SK HYNIX, INC. and Subsidiaries

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
SK hynix, Inc.:

We have audited the accompanying consolidated financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 17, 2016

This report is effective as of February 17, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit 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 audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2015 and 2014

(In millions of won)	***Note***		**2015**	**2014**
Assets				
Current assets				
Cash and cash equivalents	*5,6*	W	1,175,719	436,761
Short-term financial instruments	*5,6,7*		3,615,554	3,618,014
Trade receivables, net	*5,6,8,32*		2,628,448	3,732,926
Loans and other receivables, net	*5,6,8,32*		61,613	691,529
Inventories, net	*9*		1,923,376	1,497,563
Current tax assets			1,394	1,629
Assets held for sale	*10*		-	27,661
Other current assets	*11*		353,926	357,431
			9,760,030	10,363,514
Non-current assets				
Equity-accounted investees	*12*		122,609	97,090
Available-for-sale financial assets	*5,6,13*		131,354	127,314
Loans and other receivables, net	*5,6,8,32*		62,919	58,989
Other financial assets	*5,6,7*		430	323
Property, plant and equipment, net	*14,21,33*		16,966,252	14,090,334
Intangible assets, net	*15,29*		1,704,896	1,336,680
Investment property, net	*14,16*		2,679	28,456
Deferred tax assets	*21,30*		361,204	272,102
Other non-current assets	*11*		565,533	508,476
			19,917,876	16,519,764
Total assets		W	29,677,906	26,883,278

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Financial Position, Continued
As of December 31, 2015 and 2014

(In millions of won)	***Note***		**2015**	**2014**
Liabilities				
Current liabilities				
Trade payables	*5,6*	W	791,373	787,822
Other payables	*5,6,32*		1,337,803	1,358,816
Other non-trade payables	*5,6*		1,001,171	1,182,956
Borrowings	*5,6,17,32*		1,013,372	1,755,020
Other financial liabilities	*5,6,22*		-	30
Provisions	*19,33*		25,276	25,932
Current tax liabilities			627,260	583,529
Other current liabilities	*18*		44,443	71,199
			4,840,698	5,765,304
Non-current liabilities				
Other non-trade payables	*5,6*		89,891	132,947
Borrowings	*5,6,17,32*		2,805,223	2,419,739
Other financial liabilities	*5,6,22*		683	708
Defined benefit liabilities, net	*20*		484,977	465,350
Deferred tax liabilities	*21*		7,582	3,463
Other non-current liabilities	*18*		61,149	59,464
			3,449,505	3,081,671
Total liabilities			8,290,203	8,846,975
Equity				
Equity attributable to owners of the Parent Company				
Capital stock	*1,23*		3,657,652	3,657,652
Capital surplus	*23*		4,143,736	4,143,736
Other equity	*23*		(771,913)	(24)
Accumulated other comprehensive loss	*24*		(1,600)	(41,815)
Retained earnings	*25*		14,358,988	10,276,904
Total equity attributable to owners of the Parent Company			21,386,863	18,036,453
Non-controlling interests			840	(150)
Total equity			21,387,703	18,036,303
Total liabilities and equity		W	29,677,906	26,883,278

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014

(In millions of won, except per share information)

	Note		2015	2014
Revenue	*4,32*	W	18,797,998	17,125,566
Cost of sales	*27,32*		10,515,353	9,461,725
Gross profit			8,282,645	7,663,841
Selling and administrative expense	*26,27*		2,946,545	2,554,375
Operating profit			5,336,100	5,109,466
Finance income	*28*		846,752	678,570
Finance expenses	*28*		829,913	799,771
Share of profit of equity-accounted investees	*12*		24,642	23,145
Other income	*29*		40,479	618,684
Other expenses	*29*		148,939	582,424
Profit before income tax			5,269,121	5,047,670
Income tax expense	*30*		945,526	852,501
Profit for the year			4,323,595	4,195,169
Other comprehensive income (loss)				
Item that will never be reclassified to profit or loss:				
Remeasurements of defined benefit liability, net of tax	*20*		(21,871)	(119,874)
Items that are or may be reclassified to profit or loss:				
Available-for-sale financial assets – unrealized net change in fair value, net of tax	*13,24*		-	(7,824)
Foreign operations – foreign currency translation differences, net of tax	*24*		33,479	71,631
Equity-accounted investees – share of other comprehensive income, net of tax	*12,24*		6,487	3,706
Other comprehensive income (loss) for the year, net of tax			18,095	(52,361)
Total comprehensive income for the year		W	4,341,690	4,142,808

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income, Continued

For the years ended December 31, 2015 and 2014

(In millions of won, except per share information)

	Note		**2015**	**2014**
Profit (loss) attributable to:				
Owners of the Parent Company		W	4,322,356	4,195,456
Non-controlling interests			1,239	(287)
Total comprehensive income attributable to:				
Owners of the Parent Company			4,340,700	4,142,574
Non-controlling interests			990	234
Earnings per share				
Basic and diluted earnings per share (in won)	*31*		6,002	5,842

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014

(In millions of won)		Attributable to owners of the Parent Company							
		Capital stock	**Capital surplus**	**Other equity**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2014	W	3,568,645	3,406,083	-	(108,807)	6,201,322	13,067,243	(384)	13,066,859
Total comprehensive income									
Profit (loss) for the year		-	-	-	-	4,195,456	4,195,456	(287)	4,195,169
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	(7,824)	-	(7,824)	-	(7,824)
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(119,874)	(119,874)	-	(119,874)
Other comprehensive income from joint venture and associate, net of tax		-	-	-	3,706	-	3,706	-	3,706
Foreign currency translation differences for foreign operations, net of tax		-	-	-	71,110	-	71,110	521	71,631
Total comprehensive income		-	-	-	66,992	4,075,582	4,142,574	234	4,142,808
Transactions with owners of the Parent Company									
Issue of ordinary shares related to acquisition of a subsidiary		6,793	47,277	-	-	-	54,070	-	54,070
Exercise of conversion rights		82,214	690,376	-	-	-	772,590	-	772,590
Acquisition of treasury shares		-	-	(24)	-	-	(24)	-	(24)
Total transactions with owners of the Parent Company		89,007	737,653	(24)	-	-	826,636	-	826,636
Balance at December 31, 2014	W	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2015 and 2014

(In millions of won)		Attributable to owners of the Parent Company							
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2015	W	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303
Total comprehensive income									
Profit for the year		-	-	-	-	4,322,356	4,322,356	1,239	4,323,595
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(21,871)	(21,871)	-	(21,871)
Other comprehensive income from joint venture and associate, net of tax		-	-	-	6,487	-	6,487	-	6,487
Foreign currency translation differences for foreign operations, net of tax		-	-	-	33,728	-	33,728	(249)	33,479
Total comprehensive income		-	-	-	40,215	4,300,485	4,340,700	990	4,341,690
Transactions with owners of the Parent Company									
Dividends paid		-	-	-	-	(218,401)	(218,401)	-	(218,401)
Acquisition of treasury shares		-	-	(771,889)	-	-	(771,889)	-	(771,889)
Total transactions with owners of the Parent Company		-	-	(771,889)	-	(218,401)	(990,290)	-	(990,290)
Balance at December 31, 2015	W	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(In millions of won)	*Note*		2015	2014
Cash flows from operating activities				
Cash generated from operating activities	*34*	W	10,357,267	6,305,229
Interest received			51,610	35,658
Interest paid			(124,304)	(151,551)
Dividends received			17,045	17,134
Income tax paid			(982,098)	(339,779)
Net cash provided by operating activities			9,319,520	5,866,691
Cash flows from investing activities				
Decrease (increase) in short-term financial instruments, net			39,533	(1,407,752)
Collection of loans and other receivables			10,692	3,501
Increase in loans and other receivables			(14,134)	(15,735)
Proceeds from disposal of available-for-sale financial assets			1,319	28,602
Acquisition of available-for-sale financial assets			(5,359)	(1,415)
Decrease in other financial assets			-	275,422
Increase in other financial assets			-	(29,611)
Cash inflows from derivative transactions			1,672	2,371
Cash outflows from derivative transactions			(2,088)	(4,534)
Proceeds from disposal of property, plant and equipment			220,097	198,959
Acquisition of property, plant and equipment			(6,774,625)	(4,800,722)
Proceeds from disposal of intangible assets			7,963	286
Acquisition of intangible assets			(623,743)	(336,291)
Proceeds from disposal of assets held for sale			22,630	-
Receipt of government grants			406	20,241
Cash outflows from business combinations			-	(19,682)
Cash outflows from disposal of investments in a subsidiary			-	(1,467)
Investments in associates			(9,893)	-
Net cash used in investing activities		W	(7,125,530)	(6,087,827)

See accompanying notes to the consolidated financial statements.

