

1. Hynix Financial Restructuring and Recapitalization

In the fall of 2000, because of the weakness in the ROK financial system in the wake of the 1997 financial crisis, many companies, like HEI, were continuing to have trouble securing financing for their operations or to refinance maturing debt. HEI, specifically, had serious looming financial troubles, with several trillion won in short-term debt that was coming due in 2001.

According to Hynix, and as further discussed below, the first step taken by HEI and its financial advisors, Citibank and Salomon Smith Barney ("SSB"), was to work with HEI's creditors to borrow funds to meet immediate liquidity needs. These funds were arranged for in December 2000 in the form of a won 800 billion syndicated bank loan, which was organized by Citibank. Hynix reports that this was a stop-gap measure to cover certain immediate financial needs while a more comprehensive restructuring and recapitalization plan was being developed and implemented. At the same time, HEI was also nominated by its creditors to participate in a new GOK program starting in January 2001, the KDB Fast Track Debenture Program (discussed in greater detail below). Also in January 2001, Hynix arranged with its creditors to secure an increase in its documents against acceptance ("D/A") line of credit from USD 800 million to USD 1.4 billion.

In March 2001, as part of its corporate restructuring, HEI changed its name to Hynix. This step was taken in advance of its official August 2001 separation from the Hyundai chaebol. At the same time, a group of Hynix' 17 major creditors formed the first Hynix Creditors' Financial Institution Council ("Creditors' Council"). According to the GOK, this Creditors' Council was based on the corporate workout process established by the GOK in June 1998 pursuant to the Corporate Restructuring Act ("CRA"), which was an informal agreement that comprised 210 ROK financial institutions. Under the CRA, the FSC would identify the lead creditor of the troubled corporation (normally the financial institution with the most outstanding debt). The lead creditor, which would be responsible for negotiating any corporate work-out terms, headed the Creditors' Council, a council made up of the troubled corporation's creditor banks. (In September 2001, the CRA was replaced by the CRPA, a more formal mechanism under ROK law which codified the corporate workout methods that were

being utilized under the CRA.) However, although this Creditors' Council was based on the CRA councils, according to the GOK, it was not part of the CRA program but was a voluntary agreement among Hynix' creditors based on experience acquired while pursuing other workout agreements.

Hynix and SSB presented this Creditors' Council with an overall restructuring proposal for Hynix. This proposal included recapitalization in the form of a won 1 trillion convertible bond issuance and an issuance of USD 1.25 billion in common shares in the form of Global Depository Shares ("GDS"), and rescheduling and restructuring of Hynix' debt through maturity extensions and greater availability of short-term debt instruments. Hynix and its creditors formally agreed to this restructuring plan in May 2001. As a result, in June 2001, Hynix issued won 994.1 billion in convertible bonds, borrowed won 5.9 billion in the form of a separate loan, participated in a successful USD 1.25 billion GDS issuance on foreign and domestic capital markets, and had many of its maturing debts rescheduled or refinanced. Hynix also was able to continue to access short-term usance and overdraft financing.

Despite these restructuring efforts, by summer of 2001, it became apparent that more restructuring would be necessary due to the unexpectedly prolonged downturn in the DRAMS market and Hynix' continuing financial troubles. Thus, Hynix and its advisors worked with Hynix' creditors to develop a new restructuring package that was adopted in October 2001. As part of this package, which was negotiated pursuant to the new CRPA, Hynix' new CRPA Council developed three options for Hynix' creditors: (1) For creditors that agreed to extend new loans, the creditors could convert D/A balances to general long-term loans, swap convertible bonds and unsecured loans to new convertible bonds (which would be subsequently converted into equity), and refinance or extend the remaining loans; (2) creditors that did not agree to extend new loans, but did agree to the debt-to-equity conversion, could convert all of their secured loans and 28 percent of their unsecured loans into the convertible bonds that would subsequently be swapped for equity, with the remainder of the unsecured loans to be forgiven; (3) creditors that did not agree to either new loans or the debt-to-equity conversion could exercise their appraisal rights for all of their secured debt and 25 percent of their unsecured debt based on Hynix' liquidation value as of September 31,

2001 (as established by an external consultant), and have the remainder of the debt forgiven. The various creditors of Hynix selected among these options, with the result that won 2.993 trillion in debt was swapped for equity on December 6, 2001, won 1.45 trillion in debt was forgiven, some new loans were issued, and numerous loans were extended or refinanced.

As discussed above in the "Direction of Credit and Other Financial Assistance" section, we have preliminarily determined that the GOK directed Hynix' creditor banks to participate in these restructuring programs and to provide credit and other funds to Hynix in order to assist it through its financial difficulties. As indicated in the overview of the Hynix restructurings, the financial assistance provided to Hynix by its creditors took various forms. We preliminarily determine that these different means of supporting Hynix were financial contributions as described in section 771(5)(D) of the Act. Specifically, the loans, convertible bonds, extensions of maturities (which we view as new loans), D/A financing, usance financing, overdraft lines, debt forgiveness, and debt-for-equity swaps are direct transfers of funds from the GOK-directed financial institutions to Hynix. (See section 771(5)(D)(i) of the Act.)

We determined the benefits to Hynix from the various instruments as follows:

- For the long-term loans and new bonds that were issued as part of the restructuring program, we compared the interest rates on the directed long-term loans and new bonds to the benchmark interest rates detailed in the "Subsidies Valuation Information" section, above, in accordance with section 771(5)(E)(ii) of the Act. For the period January 2000 through June 2002, we used an uncreditworthy benchmark rate because we determined that Hynix was uncreditworthy during this period (as discussed above in the "Creditworthiness" section and the accompanying *Creditworthiness Memo*). For long-term variable-rate loans, the repayment schedules of these loans did not remain constant during the lives of the respective loans. Therefore, we have calculated the benefit from these loans using the Department's variable rate methodology as described in 19 CFR 351.505(a)(5) and 19 CFR 351.505(c)(4). For long-term fixed-rate loans and bonds, consistent with Cold-Rolled Steel, we calculated the benefit using the Department's standard fixed-rate methodology specified in 19 CFR 351.505(c)(2). We summed these benefits to determine the total benefit