# SK HYNIX, INC. and Subsidiaries

## Consolidated Financial Statements

**December 31, 2014 and 2013**

(With Independent Auditors' Report Thereon)

# Contents

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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 statement of financial position as of December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 audit. We conducted our audit 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 of 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 at December 31, 2014 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

## Other Matter

The consolidated statement of financial position of the Company as of December 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended were audited by other auditors in accordance with the previous generally accepted auditing standards in the Republic of Korea, and their report thereon dated February 25, 2014, expressed an unqualified opinion.

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.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 17, 2015

| |
|---|
| This report is effective as of February 17, 2015, 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, 2014 and 2013**

| *(In millions of won)* | ***Note*** | | **2014** | **2013** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | *6,7* | ₩ | 436,761 | 631,867 |
| Short-term financial instruments | *6,7,8* | | 3,618,014 | 2,154,532 |
| Trade receivables, net | *6,7,9,33* | | 3,732,926 | 1,941,675 |
| Loans and other receivables, net | *6,7,9,33* | | 881,885 | 323,759 |
| Other financial assets | *6,7,23* | | - | 245,808 |
| Inventories, net | *10* | | 1,497,563 | 1,178,300 |
| Current tax assets | | | 1,629 | 9,242 |
| Assets held for sale | *11* | | 27,661 | 26,557 |
| Other current assets | *12* | | 167,075 | 141,384 |
| | | | 10,363,514 | 6,653,124 |
| **Non-current assets** | | | | |
| Equity-accounted investees | *13* | | 97,090 | 107,097 |
| Available-for-sale financial assets | *14* | | 127,314 | 158,770 |
| Loans and other receivables, net | *6,7,9,33* | | 58,989 | 43,090 |
| Other financial assets | *6,7,8,23* | | 323 | 2,017 |
| Property, plant and equipment, net | *15,34* | | 14,090,334 | 12,129,797 |
| Intangible assets, net | *16* | | 1,336,680 | 1,110,403 |
| Investment property, net | *17* | | 28,456 | 28,609 |
| Deferred tax assets | *23* | | 272,102 | 198,570 |
| Other non-current assets | *12* | | 508,476 | 365,821 |
| | | | 16,519,764 | 14,144,174 |
| **Total assets** | | ₩ | 26,883,278 | 20,797,298 |

*See accompanying notes to the consolidated financial statements.*

## SK HYNIX, INC. and Subsidiaries
## Consolidated Statements of Financial Position, Continued
**As of December 31, 2014 and 2013**

| *(In millions of won)* | ***Note*** | | **2014** | **2013** |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade payables | *6,7,33* | ₩ | 787,822 | 648,793 |
| Other payables | *6,7,33* | | 1,358,816 | 788,304 |
| Other non-trade payables | *6,7,33* | | 1,182,956 | 677,120 |
| Borrowings | *6,7,18,33* | | 1,755,020 | 870,320 |
| Other financial liabilities | *6,7,23* | | 30 | 2,194 |
| Provisions | *20,34* | | 25,932 | 52,584 |
| Current tax liabilities | | | 583,529 | 12,084 |
| Other current liabilities | *19* | | 71,199 | 26,840 |
| | | | 5,765,304 | 3,078,239 |
| **Non-current liabilities** | | | | |
| Other non-trade payables | *6,7,33* | | 132,947 | 177,101 |
| Borrowings | *6,7,18,33* | | 2,419,739 | 3,679,895 |
| Other financial liabilities | *6,7,23* | | 708 | 107,094 |
| Defined benefit liabilities, net | *21* | | 465,350 | 635,740 |
| Deferred tax liabilities | *22* | | 3,463 | - |
| Other non-current liabilities | *19* | | 59,464 | 52,370 |
| | | | 3,081,671 | 4,652,200 |
| **Total liabilities** | | | 8,846,975 | 7,730,439 |
| **Equity** | | | | |
| **Equity attributable to owners of the Parent Company** | | | | |
| Capital stock | *1,24* | | 3,657,652 | 3,568,645 |
| Capital surplus | *24* | | 4,143,736 | 3,406,083 |
| Other equity | *24* | | (24) | - |
| Accumulated other comprehensive loss | *25* | | (41,815) | (108,807) |
| Retained earnings | *26* | | 10,276,904 | 6,201,322 |
| **Total equity attributable to owners of the Parent Company** | | | 18,036,453 | 13,067,243 |
| **Non-controlling interests** | | | (150) | (384) |
| **Total equity** | | | 18,036,303 | 13,066,859 |
| **Total liabilities and equity** | | ₩ | 26,883,278 | 20,797,298 |

*See accompanying notes to the consolidated financial statements.*

## SK HYNIX, INC. and Subsidiaries
## Consolidated Statements of Comprehensive Income
**For the years ended December 31, 2014 and 2013**

*(In millions of won, except per share information)*

| | Note | | 2014 | 2013 |
|---|---|---|---|---|
| **Revenue** | *5,33* | ₩ | 17,125,566 | 14,165,102 |
| Cost of sales | *28,33* | | 9,461,725 | 8,864,587 |
| **Gross profit** | | | 7,663,841 | 5,300,515 |
| Selling and administrative expense | *27,28* | | 2,554,375 | 1,920,730 |
| **Operating profit** | | | 5,109,466 | 3,379,785 |
| Finance income | *29* | | 678,570 | 560,570 |
| Finance expenses | *29* | | 799,771 | 747,329 |
| Share of profit of equity-accounted investees | *13* | | 23,145 | 19,256 |
| Other income | *30* | | 618,684 | 368,513 |
| Other expenses | *30* | | 582,424 | 505,870 |
| **Profit before income tax** | | | 5,047,670 | 3,074,925 |
| Income tax expense | *31* | | 852,501 | 202,068 |
| **Profit for the year** | | | 4,195,169 | 2,872,857 |
| | | | | |
| **Other comprehensive income (loss)** | | | | |
| **Item that will never be reclassified to profit or loss:** | | | | |
| Remeasurements of defined benefit liability, net of tax | *21* | | (119,874) | 15,587 |
| **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 | *14,25* | | (7,824) | (655) |
| Foreign operations – foreign currency translation differences, net of tax | 25 | | 71,631 | 8,419 |
| Equity-accounted investees – share of other comprehensive income (loss), net of tax | *13,25* | | 3,706 | (1,226) |
| **Other comprehensive income (loss) for the year, net of tax** | | | (52,361) | 22,125 |
| **Total comprehensive income for the year** | | ₩ | 4,142,808 | 2,894,982 |