SK HYNIX, INC. and Subsidiaries
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2015 and 2014

(In millions of won)		2015	2014
Cash flows from financing activities			
Proceeds from borrowings	W	3,933,056	3,848,816
Repayments of borrowings		(4,405,023)	(3,820,449)
Acquisition of treasury shares		(771,889)	(24)
Dividends paid		(218,401)	-
Net cash provided by (used in) financing activities		(1,462,257)	28,343
Effect of movements in exchange rates on cash and cash equivalents		7,225	(2,313)
Net increase (decrease) in cash and cash equivalents		738,958	(195,106)
Cash and cash equivalents at beginning of the year		436,761	631,867
Cash and cash equivalents at end of the year	W	1,175,719	436,761

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

(1) General information about SK hynix, Inc. (the "Parent Company" or the "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 have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of December 31, 2015, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service	59,898,134	8.23
Share Management Council[1]	5,097,667	0.70
Other investors	494,905,994	67.98
Treasury shares	22,000,570	3.02
	728,002,365	100.00

[1] As of December 31, 2015, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
KEB Hana Bank (formerly, Korea Exchange Bank)	5,092,500	0.70
Other financial institutions	5,167	0.00
	5,097,667	0.70

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on its shares following SK Telecom Co., Ltd.'s decision in designating officers of the Company or other matters unless this conflicts with the Share Management Council's interest.

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of December 31, 2015 and 2014 are as follows:

Company	Location	Business	Ownership(%) 2015	Ownership(%) 2014
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA)[1]	U.S.A.	Discontinued subsidiary	100.00	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS)[2]	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)[3]	China	Overseas manufacturing subsidiary	100.00	100.00
Softeq Flash Solutions LLC.(SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

[1] Subsidiary of SK hynix America Inc. (SKHYA)
[2] Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)
[3] Subsidiary of SK APTECH Ltd. (SKAPTECH)

1. Reporting Entity, Continued

(3) There is no change in the consolidated subsidiaries for the year ended December 31, 2015.

(4) Major subsidiaries' summarized statements of financial position as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015			2014	
	Assets	**Liabilities**	**Equity**	**Assets**	**Liabilities**	**Equity**
SK hynix America Inc.(SKHYA)	W 1,504,882	1,333,291	171,591	1,711,746	1,634,047	77,699
SK hynix Asia Pte. Ltd.(SKHYS)	269,286	190,155	79,131	386,135	313,152	72,983
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	529,095	431,074	98,021	563,598	478,449	85,149
SK hynix Japan Inc.(SKHYJ)	245,142	183,277	61,865	285,122	227,860	57,262
SK hynix Semiconductor Taiwan Inc.(SKHYT)	299,834	277,520	22,314	628,791	605,861	22,930
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,718,832	503,776	3,215,056	4,179,186	1,197,588	2,981,598
SK hynix Deutschland GmbH(SKHYD)	75,152	38,697	36,455	135,384	98,477	36,907
SK hynix U.K. Ltd.(SKHYU)	155,531	138,918	16,613	194,318	179,990	14,328
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	406,552	224,672	181,880	341,984	174,936	167,048

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized statements of comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015			2014	
	Revenue	Profit	Total comprehensive income	Revenue	Profit	Total comprehensive income
SK hynix America Inc.(SKHYA)	W 7,599,679	89,716	89,716	6,360,992	21,385	21,385
SK hynix Asia Pte. Ltd.(SKHYS)	1,612,550	1,303	1,303	1,638,396	2,773	2,773
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	4,181,208	6,909	6,909	3,714,085	12,941	12,941
SK hynix Japan Inc.(SKHYJ)	934,001	1,116	1,322	843,383	9,890	10,478
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,915,465	5,852	5,852	2,176,739	7,599	7,599
SK hynix Semiconductor (China) Ltd.(SKHYCL)	2,273,536	206,446	206,446	1,914,452	381,729	381,729
SK hynix Deutschland GmbH(SKHYD)	414,489	1,072	1,072	551,528	6,197	6,197
SK hynix U.K. Ltd.(SKHYU)	702,329	1,289	1,289	575,959	1,813	1,813
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	350,110	13,328	13,328	109,769	6,813	6,813

(6) There are no significant non-controlling interests to the Group as of December 31, 2015 and 2014.

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audits of Corporations in the Republic of Korea*.

The consolidated financial statements were authorized for issuance by the board of directors on January 25, 2016, which will be submitted for approval at the shareholders' meeting to be held on March 18, 2016.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

2. Basis of Preparation, Continued

(3) Functional and presentation currency

Financial statements of entities within the Group are presented in functional currency and the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3: estimated useful lives of property, plant and equipment and intangible assets
- Note 5: classification of financial instruments

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 9: net realizable value of inventories
- Note 15: impairment of goodwill
- Note 19: recognition and measurement of provisions
- Note 20: measurement of defined benefit obligations
- Note 21: recognition of deferred tax assets and liabilities

(c) Fair value measurement

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for various financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation department, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy.

The valuation department regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation department reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Group uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods 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 (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, Continued

If various inputs used to measure fair value of assets or liabilities fall into different levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value. The Group recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 6.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are explained below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(1) Operating Segments

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 4.

(2) Basis of consolidation

(a) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and cease when the Group loses control of the investee.

(d) Loss of control

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

(e) Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprise interests in an associate and a joint venture. An associate is an entity in which the Group has significant influence, but not control or joint control, over the entity's financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in an associate and a joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with equity-accounted investees are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

(g) Business combinations under common control

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

3. Significant Accounting Policies, Continued

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(4) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the asset's acquisition.

(a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, and changes in their fair value, net of any tax effect, are recorded in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(e) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Group has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(b) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, 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 becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- 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 group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the financial asset's estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. 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, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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, with the amount of the reversal recognized in profit or loss.

(8) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Group and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	10 - 50
Structures	10 - 30
Machinery	4 - 15
Vehicles	4 - 10
Other	3 - 15

Depreciation methods, useful lives, and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

3. Significant Accounting Policies, Continued

(9) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, certain intangible assets are determined as having indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the assets are expected to be available for use.

The estimated useful lives of the Group's intangible assets are as follows:

	Useful lives (years)
Industrial rights	5 - 10
Development costs	1 - 2
Software	5

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

3. Significant Accounting Policies, Continued

(10) Intangible assets, Continued

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

(b) Grants related to income

Government grants which are intended to compensate the Group for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

(12) Investment property

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Group and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(13) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

3. Significant Accounting Policies, Continued

(13) Impairment of non-financial assets, Continued

The Group estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Group recognizes as finance lease assets and finance lease liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews whether the leased asset is impaired.

(b) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

3. Significant Accounting Policies, Continued

(14) Leases, Continued

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance expense on the liability recognized using the purchaser's incremental borrowing rate of interest.

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, any directly attributable transaction costs are recognized in profit or loss as incurred.

3. Significant Accounting Policies, Continued

(16) Non-derivative financial liabilities, Continued

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

(c) Retirement benefits: defined benefit plans

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations, net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability, and are recognized in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

(d) Termination benefits

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(19) Foreign currencies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss, except for differences arising on the retranslation of the net investment in a foreign operation, which are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

3. Significant Accounting Policies, Continued

(19) Foreign currencies, Continued

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the end of reporting period. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the exchange rates at the end of reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares is recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(21) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(a) Sale of goods

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(b) Sale of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

3. Significant Accounting Policies, Continued

(22) Finance income and finance expenses

Finance income comprises interest and dividend income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive dividend is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, and changes in the fair value of financial instruments at fair value through profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(23) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit 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.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

3. Significant Accounting Policies, Continued

(23) Income taxes, Continued

(b) Deferred tax, Continued

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

(24) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of outstanding ordinary shares, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

(25) New standards not yet adopted

The following new standards have been published and are mandatory for the Group for annual period beginning on January 1, 2018, and the Group has not early adopted them.

(a) K-IFRS No. 1109, *Financial Instruments*

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of K-IFRS 1109.

(b) K-IFRS No. 1115, *Revenue from Contracts with Customers*

K-IFRS 1115, published in December 2015, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts* and K-IFRS No. 2113, *Customer Loyalty Programmes*. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of K-IFRS 1115.

4. Geographic, Product and Customer Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products.

(1) Details of the Group's revenue for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014[1]
Sale of goods	W	18,739,177	17,054,031
Sale of services		58,821	71,535
	W	18,797,998	17,125,566

[1] Sale of service amounting to W40,432 million was reclassified to sale of goods to conform with the classification for the year ended December 31, 2015.

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
DRAM	W	14,045,339	13,311,628
NAND Flash		4,148,315	3,320,658
Other		604,344	493,280
	W	18,797,998	17,125,566

4. Geographic, Product and Customer Information, Continued

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Korea	W	1,204,642	1,179,949
China		4,496,357	3,825,747
Taiwan		1,899,649	2,155,005
Asia (other than China and Taiwan)		2,536,009	2,482,716
U.S.A.		7,549,622	6,359,461
Europe		1,111,719	1,122,688
	W	18,797,998	17,125,566

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Korea	W	15,648,779	12,356,735
China		3,208,908	3,255,550
Taiwan		7,007	5,831
Asia (other than China and Taiwan)		770	798
U.S.A.		365,024	333,908
Europe		8,874	11,124
	W	19,239,362	15,963,946

(5) Revenue from customer A and B each constitutes more than 10% of the Group's consolidated revenue for the year ended December 31, 2015 amounts to W3,485,795 million (2014: W2,959,663 million) and W2,078,835 million (2014: W1,710,833 million), respectively.

