,806
Adjusted weighted average number of ordinary shares outstanding	**591,690,582**	**625,959,289**

36. Related Party Transactions

Significant transactions for the three-month periods ended March 31, 2011 and 2010, are as follows:

	2011		**2010**	
(in millions of Korean won)	**Sales**	**Purchases**	**Sales**	**Purchases**
Associates	5,102	49	4,600	32
Jointly controlled entities	233	98,375	-	22,139
Total	**5,335**	**98,424**	**4,600**	**22,171**

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

	March 31, 2011		**December 31, 2010**	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
Associates	3,525	-	5,425	-
Jointly controlled entities	4,062	311,034	3,723	328,691
Total	**7,587**	**311,034**	**9,148**	**328,691**

Key management compensation

Key management includes one chief executive officer, 15 subsidiary's executives, 45 directors, 14 internal auditors and 44 others. The compensation paid to key management for the three-month periods ended March 31, 2011 and 2010, consists of:

(in millions of Korean won)	Details	2011	2010
Short-term employee benefits	Wages, salaries, bonus and other	4,882	4,066
Post-employment benefits	Retirement payment and other	585	1,644
Other long-term benefits	Long-term employment allowance	-	39
Total		**5,467**	**5,749**

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.

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.

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 several major DRAM product Original Equipment Manufacturing (“OEM“) users and also reached an agreement with the direct purchaser classes on April 29, 2006, to pay US$73 million and subsequently with certain direct purchasers who broke away from the direct purchaser classes in June and October 2009 to pay US$130 million. Also, in November 2010, the Group reached settlements with the indirect purchaser classes and 33 state governments in the United States to pay US$50 million.

Meanwhile, in May 2010, the EU Commission (“the EC”) determined to adopt new settlement procedures to close the DRAM anti-trust investigation in EU which had been commenced in April 2003. According to the settlement procedures, the Group paid EUR 51 million in 2010. The Group recorded liabilities related to anti-trust cases amounting to US$66 million for the fine and estimated future losses expected to be incurred from settlements with the US government as of March 31, 2011. Furthermore, as of March 31, 2011, the civil suits in connection to DRAM against the direct and indirect purchaser classes of three provinces in Canada are in progress.

Separately, the EC and the DOJ investigated the unfair transactions among certain Static Random Access Memory (“SRAM”) manufacturers and sellers, including the Group, and the EC and DOJ informed the Group in November and December 2008, respectively, that they closed their investigations. Thereafter, the Group reached settlements through separate negotiations with the direct and indirect purchaser classes to pay US$ 3.32 million and US$ 0.95 million, respectively, in relation to the lawsuits that were in progress in the US courts, and the Group fully paid in January and April 2010, respectively. Meanwhile, as of March 31, 2011, civil suits in connection with SRAM and Flash memory were filed by the direct and indirect purchaser classes of three provinces in Canada. In addition, as of March 31, 2011, the lawsuits filed by the indirect purchaser classes against the manufactures, including the Group, in connection with Flash memory are in progress in the US courts. As of March 31, 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 March 31, 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 of execution of the final judgment ruling 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 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 remitted 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 first trial is scheduled on June 7, 2011.

As of March 31, 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.

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 March 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group’ 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 ₩48,770 million in connection with HHI's repurchase of shares. As a result of the litigation described above, the Seoul Central District Court rendered its ruling on October 22, 2009, that the Group, HSC and the former CEO of HSC jointly and severally pay ₩73,692 million.

Subsequently, the Group and HSC paid the amount to HHI. However, the Group appealed to the Seoul High Court on November 11, 2009. As of March 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group' 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 ₩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 against the Group as the payment to HHI made by HSC were for the Group as an agency of the Group 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. As of March 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group' 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. As of March 31, 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.

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 three-month period ended March 31, 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 March 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group' 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 March 31, 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 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' 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 March 31, 2011, the aforementioned agreement and all the related assets were transferred to Ami Power Co., Ltd. ("Ami Power"), a newly incorporated entity that was spun off from Hynix Engineering. 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 March 31, 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, respectively, from the Parent Company and the Parent Company's subsidiary (HSMC), respectively. According to the contract, HITECH should use the machinery 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 March 31, 2011, are as follows:

(in millions of Korean won)	Book value	Pledged amount	Remark
Land Buildings Structures Machinery Other	6,259,725	3,924,807	Borrowings and others(*)
Total	**6,259,725**	**3,924,807**	

(*) The Group's newly acquired assets in Icheon plant are additionally provided as collaterals for every six months.