*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, 2014 and 2013**

*(In millions of won, except per share information)*

| | Note | | 2014 | 2013 |
|---|---|---|---|---|
| **Profit (loss) attributable to:** | | | | |
| Owners of the Parent Company | | ₩ | 4,195,456 | 2,872,470 |
| Non-controlling interests | | | (287) | 387 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Owners of the Parent Company | | | 4,142,574 | 2,894,652 |
| Non-controlling interests | | | 234 | 330 |
| **Earnings per share** | | | | |
| Basic and diluted earnings per share (in won) | *32* | | 5,842 | 4,045 |

*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, 2014 and 2013**

| *(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, 2013** | ₩ | 3,488,419 | 3,053,874 | - | (115,402) | 3,313,265 | 9,740,156 | (714) | 9,739,442 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 2,872,470 | 2,872,470 | 387 | 2,872,857 |
| Unrealized net changes in fair values of available-for-sale financial assets, net of tax | | - | - | - | (655) | - | (655) | - | (655) |
| Remeasurements of defined benefit liability, net of tax | | - | - | - | - | 15,587 | 15,587 | - | 15,587 |
| Other comprehensive loss from joint venture and associate, net of tax | | - | - | - | (1,226) | - | (1,226) | - | (1,226) |
| Foreign currency translation differences for foreign operations, net of tax | | - | - | - | 8,476 | - | 8,476 | (57) | 8,419 |
| **Total comprehensive income** | | - | - | - | 6,595 | 2,888,057 | 2,894,652 | 330 | 2,894,982 |
| **Transactions with owners of the Parent Company** | | | | | | | | | |
| Exercise of conversion rights | | 80,226 | 352,209 | - | - | - | 432,435 | - | 432,435 |
| **Total transactions with owners of the Parent Company** | | 80,226 | 352,209 | - | - | - | 432,435 | - | 432,435 |
| **Balance at December 31, 2013** | ₩ | 3,568,645 | 3,406,083 | - | (108,807) | 6,201,322 | 13,067,243 | (384) | 13,066,859 |

*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, 2014 and 2013**

| *(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** | ₩ | 3,568,645 | 3,406,083 | - | (108,807) | 6,201,322 | 13,067,243 | (384) | 13,066,859 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 4,195,456 | 4,195,456 | (287) | 4,195,169 |
| Unrealized net changes in fair values 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** | ₩ | 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 Cash Flows
**For the years ended December 31, 2014 and 2013**

| *(In millions of won)* | **Note** | | **2014** | **2013** |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operating activities | 35 | ₩ | 6,305,229 | 6,521,553 |
| Interest received | | | 35,658 | 58,888 |
| Interest paid | | | (151,551) | (199,553) |
| Dividends received | | | 17,134 | 17,414 |
| Income tax paid | | | (339,779) | (26,246) |
| **Net cash provided by operating activities** | | | 5,866,691 | 6,372,056 |
| **Cash flows from investing activities** | | | | |
| Decrease in short-term financial instruments | | | 21,059,587 | 3,927,831 |
| Increase in short-term financial instruments | | | (22,467,339) | (4,956,446) |
| Collection of loans and other receivables | | | 3,501 | 2,728 |
| Increase in loans and other receivables | | | (15,735) | (5,969) |
| Proceeds from disposal of available-for-sale financial assets | | | 28,602 | 331 |
| Acquisition of available-for-sale financial assets | | | (1,415) | (115,564) |
| Decrease in other financial assets | | | 275,422 | 29,681 |
| Increase in other financial assets | | | (29,611) | (276,591) |
| Cash inflows from derivative transactions | | | 2,371 | 3,656 |
| Cash outflows from derivative transactions | | | (4,534) | (6,550) |
| Proceeds from disposal of property, plant and equipment | | | 198,959 | 15,509 |
| Acquisition of property, plant and equipment | | | (4,800,722) | (3,205,797) |
| Proceeds from disposal of intangible assets | | | 286 | 200 |
| Acquisition of intangible assets | | | (336,291) | (301,496) |
| Receipt of government grants | | | 20,241 | - |
| Cash outflows from business combinations | | | (19,682) | (3,648) |
| Cash outflows from disposal of investments in a subsidiary | | | (1,467) | - |
| **Net cash used in investing activities** | | ₩ | (6,087,827) | (4,892,125) |

*See accompanying notes to the consolidated financial statements.*

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | ₩ | 3,848,816 | 3,528,687 |
| Repayments of borrowings | | (3,820,449) | (5,028,676) |
| Acquisition of treasury shares | | (24) | - |
| **Net cash provided by (used in) financing activities** | | 28,343 | (1,499,989) |
| **Effect of movements in exchange rates on cash and cash equivalents** | | (2,313) | (6,462) |
| **Net decrease in cash and cash equivalents** | | (195,106) | (26,520) |
| **Cash and cash equivalents at beginning of the year** | | 631,867 | 658,387 |
| **Cash and cash equivalents at end of the year** | ₩ | 436,761 | 631,867 |

*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, 2014, 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 | 70,243,518 | 9.65 |
| Share Management Council[1] | 7,452,667 | 1.02 |
| Other investors | 504,206,180 | 69.26 |
| | 728,002,365 | 100.00 |

[1] As of December 31, 2014, the number of shares held by each member of Share Management Council is as follows:

| Shareholder | Number of shares | Percentage of ownership (%) |
|---|---|---|
| Korea Exchange Bank | 7,092,500 | 0.97 |
| Shinhan Bank | 355,000 | 0.05 |
| Other financial institutions | 5,167 | 0.00 |
| | 7,452,667 | 1.02 |

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.

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of December 31, 2014.

## 1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of December 31, 2014 and 2013 are as follows:

| Company | Location | Business | Ownership(%) 2014 | Ownership(%) 2013 |
|---|---|---|---|---|
| SK hyeng Inc.[1] | Korea | Domestic subsidiary | 100.00 | 100.00 |
| SK hystec Inc. | Korea | Domestic subsidiary | 100.00 | 100.00 |
| Siliconfile Technologies Inc.[2] | Korea | Development and manufacturing of electronic component | 100.00 | - |
| SK hynix America Inc. (SKHYA) | U.S.A. | Overseas sales subsidiary | 97.74 | 97.74 |
| Hynix Semiconductor Manufacturing America Inc. (HSMA)[3] | U.S.A. | Discontinued subsidiary | 100.00 | 100.00 |
| SK hynix Deutschland GmbH (SKHYD) | Germany | Overseas sales subsidiary | 100.00 | 100.00 |
| SK hynix Europe Holding Ltd. (SKHYE)[4] | U.K. | Holding company | - | 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)[5] | 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)[6] | 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)[7] | 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)[8] | Hong Kong | Holding company | 100.00 | 100.00 |
| SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)[9] | China | Overseas manufacturing subsidiary | 100.00 | 100.00 |
| Softeq Flash Solutions LLC.(SOFTEQ)[10] | Belarus | Overseas R&D center | 100.00 | - |
| MMT (Money Market Trust)[11] | Korea | Money Market Trust | 100.00 | - |