5. Categories of Financial Instruments

(1) Categories of financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015			
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents	W	-	-	1,175,719	1,175,719
Short-term financial instruments		1,047,277	-	2,568,277	3,615,554
Trade receivables		-	-	2,628,448	2,628,448
Loans and other receivables		-	-	124,532	124,532
Other financial assets		-	-	430	430
Available-for-sale financial assets		-	131,354	-	131,354
	W	1,047,277	131,354	6,497,406	7,676,037

(In millions of won)		2014			
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents	W	-	-	436,761	436,761
Short-term financial instruments		1,842,020	-	1,775,994	3,618,014
Trade receivables		-	-	3,732,926	3,732,926
Loans and other receivables		-	-	750,518	750,518
Other financial assets		-	-	323	323
Available-for-sale financial assets		-	127,314	-	127,314
	W	1,842,020	127,314	6,696,522	8,665,856

5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	W	-	791,373	791,373
Other payables		-	1,337,803	1,337,803
Other non-trade payables[1]		-	1,091,062	1,091,062
Borrowings		-	3,818,595	3,818,595
Other financial liabilities		683	-	683
	W	683	7,038,833	7,039,516

(In millions of won)

		2014		
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	W	-	787,822	787,822
Other payables		-	1,358,816	1,358,816
Other non-trade payables[1]		-	1,315,903	1,315,903
Borrowings		-	4,174,759	4,174,759
Other financial liabilities		738	-	738
	W	738	7,637,300	7,638,038

[1] Details of other non-trade payables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Current			
Accrued expenses	W	1,001,171	1,182,956
Non-current			
Long-term other payables		87,036	130,566
Rent deposits payable		2,855	2,357
Long-term accrued expenses		-	24
		89,891	132,947
	W	1,091,062	1,315,903

5. Categories of Financial Instruments, Continued

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Loans and receivables			
Interest income	W	40,715	50,804
Foreign exchange differences		300,163	200,390
Reversal of impairment (loss)		82	(5,463)
		340,960	245,731
Available-for-sale financial assets			
Gain on disposal		-	6,553
Dividend income		1,265	1,233
		1,265	7,786
Held-to-maturity financial assets			
Interest income		-	1,318
Financial assets at fair value through profit or loss			
Gain on valuation		2,280	6,920
Gain on disposal		33,814	28,493
		36,094	35,413
Financial liabilities measured at amortized cost			
Interest expenses		(118,505)	(170,363)
Loss on redemption of debentures		-	(2,924)
Foreign exchange differences		(242,532)	(71,870)
		(361,037)	(245,157)
Financial liabilities at fair value through profit or loss			
Loss from derivative instruments		(361)	(171,754)
	W	16,921	(126,663)

6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Parent Company's corporate finance division in accordance with policies approved by the board of directors. The Parent Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of December 31, 2015 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	4,299	W 5,038,126	3,261	W 3,821,703
EUR	-	115	148	189,031
JPY	6,194	60,204	37,445	363,967

As of December 31, 2015, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

(In millions of won)	If increased by 10%	If decreased by 10%
USD	W 121,642	(121,642)
EUR	(18,892)	18,892
JPY	(30,376)	30,376

6. Financial Risk Management, Continued

(ii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from floating rate financial assets.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

As of December 31, 2015, the Group is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be W17,771 million (2014: W15,267 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

As of December 31, 2015, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the creditworthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, based on which the Group establishes credit limits for each customer or counterparty.

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2015 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2015 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings including Shinhan Bank, and accordingly management does not expect any losses from non-performance by these counterparties.

6. Financial Risk Management, Continued

(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 basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

Contractual maturities of financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Less than 1 year	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Borrowings (other than finance lease liabilities)	W	1,012,385	735,424	2,025,522	156,995	3,930,326
Finance lease liabilities		98,927	26,654	16,050	24,075	165,706
Trade payables		791,373	-	-	-	791,373
Other payables		1,346,469	-	-	-	1,346,469
Other non-trade payables		1,001,077	83,536	10,877	-	1,095,490
Derivatives		683	-	-	-	683
Financial guarantee contract		8	-	-	-	8
	W	4,250,922	845,614	2,052,449	181,070	7,330,055

(In millions of won)

		2014				
		Less than 1 year	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Borrowings (other than finance lease liabilities)	W	1,765,674	795,191	1,675,663	-	4,236,528
Finance lease liabilities		106,318	92,024	24,253	-	222,595
Trade payables		787,822	-	-	-	787,822
Other payables		1,369,959	-	-	-	1,369,959
Other non-trade payables		1,182,957	78,625	54,297	-	1,315,879
Derivatives		738	-	-	-	738
Financial guarantee contract		27	-	-	-	27
	W	5,213,495	965,840	1,754,213	-	7,933,548

6. Financial Risk Management, Continued

(c) Liquidity risk, Continued

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Group's derivative instruments have been included at their fair value of W683 million (2014: W738 million) within the less than one-year time bucket as of December 31, 2015. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate risk.

(2) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, proceeds and repayments of borrowings, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Total liabilities (A)	W	8,290,203	8,846,975
Total equity (B)		21,387,703	18,036,303
Cash and cash equivalents and short-term financial instruments (C)		4,791,273	4,054,775
Total borrowings (D)		3,818,595	4,174,759
Debt-to-equity ratio (A/B)		39%	49%
Net borrowing ratio (D-C)/B		-5%	1%

6. Financial Risk Management, Continued

(3) Fair value

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2015 and 2014:

(In millions of won)

		2015				
		Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Short-term financial instruments	W	1,047,277	-	1,047,277	-	1,047,277
		1,047,277	-	1,047,277	-	1,047,277
Financial assets not measured at fair value						
Cash and cash equivalents[1]		1,175,719	-	-	-	-
Short-term financial instruments[1]		2,568,277	-	-	-	-
Trade receivables[1]		2,628,448	-	-	-	-
Loans and other receivables[1]		124,532	-	-	-	-
Other financial assets[1]		430	-	-	-	-
Available-for-sale financial assets[1,2]		131,354	-	-	-	-
		6,628,760	-	-	-	-
Financial liabilities measured at fair value						
Other financial liabilities		683	-	683	-	683
		683	-	683	-	683
Financial liabilities not measured at fair value						
Trade payables[1]		791,373	-	-	-	-
Other payables[1]		1,337,803	-	-	-	-
Other non-trade payables[1]		1,091,062	-	-	-	-
Borrowings		3,818,595	-	3,869,536	-	3,869,536
	W	7,038,833	-	3,869,536	-	3,869,536

6. Financial Risk Management, Continued

(In millions of won)		2014				
		Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Short-term financial instruments	W	1,842,020	-	1,842,020	-	1,842,020
		1,842,020	-	1,842,020	-	1,842,020
Financial assets not measured at fair value						
Cash and cash equivalents[1]		436,761	-	-	-	-
Short-term financial instruments[1]		1,775,994	-	-	-	-
Trade receivables[1]		3,732,926	-	-	-	-
Loans and other receivables[1]		750,518	-	-	-	-
Other financial assets[1]		323	-	-	-	-
Available-for-sale financial assets[1,2]		127,314	-	-	-	-
		6,823,836	-	-	-	-
Financial liabilities measured at fair value						
Other financial liabilities		738	-	738	-	738
		738	-	738	-	738
Financial liabilities not measured at fair value						
Trade payables[1]		787,822	-	-	-	-
Other payables[1]		1,358,816	-	-	-	-
Other non-trade payables[1]		1,315,903	-	-	-	-
Borrowings		4,174,759	-	4,243,974	-	4,243,974
	W	7,637,300	-	4,243,974	-	4,243,974

[1] Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are close to the reasonable approximate fair values.

[2] Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with K-IFRS No. 1039, 'Financial Instrument: Recognition and Measurement' as fair values of such equity instruments cannot be reliably measured using other valuation techniques.

6. Financial Risk Management, Continued

(b) Valuation Techniques
The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 are as follows:

(In millions of won)		Fair value	Level	Valuation Techniques
Short-term financial instruments:				
Financial assets at fair value through profit or loss	W	1,047,277	2	The present value method
Derivative financial Liabilities:				
Interest swap		683	2	The present value method

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2015.

7. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014	Description
Short-term financial instruments	W	-	3	Restricted for government grants
		77,500	46,000	Restricted for supporting small business
		22,190	21,655	Pledged for borrowings
		5,832	4,601	Pledged for consumption tax
		-	4,764	Pledged for letter of credit
		2,843	584	Deposit for import duties
		108,365	77,607	
Other financial assets		308	308	Pledged for borrowings
		12	12	Bank overdraft guarantee deposit
		110	3	Others
		430	323	
	W	108,795	77,930	

8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Current			
Other receivables[1]	W	37,427	655,112
Accrued income		18,126	28,337
Short-term loans		3,786	3,504
Short-term guarantee and other deposits		2,274	4,576
		61,613	691,529
Non-current			
Long-term other receivables		22,921	22,880
Long-term loans		6,104	7,199
Guarantee deposits		33,637	28,585
Long-term deposits		257	325
		62,919	58,989
	W	124,532	750,518

[1] Some of other receivables as of December 31, 2014 were reclassified to other current assets to conform with the classification as of December 31, 2015.