Guarantees provided to others

Details of guarantees provided to others as of March 31, 2011, are as follows:

(in millions of Korean won)	Amount	Remark
Promos NH Co., Ltd.	18,000	Special purposed entity's guarantee obligation(*)
Employees	47	Guarantees for employees' borrowings relating to employee stock ownership
Total	**18,047**	

(*) Period for the guarantee obligation is from August 21, 2008 to September 20, 2011.

38. Derivative Financial Instruments

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

	March 31, 2011		December 31, 2010	
(in millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Current				
Foreign currency forward contract	3,443	-	-	230
Foreign currency option contract	305	-	-	-
Interest rates swap	-	3,510	-	4,575
Sub- total	3,748	3,510	-	4,805
Non-current				
Interest and principle swap	-	23,772	-	25,861
Interest rates swap	-	1,589	-	1,803
Embedded derivative instruments	7,915	92,709	7,695	27,299
Sub- total	7,915	118,070	7,695	54,963
Total	**11,663**	**121,580**	**7,695**	**59,768**

Interest and Principal Swap

To hedge the operational foreign currency risk, the Parent Company entered into swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank on May 25, 2007, with maturity on May 25, 2012, in relation to the unsecured bonds from a public offering amounting to ₩150,000 million. According to the contracts, the Group pays floating rate interest and the notional principal amounts in United States dollars, and receives fixed rate interest and the notional principal amounts in Korean won. The Parent Company accounted for the transaction as trading purpose, accordingly the Group recognized a gain on valuation of derivatives amounted to ₩2,089 million (2010: ₩5,897 million) and gain on derivative transactions amounted to ₩1,566 million (2010: ₩1,562 million) for the three-month period ended March 31, 2011.

Forward Foreign Exchange Contracts

The Parent Company entered into a forward contract amounting to US$ 120 million with Korea Exchange Bank and others. The Parent Company classified the forward contract as a transaction not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the three-month period ended March 31, 2011, the Parent Company recognized a gain on valuation of derivatives of ₩3,498 million, and a gain and a loss on derivative transactions of ₩964 million and ₩5 million, respectively.

Interest Rate Swaps

To hedge the interest rate risk and foreign currency risk, the Parent Company entered into interest rate swap contracts on August 12, 2010, with maturity of August 12, 2012. According to the contracts, the Parent Company pays fixed rate of interest in US dollars and receives floating rate of interest in US dollars.

HSA, a subsidiary located in the United States, entered into an interest rate swap contract with Comerica Bank on April 25, 2008, with maturity on April 25, 2015, in relation to borrowings amounting to US$33 million. According to the contract, HSA pays fixed rate interest and receives floating rate interest.

For the three-month period ended March 31, 2011, the Group recognized a gain on valuation of derivatives amounting to ₩1,162 million (2010: gain of ₩2 million and loss of ₩748 million), respectively, and also the Group recognized a loss on derivative transactions amounting to ₩251 million (2010: nil).

Foreign Exchange Option Contracts

The Parent Company entered into currency option contract (Range Forward) with Korea Development Bank amounting to US$ 20 million. According to the contract, the Parent company purchased rights to sell the foreign currency amount at certain exchange rate, while sold rights to purchase the foreign currency amount at certain exchange rate at the same time. The Parent Company classified the option contract as a transaction not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the three-month period ended March 31, 2011, the Parent Company recognized a gain on valuation of derivatives of ₩305 million (2010: nil).

Early Redemption and Convertible Option Valuation

The Parent Company separates embedded early redemption option from the unsecured public debentures in foreign currency and evaluates the option under fair-value measurement at the end of reporting period. The Parent Company owns rights (call-option) to exercise early redemption of debentures during the early redemption period based on the Parent Company's decision.

In addition, the Parent Company also separates embedded conversion option from the foreign convertible bond and evaluates the option under fair-value measurement at the end of reporting period. The conversion option is evaluated based on Binomial Model using various factors such as fluctuation of stock price and others.