## 1. Reporting Entity, Continued

[1] QRT Inc., that was established by spin-off from SK hyeng Inc.'s technical service division, has been sold during the year ended December 31, 2014.
[2] The Company acquired entire shares held by Siliconfile Technologies Inc.'s existing shareholders in exchange for the Company's newly issued ordinary shares during the year ended December 31, 2014.
[3] Subsidiary of SK hynix America Inc. (SKHYA)
[4] The liquidation process of SK hynix Europe Holding Ltd. has been completed during the year ended December 31, 2014.
[5] Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)
[6] The Company invested ₩109,960 million in SK hynix Semiconductor (China) Ltd. (SKHYCL) during the year ended December 31, 2014.
[7] The Company invested ₩23,681 million in SK hynix memory solutions Inc. (SKHMS) during the year ended December 31, 2014.
[8] The Company invested ₩103,699 million in SK APTECH Ltd. during the year ended December 31, 2014.
[9] Subsidiary of SK APTECH Ltd. (SKAPTECH)
[10] The Company acquired Softeq Flash Solutions LLC. (SOFTEQ) during the year ended December 31, 2014.
[11] The Company acquired MMT (Money Market Trust) during the year ended December 31, 2014.

(3) Changes in subsidiaries for the year ended December 31, 2014 are as follows:

| | Company | Reason |
|---|---|---|
| Newly included | Siliconfile Technologies Inc. | Included in consolidation as subsidiaries through the additional acquisition of the remaining interests |
| | Softeq Flash Solutions LLC.(SOFTEQ) | Included in consolidation as subsidiaries due to the acquisition of interests |
| | QRT Inc. | Included in consolidation as subsidiaries through the spin-off from SK hyeng Inc. |
| Excluded | SK hynix Europe Holding Ltd.(SKHYE) | Excluded from consolidation due to liquidation |
| | QRT Inc. | Excluded from consolidation due to disposal |

(4) Major subsidiaries' summarized statements of financial position as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Equity** | **Assets** | **Liabilities** | **Equity** |
| SK hynix America Inc.(SKHYA) | ₩ 1,711,746 | 1,634,047 | 77,699 | 964,682 | 911,513 | 53,169 |
| SK hynix Asia Pte. Ltd.(SKHYS) | 386,135 | 313,152 | 72,983 | 231,649 | 164,390 | 67,259 |
| SK hynix Semiconductor Hong Kong Ltd.(SKHYH) | 563,598 | 478,449 | 85,149 | 353,248 | 284,438 | 68,810 |
| SK hynix Japan Inc.(SKHYJ) | 285,122 | 227,860 | 57,262 | 302,971 | 250,962 | 52,009 |
| SK hynix Semiconductor Taiwan Inc.(SKHYT) | 628,791 | 605,861 | 22,930 | 240,489 | 197,975 | 42,514 |
| SK hynix Semiconductor (China) Ltd.(SKHYCL) | 4,179,186 | 1,197,588 | 2,981,598 | 3,652,044 | 1,212,007 | 2,440,037 |
| SK hynix Deutschland GmbH(SKHYD) | 135,384 | 98,477 | 36,907 | 98,150 | 63,706 | 34,444 |
| SK hynix U.K. Ltd.(SKHYU) | 194,318 | 179,990 | 14,328 | 78,020 | 66,080 | 11,940 |
| SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL) | 341,984 | 174,936 | 167,048 | 52,857 | 2,287 | 50,570 |

## 1. Reporting Entity, Continued

(5) Major subsidiaries' summarized statements of comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|
| | | Revenue | Profit | Total comprehensive income | Revenue | Profit (loss) | Total comprehensive income (loss) |
| SK hynix America Inc.(SKHYA) | ₩ | 6,360,992 | 21,385 | 21,385 | 5,187,848 | 23,547 | 23,547 |
| SK hynix Asia Pte. Ltd.(SKHYS) | | 1,638,396 | 2,773 | 2,773 | 1,203,290 | 2,385 | 2,385 |
| SK hynix Semiconductor Hong Kong Ltd.(SKHYH) | | 3,714,085 | 12,941 | 12,941 | 3,022,397 | 19,471 | 19,471 |
| SK hynix Japan Inc.(SKHYJ) | | 843,383 | 9,890 | 10,478 | 790,736 | 10,335 | 10,447 |
| SK hynix Semiconductor Taiwan Inc.(SKHYT) | | 2,176,739 | 7,599 | 7,599 | 1,769,055 | 6,680 | 6,680 |
| SK hynix Semiconductor (China) Ltd.(SKHYCL) | | 1,914,452 | 381,729 | 381,729 | 1,718,074 | 23,611 | 23,611 |
| SK hynix Deutschland GmbH(SKHYD) | | 551,528 | 6,197 | 6,197 | 594,166 | 2,440 | 2,440 |
| SK hynix U.K. Ltd.(SKHYU) | | 575,959 | 1,813 | 1,813 | 494,305 | 1,743 | 1,743 |
| SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL) | | 109,769 | 6,813 | 6,813 | - | (3,126) | (3,126) |

(6) There are no significant non-controlling interests to the Group as of December 31, 2014 and 2013.

## 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 Stock Companies.

The consolidated financial statements were authorized for issuance by the board of directors on January 28, 2015, which will be submitted for approval at the shareholders' meeting to be held on March 20, 2015.

(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
- available-for-sale financial assets 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 4: estimated useful lives of property, plant and equipment and intangible assets
- Note 6: 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 10: net realizable value of inventories
- Note 16: impairment of goodwill
- Note 20: recognition and measurement of provisions
- Note 21: measurement of defined benefit obligations
- Note 22: 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 7.

## 3. Changes in Accounting Policies

Except as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2013.

(1) Amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The Group has applied the amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation', since January 1, 2014. The amendment provides that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position only when an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The legally enforceable right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances including the normal course of business; the event of default; and the event of insolvency or bankruptcy of the entity and all of the counterparties.

The net settlement criteria can be met when the amounts are settled in a manner such that the outcome is, in effect, equivalent to net settlement, which includes case that the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The amendment has no impact on the Group's financial statements.

(2) Amendment to K-IFRS No. 1036, 'Impairment of Assets'

The Group has applied the amendment to K-IFRS No. 1036, 'Impairment of Assets' since January 1, 2014. The amendment provides that the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

The amendment has no impact on the Group's financial statements.