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015		
		Gross amount	Provision for impairment	Carrying amount
Trade receivables	W	2,631,422	(2,974)	2,628,448
Current loans and other receivables		63,046	(1,433)	61,613
Non-current loans and other receivables		69,062	(6,143)	62,919
	W	2,763,530	(10,550)	2,752,980

(In millions of won)		2014		
		Gross amount	Provision for impairment	Carrying amount
Trade receivables	W	3,735,845	(2,919)	3,732,926
Current loans and other receivables		693,197	(1,668)	691,529
Non-current loans and other receivables		65,023	(6,034)	58,989
	W	4,494,065	(10,621)	4,483,444

8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Beginning balance	W	2,919	3,446
Provision for receivables impairment		88	525
Receivables written off during the year as uncollectible		-	(885)
Foreign exchange difference		(33)	(167)
Ending balance	W	2,974	2,919

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Beginning balance	W	1,668	2,062
Provision for receivables impairment		-	302
Unused amounts reversed		(234)	(1)
Receivables written off during the year as uncollectible		-	(697)
Foreign exchange difference		(1)	2
Ending balance	W	1,433	1,668

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Beginning balance	W	6,034	12,510
Provision for receivables impairment		68	4,636
Unused amounts reversed		(4)	-
Receivables written off during the year as uncollectible		(6)	(10,891)
Foreign exchange difference		51	(221)
Ending balance	W	6,143	6,034

8. Trade Receivables and Loans and Other Receivables, Continued

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015					
		Not impaired					
			Overdue				
		Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	W	2,606,603	24,819	-	-	-	2,631,422
Current loans and other receivables		61,753	-	-	-	1,293	63,046
Non-current loans and other receivables		43,953	-	-	-	25,109	69,062
	W	2,712,309	24,819	-	-	26,402	2,763,530

(In millions of won)

		2014					
		Not impaired					
			Overdue				
		Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	W	3,731,621	3,809	415	-	-	3,735,845
Current loans and other receivables		691,918	-	-	-	1,279	693,197
Non-current loans and other receivables		41,599	-	-	-	23,424	65,023
	W	4,465,138	3,809	415	-	24,703	4,494,065

9. Inventories

(1) Details of inventories as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	W	667,060	(53,678)	613,382
Work-in-process		979,115	(130,916)	848,199
Raw materials		226,371	(3,629)	222,742
Supplies		164,179	(23)	164,156
Goods in transit		74,897	-	74,897
	W	2,111,622	(188,246)	1,923,376

(In millions of won)

		2014		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	W	441,393	(33,137)	408,256
Work-in-process		795,844	(33,423)	762,421
Raw materials		189,936	(1,899)	188,037
Supplies		102,738	(33)	102,705
Goods in transit		36,180	(36)	36,144
	W	1,566,091	(68,528)	1,497,563

(2) The amount of the inventories recognized as cost of sales and loss on (reversal of) valuation allowance of inventories charged to (deducted from) cost of sales are as follows:

(In millions of won)

		2015	2014
Inventories recognized as cost of sales	W	10,230,830	9,453,427
Loss on (reversal of) valuation allowance of inventories		119,718	(5,053)

10. Non-current assets held for sale

Details of changes in non-current assets held for sale for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Beginning balance	W	27,661	26,557
Disposal[1]		(27,661)	-
Other		-	1,104
Ending balance	W	-	27,661

[1] The Group disposed assets held for sale during the year ended December 31, 2015 and recognized loss on disposal of assets held for sale as other expenses for the amount of W5,844 million.

11. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Current			
Advance payments	W	2,033	4,501
Prepaid expenses		212,766	156,590
Value added tax refundable[1]		131,673	190,356
Others		7,454	5,984
		353,926	357,431
Non-current			
Long-term prepaid expenses		558,058	494,908
Others		7,475	13,568
		565,533	508,476
	W	919,459	865,907

[1] Value added tax refundable for the year ended December 31, 2014 was reclassified from other receivables to other current assets to conform with the classification for the year ended December 31, 2015.

12. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of December 31, 2015 and 2014 are as follows:

(In millions of won)

Type	Investee	Ownership (%)		2015 Net asset value	2015 Carrying amount	2014 Carrying amount
Associate	Stratio, Inc.[1]	9.10	W	171	2,171	-
	Gemini Partners Pte. Ltd.[2]	20.00		6,228	7,976	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00		112,462	112,462	97,090
			W	118,861	122,609	97,090

[1] In 2015, the Parent Company acquired 1,136,013 preferred shares of Stratio, Inc. Stratio, Inc. is classified as an associate because the Parent Company has significant influence over Stratio, Inc.'s financial and operating policies through its right to appoint a member of the board of directors.
[2] In 2015, the Parent Company acquired 20% of shares of Gemini Partners Pte. Ltd. and classified it as an associate because the Parent Company has significant influence over Gemini Partners Pte. Ltd.

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

2015

		Beginning balance	Acquisition (disposal)	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Stratio, Inc.	W	-	2,194	(35)	12	-	2,171
Gemini Partners Pte. Ltd.		-	7,976	-	-	-	7,976
HITECH Semiconductor (Wuxi) Co., Ltd.		97,090	-	24,677	6,475	(15,780)	112,462
	W	97,090	10,170	24,642	6,487	(15,780)	122,609

(In millions of won)

2014

		Beginning balance	Acquisition (disposal)	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Siliconfile Technologies Inc.	W	10,962	(10,319)	(579)	171	(235)	-
HITECH Semiconductor (Wuxi) Co., Ltd.		96,135	-	13,084	3,535	(15,664)	97,090
	W	107,097	(10,319)	12,505	3,706	(15,899)	97,090

12. Investments in Associates and Joint Ventures, Continued

(3) Associate and joint venture's statements of financial position as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	W	962	921	-	1
Gemini Partners Pte. Ltd.		27,762	14,694	3,444	7,867
HITECH Semiconductor (Wuxi) Co., Ltd.		270,959	314,464	89,034	246,478

(In millions of won)		2014			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
HITECH	W	251,443	306,344	289,990	52,042

(4) Associate and joint venture's statements of comprehensive income (loss) for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015		2014	
		Revenue	Profit (loss) for the year	Revenue	Profit (loss) for the year
Stratio, Inc.	W	-	(385)	-	-
Gemini Partners Pte. Ltd.		-	(747)	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.		677,284	54,835	608,300	29,077
Siliconfile Technologies Inc.[1]		-	-	40,339	(2,072)

[1] Siliconfile Technologies Inc. was reclassified as a subsidiary due to the Group's additional acquisition of the remaining interest on April 22, 2014. Accordingly, the information presented in the above table includes the results of Siliconfile Technologies Inc. only for the period from January 1 to April 22, 2014.

13. Available-for-sale Financial Assets

(1) Details of available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015					2014
	Ownership	Ownership (%)		Acquisition cost	Book value	Book value
ProMos	201,600,000	7.93	W	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	-		1,213	1,213	1,307
SV M&A No.1 Equity Unit	Certificate	-		1,120	1,120	1,196
Daishin Aju IB Investment Co., Ltd.	Certificate	-		699	699	1,265
Seoul Investment Early & Green Venture Fund	Certificate	-		1,678	1,678	1,760
TS 2011-4 Technology Transfer & Business	Certificate	-		1,262	1,262	1,262
IMM Investment	Certificate	-		620	620	1,040
L&S Venture Capital	Certificate	-		1,849	1,849	1,899
KTC-NP-Growth	Certificate	-		2,271	2,271	516
Intellectual Discovery, Ltd.	800,000	7.05		4,000	4,000	4,000
SKY Property Mgmt. Ltd.	5,745	15.00		112,360	112,360	112,360
Equity investment in a construction guarantee association	526	0.01		709	709	709
China Walden Venture Investments II	Certificate	-		3,573	3,573	-
			W	153,201	131,354	127,314

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	W	127,314	158,770
Acquisition		5,359	1,414
Disposal		(1,319)	(32,870)
Ending balance	W	131,354	127,314

14. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Total
Beginning net book amount	W	542,952	1,433,541	282,191	9,974,301	863	254,129	1,602,357	14,090,334
Changes during 2015									
Additions		-	-	907	48,005	94	11,030	6,699,838	6,759,874
Receipt of government grants		-	-	-	(378)	-	-	-	(378)
Disposals		(4)	(71)	(271)	(204,220)	-	(12,759)	(7,665)	(224,990)
Depreciation		-	(88,013)	(27,851)	(3,476,825)	(371)	(101,385)	-	(3,694,445)
Transfers[1]		23,908	1,198,576	167,970	5,271,980	783	243,497	(6,881,650)	25,064
Impairments		-	(22,050)	-	-	-	(5)	-	(22,055)
Exchange differences		758	3,058	1,663	26,345	-	1,431	(407)	32,848
Ending net book amount	W	567,614	2,525,041	424,609	11,639,208	1,369	395,938	1,412,473	16,966,252
Acquisition cost		567,614	3,243,654	792,270	39,376,245	3,659	966,111	1,412,473	46,362,026
Accumulated depreciation		-	(672,563)	(348,493)	(27,479,837)	(2,290)	(568,466)	-	(29,071,649)
Accumulated impairment		-	(45,749)	(19,168)	(250,883)	-	(1,509)	-	(317,309)
Government grants		-	(301)	-	(6,317)	-	(198)	-	(6,816)
	W	567,614	2,525,041	424,609	11,639,208	1,369	395,938	1,412,473	16,966,252

[1] W25,064 million was transferred from investment property during the year ended December 31, 2015.