The Parent Company classified the option contract as a transaction not qualifying for hedge accounting and the adjustment to fair value was reflected in current operations. For the three-month period ended March 31, 2011, the Parent Company recognized a gain and a loss on valuation of derivatives of ₩219 million and ₩65,410 million (2010: ₩5,765 million and nil), respectively.

39. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Profit for the period before income tax	281,418	814,802
Adjustments		
Defined benefits	22,345	18,165
Other long-term employee benefits	1,388	451
Depreciation	837,497	736,376
Amortization	9,331	4,101
Loss on foreign currency translation	32,419	26,447
Loss on disposal of assets held-for-sale	6,529	23,586
Loss on equity-method investments	167	1,448
Loss on disposal of property, plant and equipment	50	625
Loss on disposal of intangible assets	806	827
Interest expenses	79,865	87,594
Gain on foreign currency translation	(121,218)	(164,896)
Gain on disposal of assets held-for-sale	(3,322)	(3,540)
Gain on equity-method investments	(2,687)	(2,500)
Gain on disposal of property, plant and equipment	(14)	(12,961)
Interest income	(13,400)	(12,016)
Gain (loss) on derivative instruments	55,861	(12,477)
Others	358	1,498
Changes in operating assets and liabilities		
Increase in trade receivables	(115,844)	(173,437)
Decrease in loans and other receivables	33,335	108,273
Decrease(Increase) in inventories	60,611	(35,705)
Increase in other assets	(19,588)	(37,298)
Increase(Decrease) in trade payables	(148,003)	107,607
Increase in other payables	685	87,504
Decrease in non-trade payables	(325,119)	(3,364)
Increase(Decrease) in provision	(27,556)	3,515
Increase(Decrease) in other liabilities	(19,683)	55,280
Payment of defined benefit liability	(12,912)	(18,817)
Cash Generated from Operations	**613,319**	**1,601,088**

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 March 31, 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 employed after the grant dates
- Details of the stock options granted as of March 31, 2011, are as follows:

Grant dates	Number of Shares to be issued (thousands)	Exercise price per share		Exercise period
July 1, 2001 (Re-granted, on June 13, 2003)	3,733	₩	5,000	June 14, 2005~June 13, 2010
June 14, 2003	626	₩	5,000	June 14, 2005~June 13, 2010
October 24, 2005	334	₩	22,800	Oct. 25, 2007~Oct. 24, 2012
Total	**4,693**			

Changes in details of share-based payments during the three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	5,762	5,769
Exercised/ Expired	-	(7)
At March 31	**5,762**	**5,762**

Changes in details of options and weighted-average exercisable prices during the three-month periods ended March 31, 2011 and 2010, are as follows:

	2011			2010		
(in thousands of shares, except for price)	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 March 31	₩	**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 three-month period ended March 31, 2011, there is no expense recognized in the comprehensive income statement for share options granted to directors and employees.

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 three-month periods ended March 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**Semiconductor**	**Other**	**Total**	**Semiconductor**	**Other**	**Total**
Total segment revenue	2,781,211	70,114	2,851,325	2,812,868	60,851	2,873,719
Inter-segment revenue	-	(58,140)	(58,140)	-	(49,806)	(49,806)
Revenue from external customers	2,781,211	11,974	2,793,185	2,812,868	11,045	2,823,913
Operating income	320,267	2,562	322,829	742,944	(1,182)	741,762

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the three-month period ended March 31, 2011, the share of each type of products among the total revenue is approximately 76% and 23% (2010: 84% and 15%), respectively.

The Group's revenue information by geographical segments for the three-month periods ended March 31, 2011 and 2010, follows:

(in millions of Korean won)	**2011**	**2010**
Domestic	203,856	187,784
China	74,120	34,179
Southeast Asia	1,381,482	1,540,381
United States	813,874	682,550
Europe	319,853	379,019
Total	**2,793,185**	**2,823,913**

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

(in millions of Korean won)	**March 31, 2011**	**December 31, 2010**
Domestic	8,387,809	8,064,079
China	2,992,707	3,257,844
Southeast Asia	2,644	3,046
United States	24,482	25,526
Europe	465	379
Total	**11,408,107**	**11,350,873**

42. Approval of Interim Consolidated Financial Statements

The March 31, 2011 interim consolidated financial statements were approved by the Board of Directors on April 27, 2011.