## 3. Changes in Accounting Policies, Continued

(3) K-IFRS No. 2121, 'Levies'

The Group adopted K-IFRS No. 2121, 'Levies' since January 1, 2014. The interpretation defines that an obligating event that gives rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. If the obligating event occurs over a year of time, the liability to pay a levy is recognized progressively and if the obligating event is the reaching of a minimum activity threshold, the liability to pay a levy is recognized when that minimum activity threshold is reached. An entity shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation.

The interpretation has no significant impact on the Group's financial statements.

## 4. 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 5.

(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.

### 4. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

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.

(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

**4. Significant Accounting Policies, Continued**

(2) Basis of consolidation, Continued

ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

(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.

## 4. 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.

## 4. 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.

## 4. 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.

## 4. 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.

## 4. 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.

## 4. 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.

## 4. Significant Accounting Policies, Continued

(14) Leases, Continued

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.

## 4. 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 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.

## 4. 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 entity 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.

**4. 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 reporting date. 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 closing rate.

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.

## 4. Significant Accounting Policies, Continued

(22) Finance income and finance expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, 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 payment 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 tax 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 receivable 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.

## 4. Significant Accounting Policies, 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 ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

(25) Discontinued operations

A discontinued operation is a component of the Group’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

## 5. 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, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Sale of goods | ₩ | 17,013,599 | 14,088,421 |
| Sale of services | | 111,967 | 76,681 |
| | ₩ | 17,125,566 | 14,165,102 |

(2) Details of the Group’s revenue by product and service types for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| DRAM | ₩ | 13,311,628 | 10,211,993 |
| NAND Flash | | 3,320,658 | 3,391,561 |
| Other | | 493,280 | 561,548 |
| | ₩ | 17,125,566 | 14,165,102 |

### 5. 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, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Korea | ₩ | 1,179,949 | 1,105,083 |
| China | | 3,825,747 | 3,038,355 |
| Taiwan | | 2,155,005 | 1,765,343 |
| Asia (other than China and Taiwan) | | 2,482,716 | 1,986,394 |
| U.S.A. | | 6,359,461 | 5,191,619 |
| Europe | | 1,122,688 | 1,078,308 |
| | ₩ | 17,125,566 | 14,165,102 |

(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, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Korea | ₩ | 12,356,735 | 10,424,568 |
| China | | 3,255,550 | 2,912,948 |
| Taiwan | | 5,831 | 5,036 |
| Asia (other than China and Taiwan) | | 798 | 798 |
| U.S.A. | | 333,908 | 289,682 |
| Europe | | 11,124 | 1,598 |
| | ₩ | 15,963,946 | 13,634,630 |

(5) Revenue from a customer that constitutes more than 10% of the Group's consolidated revenue for the years ended December 31, 2014 and 2013 amounts to ₩2,959,663 million and ₩2,457,867 million, respectively.

## 6. Categories of Financial Instruments

(1) Categories of financial assets as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | | | | |
|---|---|---|---|---|---|---|
| | | **Financial assets at fair value through profit or loss** | **Available-for-sale financial assets** | **Held-to-maturity financial assets** | **Loans and receivables** | **Total** |
| Cash and cash equivalents | ₩ | - | - | - | 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 | | - | - | - | 940,874 | 940,874 |
| Other financial assets[1] | | - | - | - | 323 | 323 |
| Available-for-sale financial assets | | - | 127,314 | - | - | 127,314 |
| | ₩ | 1,842,020 | 127,314 | - | 6,886,878 | 8,856,212 |

*(In millions of won)*

| | | 2013 | | | | |
|---|---|---|---|---|---|---|
| | | **Financial assets at fair value through profit or loss** | **Available-for-sale financial assets** | **Held-to-maturity financial assets** | **Loans and receivables** | **Total** |
| Cash and cash equivalents | ₩ | - | - | - | 631,867 | 631,867 |
| Short-term financial instruments | | 1,045,974 | - | - | 1,108,558 | 2,154,532 |
| Trade receivables | | - | - | - | 1,941,675 | 1,941,675 |
| Loans and other receivables | | - | - | - | 366,849 | 366,849 |
| Other financial assets[1] | | 272 | - | 245,808 | 1,745 | 247,825 |
| Available-for-sale financial assets | | - | 158,770 | - | - | 158,770 |
| | ₩ | 1,046,246 | 158,770 | 245,808 | 4,050,694 | 5,501,518 |

[1] Details of other financial assets as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Current** | | | |
| Held-to-maturity financial assets | ₩ | - | 245,808 |
| **Non-current** | | | |
| Time deposit | | 311 | 1,731 |
| Bank overdraft guarantee deposits | | 12 | 14 |
| Derivatives | | - | 272 |
| | | 323 | 2,017 |
| | ₩ | 323 | 247,825 |

## 6. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | | |
|---|---|---|---|---|
| | | **Financial liabilities at fair value through profit or loss** | **Financial liabilities measured at amortized cost** | **Total** |
| Trade payables | ₩ | - | 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 |
| | ₩ | 738 | 7,637,300 | 7,638,038 |

*(In millions of won)*

| | | 2013 | | |
|---|---|---|---|---|
| | | **Financial liabilities at fair value through profit or loss** | **Financial liabilities measured at amortized cost** | **Total** |
| Trade payables | ₩ | - | 648,793 | 648,793 |
| Other payables | | - | 788,304 | 788,304 |
| Other non-trade payables[1] | | - | 854,221 | 854,221 |
| Borrowings | | - | 4,550,215 | 4,550,215 |
| Other financial liabilities | | 109,288 | - | 109,288 |
| | ₩ | 109,288 | 6,841,533 | 6,950,821 |

[1] Details of other non-trade payables as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | **2014** | **2013** |
|---|---|---|---|
| **Current** | | | |
| Accrued expenses | ₩ | 1,182,956 | 677,120 |
| **Non-current** | | | |
| Long-term other payables | | 130,566 | 166,641 |
| Rent deposits payable | | 2,357 | 9,844 |
| Long-term accrued expenses | | 24 | 616 |
| | | 132,947 | 177,101 |
| | ₩ | 1,315,903 | 854,221 |

## 6. Categories of Financial Instruments, Continued

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Loans and receivables** | | | |
| Interest income | ₩ | 50,804 | 59,262 |
| Foreign exchange differences | | 200,390 | (61,819) |
| Reversal of impairment (loss) | | (5,463) | 2,250 |
| | | 245,731 | (307) |
| **Available-for-sale financial assets** | | | |
| Other comprehensive loss | | - | (966) |
| Gain on disposal | | 6,553 | 205 |
| Dividend income | | 1,233 | 2,381 |
| | | 7,786 | 1,620 |
| **Held-to-maturity financial assets** | | | |
| Interest income | | 1,318 | 853 |
| **Financial assets at fair value through profit or loss** | | | |
| Interest income | | - | 6,296 |
| Gain on valuation | | 6,920 | - |
| Gain from derivative instruments | | - | 73 |
| Gain on disposal | | 28,493 | - |
| | | 35,413 | 6,369 |
| **Financial liabilities measured at amortized cost** | | | |
| Interest expenses | | (170,363) | (256,623) |
| Loss on redemption of debentures | | (2,924) | - |
| Foreign exchange differences | | (71,870) | 169,509 |
| | | (245,157) | (87,114) |
| **Financial liabilities at fair value through profit or loss** | | | |
| Loss from derivative instruments | | (171,754) | (93,546) |
| | ₩ | (126,663) | (172,125) |