14. Property, Plant and Equipment, Continued

(1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows, continued:

(In millions of won)

		2014							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Total
Beginning net book amount	₩	504,398	1,309,816	207,299	9,222,376	227	209,111	676,570	12,129,797
Changes during 2014									
Additions		-	59,216	12,454	160,039	71	26,552	5,160,807	5,419,139
Receipt of government grants		-	-	-	(502)	-	-	-	(502)
Business combination and disposal of a subsidiary		-	-	(468)	(5,945)	27	1,462	(242)	(5,166)
Disposals		-	(1,114)	(1,437)	(197,242)	(14)	(734)	(5,231)	(205,772)
Depreciation		-	(55,986)	(21,260)	(3,117,150)	(177)	(73,893)	-	(3,268,466)
Transfers[1]		38,097	139,858	83,673	3,874,433	730	90,310	4,228,187	(1,086)
Impairments		-	(23,620)	(1,777)	(4,139)	-	-	-	(29,536)
Exchange differences		457	5,371	3,707	42,431	(1)	1,321	(1,360)	51,926
Ending net book amount	₩	542,952	1,433,541	282,191	9,974,301	863	254,129	1,602,357	14,090,334
Acquisition cost		542,952	2,020,429	621,345	34,956,922	3,037	772,844	1,602,357	40,519,886
Accumulated depreciation		-	(562,724)	(319,991)	(24,721,171)	(2,174)	(516,775)	-	(26,122,835)
Accumulated impairment		-	(23,847)	(19,163)	(254,597)	-	(1,646)	-	(299,253)
Government grants		-	(317)	-	(6,853)	-	(294)	-	(7,464)
	₩	542,952	1,433,541	282,191	9,974,301	863	254,129	1,602,357	14,090,334

[1] ₩1,086 million was transferred to investment property during the year ended December 31, 2014.

(2) Details of depreciation expense allocation for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Cost of sales	₩	3,365,460	3,040,674
Selling and administrative expenses		263,938	197,196
Other expenses		8,050	4,902
Development costs and other		56,997	25,694
	₩	3,694,445	3,268,466

(3) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2015 (Note 33).

(4) In 2015, the Group capitalized borrowing costs amounting to ₩18,892 million (2014: ₩20,762 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 4.83% (2014: 5.08%) for the year ended December 31, 2015.

14. Property, Plant and Equipment, Continued

(5) The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to W136,134 million as of December 31, 2015 (as of December 31, 2014: W165,414 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2015 is as follows:

(In millions of won)		Minimum lease payments
No later than 1 year	W	104,911
Later than 1 year		217,092
	W	322,003

(6) As of December 31, 2015, certain inventories; property, plant and equipment; and investment properties are insured and details of insured assets is as follows:

(In millions of won)	Insured assets		Insured amount	Insurance Company
Package insurance	Property, plant and equipment, investment property, inventories and others			
	Business interruption	W	48,476,239	Hyundai Marine & Fire Insurance Co., Ltd. and others
Fire insurance	Property, plant and equipment, investment property		247,316	
Erection all risks insurance	Property, plant and equipment		1,664,895	
		W	50,388,450	

15. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	W	704,185	83,750	319,824	228,921	1,336,680
Changes during 2015						
Internal development		-	-	349,264	-	349,264
Separate acquisition		-	31,604	-	242,875	274,479
Disposals		-	(12,859)	-	(597)	(13,456)
Impairment		-	(2)	(1,606)	(163)	(1,771)
Amortization		-	(12,800)	(184,167)	(61,111)	(258,078)
Others[1]		16,570	94	15	1,099	17,778
Ending net book amount		720,755	89,787	483,330	411,024	1,704,896
Acquisition cost		720,755	160,180	1,126,505	585,500	2,592,940
Accumulated amortization and impairment		-	(70,393)	(643,175)	(137,621)	(851,189)
Government grants		-	-	-	(36,855)	(36,855)
	W	720,755	89,787	483,330	411,024	1,704,896

[1] Others include foreign exchange rate differences.

(In millions of won)

		2014				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	W	632,311	73,860	276,930	127,302	1,110,403
Changes during 2014						
Internal development		-	-	181,287	-	181,287
Separate acquisition		-	32,229	-	122,775	155,004
Receipt of government grants		-	-	-	(19,739)	(19,739)
Business combinations		62,618	-	-	21,858	84,476
Disposals		-	(9,428)	-	(380)	(9,808)
Impairment		-	-	-	(529)	(529)
Amortization		-	(13,374)	(138,389)	(22,512)	(174,275)
Others		9,256	463	(4)	146	9,861
Ending net book amount		704,185	83,750	319,824	228,921	1,336,680
Acquisition cost		704,185	173,828	777,226	301,252	1,956,491
Accumulated amortization and impairment		-	(90,078)	(457,402)	(34,987)	(582,467)
Government grants		-	-	-	(37,344)	(37,344)
	W	704,185	83,750	319,824	228,921	1,336,680

(2) Amortization of W12,811 million (2014: W3,106 million) is included in the cost of sales, W244,978 million (2014: W171,169 million) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2015. Amortization of W289 million (2014: nil) is capitalized as development cost.

15. Intangible Assets, Continued

(3) Among costs associated with development activities, W349,264 million (2014: W181,287 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2015. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to W1,620,324 million (2014: W1,409,530 million) were recognized as expenses for the year ended December 31, 2015.

(4) Goodwill impairment tests
Goodwill impairment tests are undertaken annually. As the Group has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2015. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2015.

16. Investment Property

Changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Beginning net book amount	W	28,456	28,609
Changes for the year			
Depreciation		(713)	(1,239)
Transfer[1]		(25,064)	1,086
Ending net book amount		2,679	28,456
Acquisition cost		-	50,839
Accumulated depreciation		-	(22,383)
	W	2,679	28,456

[1] Transfer from (to) property, plant and equipment.

The depreciation expense of W713 million was charged to cost of sales for the year ended December 31, 2015 (2014: W1,239 million).

Rental income from investment property during the year ended December 31, 2015 was W2,627 million (2014: W4,534 million).

17. Borrowings

(1) Details of borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Current			
Short-term borrowings	W	147,948	734,165
Current portion of long-term borrowings		465,561	820,855
Current portion of debentures		399,863	200,000
		1,013,372	1,755,020
Non-current			
Long-term borrowings		1,512,003	1,262,772
Debentures		1,293,220	1,156,967
		2,805,223	2,419,739
	W	3,818,595	4,174,759

(2) Details of short-term borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)	Financial Institutions	Interest rate per annum in 2015 (%)		2015	2014
Import finance	Woori Bank	-	W	-	22,060
Borrowings on trade receivables collateral	Shinhan Bank and others	3M LIBOR + 1.20 ~ 3.30		1,160	220,663
	NongHyup Bank	KORIBOR + 1.1		1,916	-
Refinancing and others	China Construction Bank and others	1.23 ~ 3.20		144,872	491,442
			W	147,948	734,165

17. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)	Financial institutions	Interest rate per annum in 2015 (%)[1]		2015	2014
Local currency borrowings:					
Borrowing for housing	Kookmin Bank	-	W	-	10
Borrowings for childcare facilities	NongHyup Bank	2.00		123	185
Funds for equipment	Korea Development Bank (formerly Korea Finance Corporation)	Industrial financial debentures (4 years) + 0.93		166,667	250,000
Funds for equipment[2]	KEB Hana Bank (formerly Korea Exchange Bank)	CD (91days) +1.31		40,000	50,000
Commercial paper	KEB Hana Bank (formerly Korea Exchange Bank)	-		-	200,000
Finance lease liabilities	Hansu Technical Service Ltd.	3.70		42,775	-
Finance lease liabilities	ME Semiconductor Rental First L.L.C.	5.00		74,898	147,870
				324,463	648,065
Foreign currency borrowings:					
General borrowings	Export-Import Bank of Korea	3M LIBOR + 1.00 ~ 3.15		488,333	274,800
General borrowings	Standard Chartered Bank Korea Ltd.	-		-	12,366
General borrowings	Woori Bank	3M LIBOR + 0.98		175,800	-
General borrowings	Korea Development Bank	Exchange equalization fund rate + 0.60		117,200	109,920
General borrowings	Korea Development Bank	3M LIBOR + 0.95		175,800	-
General borrowings	NongHyup Bank and others	Exchange equalization fund rate + 0.63		187,520	175,872
General borrowings	NongHyup Bank and others	3M LIBOR + 3.19		234,400	274,800
General borrowings	Agricultural Bank of China and other	-		-	182,841
Syndicated loans	Development Bank of China and others	3M LIBOR + 2.95		65,340	209,348
Funds for equipment	Standard Chartered Bank Korea Ltd.	3M LIBOR + 3.45		172,688	118,653
Mortgage loans	HITECH Semiconductor (Wuxi) Co., Ltd.	-		-	18,162
Finance lease liabilities	Goodmemory First L.L.C.	4.70		36,020	59,415
				1,653,101	1,436,177
				1,977,564	2,084,242
Less: Discount on present value				-	(615)
Current maturities				(465,561)	(820,855)
			W	1,512,003	1,262,772

17. Borrowings, Continued

[1] As of December 31, 2015, the annual interest rates are as follows:

Type	Interest rate per annum as of December 31, 2015
Exchange equalization fund rate	1.14%
Industrial financial debentures (4 years)	3.05%
CD (91 days)	1.67%
3M LIBOR	0.61%
KORIBOR (30 days)	1.55%

[2] The Group entered into interest swap contracts with KEB Hana Bank (formerly Korea Exchange Bank) to hedge interest rate risk from the local currency loans.