## 7. 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 under 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, 2014 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 | 4,729 | ₩ | 5,198,150 | 2,844 | ₩ | 3,126,097 |
| EUR | 3 | | 4,508 | 50 | | 67,141 |
| JPY | 11,558 | | 106,347 | 26,580 | | 244,575 |

As of December 31, 2014, 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 | ₩ | 207,205 | (207,205) |
| EUR | | (6,263) | 6,263 |
| JPY | | (13,823) | 13,823 |

**7. 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 financial assets held at floating rates.

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, 2014, the Group is partially exposed to a risk of increase in interest rates. As of December 31, 2014, 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 ₩15,267 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, 2014, 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 creditworthiness before standard payment and delivery terms and conditions are offered. In addition, the Group consistently manages trade and other receivables by reevaluating the customer’s creditworthiness 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 Global Credit Insurance Program with a credit insurance companies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2014 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, 2014 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.

## 7. 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, 2014 and 2013 are as follows:

*(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) | ₩ | 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 |
| | ₩ | 5,213,495 | 965,840 | 1,754,213 | - | 7,933,548 |

*(In millions of won)*

| | | 2013 | | | | |
|---|---|---|---|---|---|---|
| | | **Less than 1 year** | **1 - 2 years** | **2 - 5 years** | **More than 5 years** | **Total** |
| Borrowings (other than finance lease liabilities) | ₩ | 940,422 | 1,721,781 | 844,633 | 1,228,487 | 4,735,323 |
| Finance lease liabilities | | 103,077 | 105,245 | 111,146 | - | 319,468 |
| Trade payables | | 648,793 | - | - | - | 648,793 |
| Other payables | | 801,425 | - | - | - | 801,425 |
| Other non-trade payables | | 658,733 | 66,180 | 131,565 | - | 856,478 |
| Derivatives | | 2,439 | - | - | - | 2,439 |
| Financial guarantee contract | | 28 | - | - | - | 28 |
| | ₩ | 3,154,917 | 1,893,206 | 1,087,344 | 1,228,487 | 7,363,954 |

### 7. 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 ₩738 million (2013: ₩2,439 million) within the less than one-year time bucket as of December 31, 2014. 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Total liabilities (A) | ₩ | 8,846,975 | 7,730,439 |
| Total equity (B) | | 18,036,303 | 13,066,859 |
| Cash and cash equivalents and short-term financial instruments (C) | | 4,054,775 | 2,786,399 |
| Total borrowings (D) | | 4,174,759 | 4,550,215 |
| Debt-to-equity ratio (A/B) | | 49% | 59% |
| Net borrowing ratio (D-C)/B | | 1% | 13% |

## 7. 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, 2014 and 2013:

| *(In millions of won)* | | | 2014 | | | |
|---|---|---|---|---|---|---|
| | | Carrying amounts | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at fair value** | | | | | | |
| Short-term financial instruments | ₩ | 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] | | 940,874 | - | - | - | - |
| Other financial assets[1] | | 323 | - | - | - | - |
| Available-for-sale financial assets[1,2] | | 127,314 | - | - | - | - |
| | | 7,014,192 | - | - | - | - |
| **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 |
| | ₩ | 7,637,300 | - | 4,243,974 | - | 4,243,974 |

### 7. Financial Risk Management, Continued

| *(In millions of won)* | | 2013 | | | | |
|---|---|---|---|---|---|---|
| | | Carrying amounts | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at fair value** | | | | | | |
| Short-term financial instruments | ₩ | 1,045,974 | - | 1,045,974 | - | 1,045,974 |
| Other financial assets | | 272 | - | 272 | - | 272 |
| Available-for-sale financial assets | | 31,966 | 31,966 | - | - | 31,966 |
| | | 1,078,212 | 31,966 | 1,046,246 | - | 1,078,212 |
| **Financial assets not measured at fair value** | | | | | | |
| Cash and cash equivalents[1] | | 631,867 | - | - | - | - |
| Short-term financial instruments[1] | | 1,108,558 | - | - | - | - |
| Trade receivables[1] | | 1,941,675 | - | - | - | - |
| Loans and other receivables[1] | | 366,849 | - | - | - | - |
| Other financial assets[1] | | 247,553 | - | - | - | - |
| Available-for-sale financial assets[1,2] | | 126,804 | - | - | - | - |
| | | 4,423,306 | - | - | - | - |
| **Financial liabilities measured at fair value** | | | | | | |
| Other financial liabilities | | 109,288 | - | 109,288 | - | 109,288 |
| | | 109,288 | - | 109,288 | - | 109,288 |
| **Financial liabilities not measured at fair value** | | | | | | |
| Trade payables[1] | | 648,793 | - | - | - | - |
| Other payables[1] | | 788,304 | - | - | - | - |
| Other non-trade payables[1] | | 854,221 | - | - | - | - |
| Borrowings | | 4,550,215 | - | 4,785,180 | - | 4,785,180 |
| | ₩ | 6,841,533 | - | 4,785,180 | - | 4,785,180 |

[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 methods.

### 7. 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 | ₩ | 1,842,020 | 2 | The present value method |
| **Derivative financial Liabilities:** | | | | |
| Interest swap | | 738 | 2 | The present value method |

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2014.