(4) Details of debentures as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	Maturity date	Interest rate per annum in 2015 (%)		2015	2014
Unsecured notes in local currency:					
210th	Jan. 14, 2015	6.35	W	-	200,000
211th	May 6, 2016	6.20		400,000	400,000
212th	May 30, 2019	5.35		450,000	450,000
213th	Sep. 4, 2017	3.72		200,000	200,000
214-1st	Aug. 26, 2020	2.27		210,000	-
214-2nd	Aug. 26, 2022	2.63		140,000	-
215-1st	Nov. 25, 2018	2.26		70,000	-
215-2nd	Nov. 25, 2020	2.56		100,000	-
215-3rd	Nov. 25, 2020	2.75		10,000	-
Secured notes in foreign currency					
Foreign 8th[1]	Jun. 20, 2017	3M LIBOR + 2.85		117,200	109,920
				1,697,200	1,359,920
Less: Discounts on debentures				(4,117)	(2,953)
Current portion				(399,863)	(200,000)
			W	1,293,220	1,156,967

[1] The Group is provided with USD100 million of payment guarantee from Shinhan Bank as of December 31, 2015.

17. Borrowings, Continued

(5) Finance lease liability
Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor.

Details of future minimum lease payments to the lessor as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Total minimum lease payment			
No later than 1 year	W	98,927	106,318
Between 1 and 5 years		66,779	116,277
		165,706	222,595
Discount on present value		(12,013)	(16,346)
Net minimum lease payment			
No later than 1 year		93,770	97,567
Between 1 and 5 years		59,923	108,682
	W	153,693	206,249

(6) Details of book value and fair value of non-current borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Book value	Fair value	Book value	Fair value
Long-term borrowings	W	1,512,003	1,517,683	1,262,772	1,271,718
Debentures		1,293,220	1,338,481	1,156,967	1,217,236
	W	2,805,223	2,856,164	2,419,739	2,488,954

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Current			
Advance receipts	W	2,867	2,682
Unearned income		374	322
Withholdings		35,938	67,174
Deposits received		1,256	858
Others		4,008	163
		44,443	71,199
Non-current			
Other long-term employee benefits		61,149	59,464
	W	105,592	130,663

19. Provisions

(1) Details of changes in provisions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015					
		Beginning balance	Increase	Utilization	Reversal	Other[1]	Ending balance
Warranty	W	6,886	2,910	(4,346)	(2,514)	-	2,936
Sales returns		14,646	53,642	(53,552)	-	-	14,736
Legal claims		4,400	1,440	(4,370)	(30)	83	1,523
Emission allowances		-	6,081	-	-	-	6,081
	W	25,932	64,073	(62,268)	(2,544)	83	25,276

[1] Others include foreign exchange rate differences.

(In millions of won)		2014				
		Beginning balance	Increase	Utilization	Reversal	Ending balance
Warranty	W	13,914	10,862	(17,890)	-	6,886
Sales returns		12,564	51,148	(49,066)	-	14,646
Legal claims		26,106	-	(21,031)	(675)	4,400
	W	52,584	62,010	(87,987)	(675)	25,932

(2) Provisions for warranty
The Group estimates the expected warranty costs based on historical results and accrues provisions for warranty.

(3) 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 related to the return (such as transportation costs) are recorded as provisions for sales returns.

(4) 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.

(5) Provision for emission allowances
The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

20. Defined Benefit Liabilities

Under the defined benefit plan, the Group pays employee benefits to retired employees in the form of a lump sum that are based on their salaries and years of service at the time of their retirement. Accordingly, the Group is exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

(1) Details of defined benefit liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Present value of defined benefit obligations	W	1,055,340	887,277
Fair value of plan assets		(570,363)	(421,927)
	W	484,977	465,350

(2) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate for defined benefit obligations	2.89% ~ 4.10%	3.19% ~ 4.50%
Expected rate of salary increase	2.20% ~ 5.52%	4.92% ~ 5.81%

(3) Weighted average durations of defined benefit obligations as of December 31, 2015 and 2014 are 12.39 and 12.67 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	W	887,277	656,080
Current service cost		139,486	109,403
Interest cost		39,243	35,442
Benefits paid		(24,459)	(35,529)
Remeasurements:			
Demographic assumption		(1,860)	7
Financial assumption		33,632	119,206
Adjustment based on experience		(18,561)	262
Business combinations and disposal of a subsidiary		-	1,711
Transfer from associates		576	757
Effect of movements in exchange rates		6	(62)
Ending balance	W	1,055,340	887,277

20. Defined Benefit Liabilities, Continued

(5) Changes in plan assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	W	421,927	20,340
Interest income		18,545	1,413
Contributions		153,566	402,894
Benefits paid		(15,137)	(1,385)
Remeasurements		(8,661)	(399)
Business combinations and disposal of a subsidiary		-	(1,133)
Transfer from associates		123	197
Ending balance	W	570,363	421,927

(6) The amounts recognized in profit or loss for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Current service cost	W	139,486	109,403
Net interest expense		20,698	34,029
	W	160,184	143,432

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Cost of sales (manufacturing costs)	W	88,415	82,922
Selling and administrative expenses		71,769	60,510
	W	160,184	143,432

(8) Details of plan assets as of December 31, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	2014
Deposits	W	568,790	420,300
Other		1,573	1,627
	W	570,363	421,927

Actual return on plan assets for the years ended December 31, 2015 and 2014 amounted to W9,884 million and W1,104 million, respectively.

20. Defined Benefit Liabilities, Continued

(9) As of December 31, 2015, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Group's minimum required contribution to the plan assets for the year ending December 31, 2016 is W239,780 million under the assumption that the Group maintains the defined benefit plan.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2015 to changes in the principal assumptions is as follows:

(In millions of won)

		Effects on defined benefit obiligation	
		Increase of rate	Decrease of rate
Discount rate (if changed by 1%)	W	(115,409)	136,562
Expected rate of salary increase (if changed by 1%)		136,638	(117,540)

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2015 is as follows:

(In millions of won)

		2015				
		Less than 1 year	1 - 5 years	5 - 10 years	10 - 20 years	Total
Benefits paid	W	32,397	208,589	592,188	2,567,869	3,401,043

Information about the maturity profile is based on undiscounted amount of defined benefit obligation and classified to employee's expected years of remaining services.

21. Deferred Income Tax

(1) Changes in net deferred income tax assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
At January 1	W	268,639	198,570
Recorded in profit or loss		81,265	69,176
Exchange differences		3,718	893
At December 31	W	353,622	268,639

21. Deferred Income Tax, Continued

(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014 without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(In millions of won)		2015			
		January 1, 2015	**Profit or loss**	**Currency translation differences**	**December 31, 2015**
Deferred tax liabilities:					
Advanced depreciation provision	W	(55,666)	-	-	(55,666)
Valuation of derivatives		(208)	135	-	(73)
Gains on foreign currency translation		(2,325)	1,513	(25)	(837)
Plan assets		(96,902)	(33,524)	-	(130,426)
Others		(16,967)	7,041	(133)	(10,059)
		(172,068)	(24,835)	(158)	(197,061)
Deferred tax assets:					
Loss on valuation of inventories		18,001	22,329	5	40,335
Valuation of equity-method investments		250,682	(17,550)	4,477	237,609
Accumulated depreciation		79,819	(757)	416	79,478
Net defined benefits		186,627	36,492	16	223,135
Deemed investments and others		161,995	-	-	161,995
Provisions and others		1,066	(716)	-	350
Impairment of available-for-sale financial assets		37,238	(735)	-	36,503
Losses on foreign currency translation		2,522	(2,329)	-	193
Property, plant and equipment		3,381	(3,960)	-	(579)
Losses on valuation of derivative		386	(148)	-	238
Tax loss carryforwards		23,581	7,277	1,562	32,420
Others		246,606	(49,816)	9,976	206,766
		1,011,904	(9,913)	16,452	1,018,443
Deferred tax assets, net		839,836	(34,748)	16,294	821,382
Deferred tax assets not recognized		(750,313)	165,453	(12,788)	(597,648)
Tax credit carryforwards recognized		179,116	(49,440)	212	129,888
Deferred tax assets recognized	W	268,639	81,265	3,718	353,622

21. Deferred Income Tax, Continued

(In millions of won)		2014			
		January 1, 2014	Profit or loss	Currency translation differences	December 31, 2014
Deferred tax liabilities:					
Advanced depreciation provision	W	(55,666)	-	-	(55,666)
Valuation of derivatives		(5,452)	5,244	-	(208)
Gains on foreign currency translation		(2,597)	261	11	(2,325)
Conversion rights adjustment		(6,827)	6,827	-	-
Plan assets		(725)	(96,177)	-	(96,902)
Others		(13,897)	(2,996)	(74)	(16,967)
		(85,164)	(86,841)	(63)	(172,068)
Deferred tax assets:					
Loss on valuation of inventories		18,876	(873)	(2)	18,001
Valuation of equity-method investments		216,334	35,920	(1,572)	250,682
Accumulated depreciation		120,960	(41,917)	776	79,819
Net defined benefits		137,578	49,091	(42)	186,627
Deemed investments and others		162,390	(395)	-	161,995
Provisions and others		5,816	(4,750)	-	1,066
Impairment of available-for-sale financial assets		40,134	(2,896)	-	37,238
Losses on foreign currency translation		2,546	(24)	-	2,522
Property, plant and equipment		15,217	(11,836)	-	3,381
Losses on valuation of derivative		31,367	(30,981)	-	386
Tax loss carryforwards		72,736	(50,412)	1,257	23,581
Others		209,967	30,701	5,938	246,606
		1,033,921	(28,372)	6,355	1,011,904
Deferred tax assets, net		948,757	(115,213)	6,292	839,836
Deferred tax assets not recognized		(827,313)	82,399	(5,399)	(750,313)
Tax credit carryforwards recognized		77,126	101,990	(100)	179,116
Deferred tax assets recognized	W	198,570	69,176	893	268,639

21. Deferred Income Tax, Continued

(3) Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2015 the Group did not recognize deferred tax assets of W597,648 million (2014: W750,313 million) associated with deductable temporary differences amounting to W2,469,626 million (2014: W3,100,467 million).