### 8. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 | Description |
|---|---|---|---|---|
| Short-term financial instruments | ₩ | 3 | 8 | Restricted for government grants |
| | | 21,655 | 23,713 | Pledged for borrowings |
| | | 4,601 | 5,023 | Pledged for consumption tax |
| | | 46,000 | 34,600 | Restricted for supporting small business |
| | | 4,764 | - | Pledged for letter of credit |
| | | 584 | - | Deposit for import duties |
| | | 77,607 | 63,344 | |
| Other financial assets | | 308 | 308 | Pledged for borrowings |
| | | 12 | 14 | Bank overdraft guarantee deposit |
| | | - | 1,419 | Deposit for import duties |
| | | 3 | 3 | Others |
| | | 323 | 1,744 | |
| | ₩ | 77,930 | 65,088 | |

## 9. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Current** | | | |
| Other receivables | ₩ | 845,468 | 307,414 |
| Accrued income | | 28,337 | 11,071 |
| Short-term loans | | 3,504 | 2,665 |
| Short-term guarantee and other deposits | | 4,576 | 2,609 |
| | | 881,885 | 323,759 |
| **Non-current** | | | |
| Long-term other receivables | | 22,880 | 21,152 |
| Long-term loans | | 7,199 | 6,659 |
| Guarantee deposits | | 28,585 | 14,409 |
| Long-term deposits | | 325 | 870 |
| | | 58,989 | 43,090 |
| | ₩ | 940,874 | 366,849 |

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | |
|---|---|---|---|---|
| | | Gross amount | Provision for impairment | Carrying amount |
| Trade receivables | ₩ | 3,735,845 | (2,919) | 3,732,926 |
| Current loans and other receivables | | 883,553 | (1,668) | 881,885 |
| Non-current loans and other receivables | | 65,023 | (6,034) | 58,989 |
| | ₩ | 4,684,421 | (10,621) | 4,673,800 |

| *(In millions of won)* | | 2013 | | |
|---|---|---|---|---|
| | | Gross amount | Provision for impairment | Carrying amount |
| Trade receivables | ₩ | 1,945,121 | (3,446) | 1,941,675 |
| Current loans and other receivables | | 325,821 | (2,062) | 323,759 |
| Non-current loans and other receivables | | 55,600 | (12,510) | 43,090 |
| | ₩ | 2,326,542 | (18,018) | 2,308,524 |

### 9. 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, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 3,446 | 3,257 |
| Provision for receivables impairment | | 525 | 174 |
| Receivables written off during the year as uncollectible | | (885) | - |
| Foreign exchange difference | | (167) | 15 |
| **Ending balance** | ₩ | 2,919 | 3,446 |

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 2,062 | 5,035 |
| Provision for receivables impairment | | 302 | 47 |
| Unused amounts reversed | | (1) | (2,685) |
| Receivables written off during the year as uncollectible | | (697) | (293) |
| Foreign exchange difference | | 2 | (42) |
| **Ending balance** | ₩ | 1,668 | 2,062 |

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 12,510 | 12,839 |
| Provision for receivables impairment | | 4,636 | 225 |
| Unused amounts reversed | | - | (12) |
| Receivables written off during the year as uncollectible | | (10,891) | (137) |
| Foreign exchange difference | | (221) | (405) |
| **Ending balance** | ₩ | 6,034 | 12,510 |

## 9. Trade Receivables and Loans and Other Receivables, Continued

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2014 and 2013 are as follows:

| *(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 | ₩ | 3,731,621 | 3,809 | 415 | - | - | 3,735,845 |
| Current loans and other receivables | | 882,274 | - | - | - | 1,279 | 883,553 |
| Non-current loans and other receivables | | 41,599 | - | - | - | 23,424 | 65,023 |
| | ₩ | 4,655,494 | 3,809 | 415 | - | 24,703 | 4,684,421 |

| *(In millions of won)* | | 2013 | | | | | |
|---|---|---|---|---|---|---|---|
| | | 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 | ₩ | 1,940,110 | 3,784 | 205 | 14 | 1,008 | 1,945,121 |
| Current loans and other receivables | | 323,838 | - | - | - | 1,983 | 325,821 |
| Non-current loans and other receivables | | 43,436 | - | - | - | 12,164 | 55,600 |
| | ₩ | 2,307,384 | 3,784 | 205 | 14 | 15,155 | 2,326,542 |

## 10. Inventories

(1) Details of inventories as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | | |
|---|---|---|---|---|
| | | **Acquisition cost** | **Inventory valuation allowance** | **Carrying amount** |
| Finished goods | ₩ | 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 |
| | ₩ | 1,566,091 | (68,528) | 1,497,563 |

*(In millions of won)*

| | | 2013 | | |
|---|---|---|---|---|
| | | **Acquisition cost** | **Inventory valuation allowance** | **Carrying amount** |
| Finished goods | ₩ | 375,783 | (29,911) | 345,872 |
| Work-in-process | | 650,450 | (42,048) | 608,402 |
| Raw materials | | 142,727 | (1,102) | 141,625 |
| Supplies | | 45,727 | (55) | 45,672 |
| Goods in transit | | 36,729 | - | 36,729 |
| | ₩ | 1,251,416 | (73,116) | 1,178,300 |

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

*(In millions of won)*

| | | **2014** | **2013** |
|---|---|---|---|
| Inventories recognized as cost of sales | ₩ | 9,453,427 | 8,646,711 |
| Reversal of valuation allowance of inventories | | 5,053 | 51,773 |

## 11. Non-current assets held for sale

Details of changes in non-current assets held for sale for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 26,557 | 26,958 |
| Disposal | | - | (4) |
| Other | | 1,104 | (397) |
| **Ending balance** | ₩ | 27,661 | 26,557 |

## 12. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Current** | | | |
| Advance payments | ₩ | 4,501 | 7,405 |
| Prepaid expenses | | 156,590 | 128,125 |
| Others | | 5,984 | 5,854 |
| | | 167,075 | 141,384 |
| **Non-current** | | | |
| Long-term prepaid expenses | | 494,908 | 346,795 |
| Others | | 13,568 | 19,026 |
| | | 508,476 | 365,821 |
| | ₩ | 675,551 | 507,205 |

## 13. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| Type | Investee | Ownership (%) | | 2014 Net asset value | 2014 Carrying amount | 2013 Carrying amount |
|---|---|---|---|---|---|---|
| Associate | Siliconfile Technologies Inc.[1] | - | ₩ | - | - | 10,962 |
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | 45 | | 97,090 | 97,090 | 96,135 |
| | | | ₩ | 97,090 | 97,090 | 107,097 |

[1] Siliconfile Technologies Inc. became a subsidiary due to the Group's additional acquisition of the remaining interest in 2014.

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| 2014 | | Beginning balance | Acquisition (disposal)[1] | Share of profit (loss) | Other equity movement | Dividend | Ending balance |
|---|---|---|---|---|---|---|---|
| Siliconfile Technologies Inc. | ₩ | 10,962 | (10,319) | (579) | 171 | (235) | - |
| HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | | 96,135 | - | 13,084 | 3,535 | (15,664) | 97,090 |
| | ₩ | 107,097 | (10,319) | 12,505 | 3,706 | (15,899) | 97,090 |

[1] The remeasurement to fair value of the Group's existing 27.93% interest in Siliconfile Technologies Inc. resulted in gain on disposal of ₩10,640 million.

*(In millions of won)*

| 2013 | | Beginning balance | Acquisition (disposal) | Share of profit | Other equity movement | Dividend | Ending balance |
|---|---|---|---|---|---|---|---|
| Siliconfile Technologies Inc. | ₩ | 8,909 | - | 2,153 | (99) | - | 10,963 |
| HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | | 95,191 | - | 17,103 | (1,127) | (15,033) | 96,134 |
| | ₩ | 104,100 | - | 19,256 | (1,226) | (15,033) | 107,097 |

## 13. Investments in Associates and Joint Ventures, Continued

(3) Associate and joint venture's statements of financial position as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | | |
|---|---|---|---|---|---|
| | | Current assets | Non-current assets | Current liabilities | Non-current liabilities |
| HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | ₩ | 251,443 | 306,344 | 289,990 | 52,042 |

| *(In millions of won)* | | 2013 | | | |
|---|---|---|---|---|---|
| | | Current assets | Non-current assets | Current liabilities | Non-current liabilities |
| Siliconfile Technologies Inc. | ₩ | 44,042 | 19,644 | 26,034 | 1,860 |
| HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | | 213,172 | 353,432 | 182,036 | 170,935 |

(4) Associate and joint venture's statements of comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | | Revenue | Profit (loss) for the year | Revenue | Profit for the year |
| Siliconfile Technologies Inc.[1] | ₩ | 40,339 | (2,072) | 131,914 | 7,708 |
| HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH) | | 608,300 | 29,077 | 566,065 | 38,008 |

[1] Siliconfile Technologies Inc. became 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.

### 14. Available-for-sale Financial Assets

(1) Details of available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | 2014 | | | | | 2013 |
|---|---|---|---|---|---|---|
| | **Number of stock** | **Ownership (%)** | | **Acquisition cost** | **Book value** | **Book value** |
| Hyundai Information Technology Co, Ltd. | - | - | ₩ | - | - | 1,885 |
| HYUNDAI LOGISTICS CO., LTD. | - | - | | - | - | 98 |
| EQ bestech Co.,Ltd. | - | - | | - | - | 10 |
| Itest Co., Ltd. | - | - | | - | - | 768 |
| Hyundai IBT Co., Ltd. | - | - | | - | - | 4 |
| Fidelix Co., Ltd. | - | - | | - | - | 3,870 |
| iA, Inc. (formerly, C&S Technology Co., Ltd.) | - | - | | - | - | 3,389 |
| Phison Electronics Corp. | - | - | | - | - | 22,050 |
| ProMos | 201,600,000 | 7.93 | | 21,847 | - | - |
| JNT Frontier Private Equity Unit | Certificate | - | | 1,307 | 1,307 | 1,307 |
| SV M&A No.1 Equity Unit | Certificate | - | | 1,196 | 1,196 | 1,196 |
| Daishin Aju IB Investment Co., Ltd. | Certificate | - | | 1,265 | 1,265 | 1,518 |
| Seoul Investment Early & Green Venture Fund | Certificate | - | | 1,760 | 1,760 | 1,867 |
| TS 2011-4 Technology Transfer & Business | Certificate | - | | 1,262 | 1,262 | 1,600 |
| IMM Investment | Certificate | - | | 1,040 | 1,040 | 786 |
| L&S Venture Capital | Certificate | - | | 1,899 | 1,899 | 1,124 |
| KTC-NP-Growth | Certificate | - | | 516 | 516 | 540 |
| Intellectual Discovery, Ltd. | 800,000 | 8.94 | | 4,000 | 4,000 | 4,000 |
| SKY Property Mgmt. Ltd. | 5,745 | 15 | | 112,360 | 112,360 | 112,360 |
| Equity investment in a construction guarantee association | 526 | 0.01 | | 709 | 709 | 396 |
| Others | | | | 199 | - | 2 |
| | | | ₩ | 149,360 | 127,314 | 158,770 |

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 158,770 | 44,297 |
| Acquisition | | 1,414 | 115,564 |
| Disposal | | (32,870) | (125) |
| Change in fair value | | - | (966) |
| **Ending balance** | ₩ | 127,314 | 158,770 |

## 15. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

*(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 | | 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 |

## 15. Property, Plant and Equipment, Continued

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows, continued:

*(In millions of won)*

| | | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Land | Buildings | Structures | Machinery | Vehicles | Others | Construction -in-progress | Total |
| **At January 1 net book amount** | ₩ | 462,067 | 1,301,330 | 181,615 | 9,033,566 | 340 | 188,021 | 419,253 | 11,586,192 |
| **Changes during 2013** | | | | | | | | | |
| Additions | | 226 | 125 | 82 | 14,682 | 34 | 6,486 | 3,528,676 | 3,550,311 |
| Business combination | | - | - | - | 47 | - | 12 | - | 59 |
| Disposals | | (33) | (3,347) | (690) | (7,423) | - | (565) | (336) | (12,394) |
| Depreciation | | - | (52,154) | (19,600) | (2,788,978) | (148) | (60,086) | - | (2,920,966) |
| Transfers | | 42,302 | 62,012 | 46,149 | 3,031,495 | 13 | 75,393 | (3,257,364) | - |
| Impairments | | - | (985) | (1,507) | (88,407) | - | - | (10,633) | (101,532) |
| Exchange differences | | (164) | 2,835 | 1,250 | 27,394 | (12) | (150) | (3,026) | 28,127 |
| **Ending net book amount** | | 504,398 | 1,309,816 | 207,299 | 9,222,376 | 227 | 209,111 | 676,570 | 12,129,797 |
| Acquisition cost | | 504,398 | 1,853,434 | 533,333 | 31,885,948 | 2,412 | 741,869 | 676,570 | 36,197,964 |
| Accumulated depreciation | | - | (518,446) | (304,622) | (22,299,425) | (2,185) | (530,357) | - | (23,655,035) |
| Accumulated impairment | | - | (24,841) | (21,412) | (356,843) | - | (2,289) | - | (405,385) |
| Government grants | | - | (331) | - | (7,304) | - | (112) | - | (7,747) |
| | ₩ | 504,398 | 1,309,816 | 207,299 | 9,222,376 | 227 | 209,111 | 676,570 | 12,129,797 |

(2) Details of depreciation expense allocation for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Cost of sales | ₩ | 3,040,674 | 2,616,341 |
| Selling and administrative expenses | | 197,196 | 154,673 |
| Other expenses | | 4,902 | 122,471 |
| Development costs | | 25,694 | 27,481 |
| | ₩ | 3,268,466 | 2,920,966 |

(3) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2014 (Note 34).

(4) During 2014, the Group capitalized borrowing costs amounting to ₩20,762 million (2013: ₩ 7,687 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 5.08% (2013: 3.87%) for the year ended December 31, 2014.