As of December 31, 2015, the unused tax credits that were not recognized as deferred tax assets amounted to W234,632 million (2014: W387,088 million).

(4) Expiration schedule of tax credit carryforwards that were not recognized as deferred tax assets as of December 31, 2015 is as follows:

(In millions of won)		Tax credit carryforwards
2018	W	10,277
2019		120,010
2020		104,345
	W	234,632

22. Derivative Financial Instruments

(1) Details of derivative financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Current			
Interest rates swap	W	-	30
Non-current			
Interest rates swap		683	708
	W	683	738

(2) Details of gains and losses from derivative instruments for the years ended December 31, 2015 and 2014 are follows:

(In millions of won)		2015			
		Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest rates swap	W	25	-	1,672	2,058

(In millions of won)		2014			
		Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest rates swap		215	980	2,955	237
Embedded derivative instruments[1]		-	171,016	-	2,691
	W	215	171,996	2,955	2,928

[1] The Group bifurcated convertible options and separately accounted for them as derivative instruments which were embedded in the foreign-currency convertible bond. These convertible options were measured at fair value and changes in therein were recognized in profit or loss.

23. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of December 31, 2015 and 2014 are as follows:

(In millions of won, thousands of shares)

		2015	2014
Authorized shares		9,000,000	9,000,000
Issued shares[1]		731,530	731,530
Capital stock:			
Common stock	W	3,657,652	3,657,652
Capital surplus:			
Additional paid in capital		3,625,797	3,625,797
Consideration for conversion rights		42,928	42,928
Others		475,011	475,011
		4,143,736	4,143,736
Other equity			
Acquisition cost of treasury shares	W	(771,913)	(24)
Number of treasury shares		22,001	1

[1] As of December 31, 2015, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the effect of stock retirement.

(2) Changes in number of outstanding shares as of December 31, 2015 and December 31, 2014 are as follows:

(In thousands of shares)

	2015	2014
Beginning	728,002	710,201
Issue of ordinary shares related to the acquisition of a subsidiary	-	1,358
Exercise of conversion rights	-	16,443
Acquisition of treasury shares	(22,000)	-
Ending	706,002	728,002

24. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Equity-accounted investees – share of other comprehensive income (loss)	W	1,856	(4,631)
Foreign operations – foreign currency translation differences		(3,456)	(37,184)
	W	(1,600)	(41,815)

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015		
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income (loss)	W	(4,631)	6,487	1,856
Foreign operations – foreign currency translation differences		(37,184)	33,728	(3,456)
	W	(41,815)	40,215	(1,600)

(In millions of won)		2014		
		Beginning	Change	Ending
Available-for-sale financial assets – unrealized net change in fair value	W	7,824	(7,824)	-
Equity-accounted investees – share of other comprehensive loss		(8,337)	3,706	(4,631)
Foreign operations – foreign currency translation differences		(108,294)	71,110	(37,184)
	W	(108,807)	66,992	(41,815)

25. Retained Earnings and Dividends

(1) Details of retained earnings as of December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Legal reserve[1]	W	30,694	8,854
Discretionary reserve[2]		235,506	235,506
Unappropriated retained earnings		14,092,788	10,032,544
	W	14,358,988	10,276,904

25. Retained Earnings and Dividends, Continued

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial year, 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 cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

[2] Discretionary reserve is a reserve for technology development.

(2) Dividends of the Parent Company

(a) Details of dividends for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and In thousands of shares)

		2015	2014
Type of dividends		Cash Dividends	Cash Dividends
Outstanding ordinary shares		706,002	728,002
Par value (in won)	W	5,000	5,000
Dividend rate		10%	6%
Total dividends	W	353,001	218,401

(b) Dividend payout ratio for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015	2014
Dividends	W	353,001	218,401
Profit attributable to owners of the Parent Company		4,322,356	4,195,456
Dividend payout ratio		8.17%	5.21%

(c) Dividend yield ratio for the years ended December 31, 2015 and 2014 is as follows:

(In won)

		2015	2014
Dividends per share	W	500	300
Closing stock price		30,750	47,750
Dividend yield ratio		1.63%	0.63%

26. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Salaries	W	385,281	351,318
Defined benefit plan related		25,499	22,801
Employee benefits		81,606	60,277
Commission		212,129	211,111
Depreciation		89,879	58,608
Amortization		239,227	169,844
Research and development		1,620,324	1,409,530
Freight and custody charge		41,999	37,453
Legal cost		7,722	7,210
Rental		18,698	11,521
Taxes and dues		18,436	15,145
Training		20,314	42,737
Sales promotional		46,169	31,018
Utility		13,595	5,673
Supplies		51,630	42,737
Repair		9,629	9,994
Other		64,408	67,398
	W	2,946,545	2,554,375

27. Expenses by Nature

Nature of expenses for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015	2014[2]
Changes in finished goods and work-in-process	W	(290,904)	(216,403)
Raw materials and consumables		3,537,227	2,857,555
Employee benefit		2,485,372	2,353,196
Depreciation and amortization		3,887,900	3,413,636
Royalty		210,902	167,167
Commission		802,432	712,492
Utilities		656,251	608,523
Repair		625,383	749,949
Outsourcing		982,358	1,017,970
Other		564,977	352,015
Total[1]	W	13,461,898	12,016,100

[1] Total expenses consist of cost of sales and selling and administrative expenses.
[2] Expenses for the year ended December 31, 2014 were reclassified to conform with the classification for the year ended December 31, 2015.

28. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Finance income:			
Interest income	W	40,715	52,122
Dividend income		1,265	1,233
Gain on disposal of available-for-sale financial assets		-	10,054
Gain on disposal of financial assets at fair value through profit or loss		33,814	28,493
Foreign exchange differences		766,981	576,577
Gain from derivative instruments		1,697	3,170
Gain on valuation of financial assets at fair value through profit or loss		2,280	6,921
		846,752	678,570
Finance expenses:			
Interest expenses		118,505	170,363
Loss on disposal of available-for-sale financial assets		-	3,500
Foreign exchange differences		709,350	448,060
Loss on redemption of debentures		-	2,924
Loss from derivative instruments		2,058	174,924
		829,913	799,771
Net finance income (expense)	W	16,839	(121,201)

29. Other Income and Expenses

Other income for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Gain on disposal of property, plant and equipment	W	16,554	5,611
Insurance compensation[1]		-	587,429
Other		23,925	25,644
	W	40,479	618,684

Other expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Loss on disposal of property, plant and equipment	W	19,540	11,522
Loss on disposal of intangible assets		5,493	9,522
Donation		55,131	16,111
Loss on disposal of trade receivables		1,413	3,756
Loss on impairment of property, plant and equipment		22,055	25,397
Loss on impairment of intangible assets		1,771	529
Casualty losses[1]		-	123,957
Other[2]		43,536	391,630
	W	148,939	582,424

[1] For the year ended December 31, 2014, the Group recognized casualty losses of W123,957 million caused by a fire on the manufacturing facilities located in Wuxi, China. In 2014, the Group and insurance companies reached an agreement about the insurance compensation amounting to USD 560 million (equivalent to W587,429 million), which was recognized as other income.

[2] For the yaer ended December 31, 2014, expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD 278 million (equivalent to W306,161 million) are included.

30. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Current tax:			
Current tax on profits for the year	W	1,026,791	922,228
Adjustments in respect of prior years		-	(551)
		1,026,791	921,677
Deferred tax:			
Origination and reversal of temporary differences		(81,265)	(69,176)
Income tax expense	W	945,526	852,501

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)		2015	2014
Profit before income tax	W	5,269,121	5,047,670
Tax calculated at domestic tax rates applicable to profits in the respective countries		1,266,293	1,181,621
Tax effects of:			
Tax-exempt income		(24)	(13)
Non-deductible expenses		6,614	71,531
Tax credit		(104,425)	(148,052)
Change in unrecognized deferred tax assets		(252,088)	(260,437)
Others		29,156	7,851
Income tax expense	W	945,526	852,501

(3) There is no income taxes charged directly to equity for the years ended December 31, 2015 and 2014.

31. Earnings Per Share

(1) Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won, except for shares and per share information)

		2015	2014
Profit attributable to ordinary shareholders	W	4,322,356	4,195,456
Weighted average number of outstanding ordinary shares[1]		720,143,294	718,197,377
Basic earnings per share	W	6,002	5,842

[1] Weighted average number of outstanding ordinary shares is calculated as follows:

(In shares)

	2015	2014
Outstanding ordinary shares	728,001,795	710,200,891
Exercise of conversion rights	-	7,051,443
Issue of ordinary shares related to the acquisition of a subsidiary	-	945,393
Acquisition of treasury shares	(7,858,501)	(350)
Weighted average number of outstanding ordinary shares	720,143,294	718,197,377

(2) There is no potential ordinary shares with dilutive effect during the years ended December 31, 2015 and 2014. Accordingly, diluted earnings per share for the years ended December 31, 2015 and 2014 are the same as basic earnings per share.

32. Related Party Transactions

(1) Details of related parties as of December 31, 2015 are as follows:

Type	Name of related parties
Associates	Stratio, Inc., Gemini Partners Pte. Ltd.
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

(2) Significant transactions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			
	Company	Operating revenue and others	Operating expense and others	Dividend income	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	W 1,364	675,112	15,780	-
Other related parties	SK Telecom Co., Ltd.[1]	2,384	52,944	-	3,984
	SK Holdings Co., Ltd.[2]	199	81,997	-	76,398
	ESSENCORE Limited	147,992	-	-	-
	SK Engineering & Construction Co., Ltd.	1,923	1,378	-	1,084,554
	SK Energy Co., Ltd.	5,245	44,893	-	-
	SK Networks Co., Ltd.	-	3,627	-	-
	Ko-one energy service Co., Ltd.	-	2,685	-	7
	SKC solmics Co., Ltd.	-	36,055	-	269
	Chungcheong energy service Co., Ltd.	-	24,292	-	-
	HAPPYNARAE Co., Ltd.	3,176	83,258	-	21,448
	Others	493	63,845	-	14,516
		W 162,776	1,070,086	15,780	1,201,176

[1] Operating expense and others include dividend payments of W43,830 million.

[2] The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the year ended December 31, 2015, royalty paid for the use of the SK brand amounted to W34,597 million (2014: W28,780 million). Meanwhile, on August 1, 2015, SK C&C Co., Ltd. merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

32. Related Party Transactions, Continued

(In millions of won)

	2014					
	Company		Operating revenue and others	Operating expense and others	Dividend income	Asset acquisition
Associate	Siliconfile Technologies Inc.[1]	W	25,109	411	236	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.		1,734	612,890	15,664	-
Other related parties	SK Telecom Co., Ltd.		3,391	7,493	-	2,685
	SK Holdings Co., Ltd.		-	33,273	-	-
	SK C&C Co., Ltd.[2]		70	5,879	-	12,225
	SK Engineering & Construction Co., Ltd.		481	44,928	-	959,985
	SK Energy Co., Ltd.		5,121	44,664	-	-
	SK Networks Co., Ltd.		-	2,777	-	2,772
	Ko-one energy service Co., Ltd.		-	3,074	-	-
	SKC solmics Co., Ltd.		-	28,023	-	718
	Chungcheong energy service Co., Ltd.		-	27,496	-	-
	HAPPYNARAE Co., Ltd.		53	63,398	-	10,187
	Others		427	19,837	-	1,548
		W	36,386	894,143	15,900	990,120

[1] Siliconfile Technologies Inc. became a subsidiary through the Parent Company's additional acquisition of the remaining interest on April 22, 2014.
[2] SK C&C Co., Ltd. was excluded from related party after April 2014 due to change in CEO.

(3) The balances of significant transactions as of December 31, 2015 and December 31,2014 are as follows:

(In millions of won)

	2015			
	Company		Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.[1]	W	15,628	108,519
Other related parties	SK Telecom Co., Ltd.		155	2,797
	SK Holdings Co., Ltd.		103	98,798
	ESSENCORE Limited		142	-
	SK Engineering & Construction Co., Ltd.		1,049	236,875
	SK Energy Co., Ltd.		474	5,962
	SK Networks Co., Ltd.		-	954
	SKC solmics Co., Ltd.		-	9,544
	Chungcheong energy service Co., Ltd.		-	1,425
	HAPPYNARAE Co., Ltd.		275	24,148
	Others		102	29,339
		W	17,928	518,361

[1] The Parent Company repaid remaining balance of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. in the amount of W22,552 million for the year ended December 31, 2015.

32. Related Party Transactions, Continued

(In millions of won)

2014	Company		Trade receivables and others	Other payables and others	Borrowings[1]
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	W	18,393	113,257	22,552
Other related parties	SK Telecom Co., Ltd.		2,763	2,622	-
	SK Holdings Co., Ltd.		-	3,080	-
	SK Engineering & Construction Co., Ltd.		23	561,004	-
	SK Energy Co., Ltd.		462	5,961	-
	SK Networks Co., Ltd.		-	479	-
	SKC solmics Co., Ltd.		-	9,258	-
	Chungcheong energy service Co., Ltd.		-	3,295	-
	HAPPYNARAE Co., Ltd.		1	14,606	-
	Others		32	14,455	-
		W	21,674	728,017	22,552

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer, subsidiary's executives and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

Details		2015	2014
Salaries	W	73,013	74,599
Defined benefit plan related expenses		7,250	7,061
Others		15	19
	W	80,278	81,679

33. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of December 31, 2015 are as follows:

(a) Lawsuit from SanDisk Corporation ("SanDisk")
SanDisk filed a lawsuit against the Parent Company and its subsidiaries (SK hynix America Inc. and SK hynix memory solutions Inc.) in Santa Clara Superior Court of the United States of America, alleging misappropriation of trade secrets jointly owned by SanDisk and Toshiba Corporation, on March 13, 2014 ("SanDisk lawsuit"). Meanwhile on August 4, 2015, SanDisk agreed to withdraw the lawsuit against the Parent Company and its subsidiaries, and therefore, the lawsuit has been terminated.

(b) Lawsuit regarding ordinary wages
On August 1, 2014, some of the Parent Company's employees filed a lawsuit against the Parent Company to the Suwon District Court, seeking additional payment of overtime allowance in relation to ordinary wages. The Parent Company submitted a written response on September 5, 2014 and oral pleading has been processed several times after that date. The court's decision to exclude additional payment such as regular bonus from ordinary wages has been made as of November 12, 2015. Since the plaintiff decided not to appeal the case, the lawsuit has been terminated.

(c) Other patent infringement claims and litigation
The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as the final outcome of these matters cannot be determined or predicted as of December 31, 2015. However, they could have a material effect on the Group's consolidated financial statements when the final outcome becomes available.

(2) 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.

(3) Contract for supply of industrial water
In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ("VWID") entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended 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.

33. Commitments and Contingencies, Continued

(4) Post-process service contract with HITECH
In 2009, the Group entered into an agreement with HITECH to be provided with post-process service by HITECH. The conditions of the service provided includes package, package test, modules and others. As the agreement has been expired in June, 2015, the Group extened the agreement for the next five years and main terms of the agreement such as the conditions of the service and preemptive rights to use HITECH equipments are equivalent to those of the former agreement. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

(5) Assets provided as collateral
Details of assets provided as collateral as of December 31, 2015 are as follows:

(In millions of won)		Book value	Pledged amount	Remark
Land	W	45,750		
Buildings		115,194	1,404,275	Borrowings for equipment and others
Machinery		872,957		
	W	1,033,901	1,404,275	

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with the finance lease contracts.

33. Commitments and Contingencies, Continued

(6) Financing agreements
Details of credit lines with financial institutions as of December 31, 2015 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	KEB Hana Bank and others	Import finance including usance	USD	200
		Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,305
SK Hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,895
			USD	1,397
SK Hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	139
Domestic subsidiaries	KEB Hana Bank	Export finance including bills bought	KRW	5,000
		Guarantee	KRW	2,000
		Foreign currency forward	USD	1

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to W3,076 million as of December 31, 2015 (as of December 31, 2014: W220,663 million). The Group is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

(7) Details of guarantees provided to others as of December 31, 2015 are as follows:

(In millions of won)		Amount	Remark
Employees	W	8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments
As of December 31, 2015, the Group has W300,041 million (as of December 31, 2014: W348,802 million) of commitments in relation to the capital expenditures on fixed assets.

34. Cash Generated from Operating Activities

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Profit for the year	W	4,323,595	4,195,169
Adjustment			
Income tax expense		945,526	852,501
Defined benefit plan related expenses		160,184	143,432
Depreciation of property, plant and equipment and investment property		3,695,158	3,269,705
Amortization		258,078	174,275
Loss on impairment of property, plant and equipment		22,055	-
Loss on foreign currency translation		143,768	116,726
Interest expense		118,505	170,363
Gain on foreign currency translation		(58,658)	(79,678)
Interest income		(40,715)	(52,122)
Loss on derivative instruments, net		361	171,754
Gain on equity method investments, net		(24,642)	(12,506)
Others, net		(18,231)	13,072
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables		1,260,172	(1,628,665)
Decrease (increase) in loans and other receivables		724,149	(753,278)
Increase in inventories		(414,830)	(314,547)
Increase in other assets		(177,316)	(10,210)
Increase (decrease) in trade payables		(156,074)	69,290
Decrease in other payables		(60,252)	(105,971)
Increase (decrease) in other non-trade payables		(147,392)	498,152
Decrease in provisions		(6,889)	(26,793)
Increase (decrease) in other liabilities		(29,327)	51,598
Payment of defined benefit liabilities		(6,392)	(34,144)
Contribution to plan assets		(153,566)	(402,894)
Cash generated from operating activities	W	10,357,267	6,305,229

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Other payables related to acquisition of property, plant and equipment	W	-	588,435
Issue of ordinary shares related to the acquisition of a subsidiary		-	54,070
Exercise of conversion rights		-	772,590