## 15. 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 ₩165,414 million as of December 31, 2014 (as of December 31, 2013: ₩242,187 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, 2014 is as follows:

| *(In millions of won)* | | Minimum lease payments |
|---|---|---|
| No later than 1 year | ₩ | 57,325 |
| Later than 1 year | | 133,943 |
| | ₩ | 191,268 |

(6) As of December 31, 2014, 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, inventories and others | | | |
| | Business interruption | ₩ | 36,717,090 | Hyundai Marine & Fire Insurance Co., Ltd. and others |
| Fire insurance | Property, plant and equipment, investment property | | | |
| Erection all risks insurance | Property, plant and equipment | | 415,948 | |
| | | ₩ | 37,133,038 | |

## 16. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | | | |
|---|---|---|---|---|---|---|
| | | **Goodwill** | **Industrial property rights** | **Development costs** | **Others[1]** | **Total** |
| **Beginning net book amount** | ₩ | 632,311 | 73,860 | 276,930 | 127,302 | 1,110,403 |
| **Changes during 2014** | | | | | | |
| Additions | | - | 32,229 | 181,287 | 122,775 | 336,291 |
| 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) |
| Other | | 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) |
| | ₩ | 704,185 | 83,750 | 319,824 | 228,921 | 1,336,680 |

| *(In millions of won)* | | 2013 | | | | |
|---|---|---|---|---|---|---|
| | | **Goodwill** | **Industrial property rights** | **Development costs** | **Others[1]** | **Total** |
| **Beginning net book amount** | ₩ | 633,170 | 92,188 | 223,188 | 35,084 | 983,630 |
| **Changes during 2013** | | | | | | |
| Additions | | - | 13,187 | 190,271 | 98,038 | 301,496 |
| Business combinations | | 2,905 | - | - | 684 | 3,589 |
| Disposals | | - | (17,288) | - | - | (17,288) |
| Impairment | | - | - | - | (183) | (183) |
| Amortization | | - | (14,227) | (136,534) | (5,515) | (156,276) |
| Other | | (3,764) | - | 5 | (806) | (4,565) |
| **Ending net book amount** | | 632,311 | 73,860 | 276,930 | 127,302 | 1,110,403 |
| | | | | | | |
| Acquisition cost | | 632,311 | 164,125 | 595,943 | 161,329 | 1,553,708 |
| Accumulated amortization and impairment | | - | (90,265) | (319,013) | (16,813) | (426,091) |
| Government grants | | - | - | - | (17,214) | (17,214) |
| | ₩ | 632,311 | 73,860 | 276,930 | 127,302 | 1,110,403 |

[1] Others include software and club memberships.

(2) Amortization of ₩3,106 million (2013: ₩501 million) is included in the cost of sales and ₩171,169 million (2013: ₩155,775 million) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2014.

## 16. Intangible Assets, Continued

(3) Among costs associated with development activities, ₩181,287 million (2013: ₩190,271 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2014. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,409,530 million (2013: ₩968,804 million) were recognized as expenses for the year ended December 31, 2014.

(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, 2014. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2014.

## 17. Investment Property

Changes in investment property during the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Beginning net book amount** | ₩ | 28,609 | 29,888 |
| **Changes for the year** | | | |
| Depreciation | | (1,239) | (1,279) |
| Transfer[1] | | 1,086 | - |
| **Ending net book amount** | | 28,456 | 28,609 |
| | | | |
| Acquisition cost | | 50,839 | 48,390 |
| Accumulated depreciation | | (22,383) | (19,781) |
| | ₩ | 28,456 | 28,609 |

[1] Transfer from property, plant and equipment.

The depreciation expense of ₩1,239 million was charged to cost of sales for the year ended December 31, 2014 (2013: ₩1,279 million).

Rental income from investment property during the year ended December 31, 2014 was ₩4,534 million (2013: ₩4,283 million).

## 18. Borrowings

(1) Details of borrowings as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Current** | | | |
| Short-term borrowings | ₩ | 734,165 | 137,979 |
| Current installments of debentures | | 200,000 | - |
| Current installments of long-term borrowings | | 820,855 | 732,341 |
| | | 1,755,020 | 870,320 |
| **Non-current** | | | |
| Debentures | | 1,156,967 | 1,450,777 |
| Convertible bonds | | - | 498,935 |
| Long-term borrowings | | 1,262,772 | 1,730,183 |
| | | 2,419,739 | 3,679,895 |
| | ₩ | 4,174,759 | 4,550,215 |

(2) Details of short-term borrowings as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | Financial Institutions | Annual interest rate in 2014 (%) | | 2014 | 2013 |
|---|---|---|---|---|---|
| Import finance | Woori Bank | 0.58 | ₩ | 22,060 | 10,610 |
| Borrowings on trade receivables collateral | NH NongHyup Bank and others | 3M LIBOR + 0.47 ~ 0.55 | | 220,663 | - |
| Refinancing and others | China Construction Bank and others | 1.23 ~ 3.20 | | 491,442 | 127,369 |
| | | | ₩ | 734,165 | 137,979 |

### 18. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | Financial institutions | Annual interest rate in 2014 (%) | | 2014 | 2013 |
|---|---|---|---|---|---|
| **Local currency borrowings:** | | | | | |
| Borrowing for housing | Kookmin Bank | 3.5 | ₩ | 10 | 24 |
| Borrowings for childcare facilities | NongHyup Bank | 2 | | 185 | 246 |
| Funds for equipment | Korea Finance Corporation | Industrial financial debentures (4 years)[2] + 1.31 | | 250,000 | 250,000 |
| Funds for equipment | Korea Exchange Bank | CD (91days)[3] +1.31 | | 50,000 | 50,000 |
| Commercial paper | Korea Exchange Bank | 3.9 | | 200,000 | 370,000 |
| Finance lease liabilities | ME Semiconductor Rental First L.L.C. | 5 | | 147,870 | 212,442 |
| | | | | 648,065 | 882,712 |
| **Foreign currency borrowings:** | | | | | |
| General borrowings | Export-Import Bank of Korea | 3M LIBOR[4] + 3.15 | | 274,800 | 105,530 |
| General borrowings[1] | Standard Chartered Bank Korea Ltd. | 3M LIBOR[4] + 3.00 | | 12,366 | 86,271 |
| General borrowings | Hana Bank | - | | - | 23,744 |
| General borrowings | Korea Development Bank | Exchange equalization fund rate[5] + 0.60 | | 109,920 | 316,590 |
| General borrowings | Comerica Bank | - | | - | 32,954 |
| General borrowings | NongHyup Bank and others | Exchange equalization fund rate[5] + 0.63 | | 175,872 | - |
| General borrowings | NongHyup Bank and others | 3M LIBOR[4] + 3.19~3.79 | | 274,800 | 263,825 |
| General borrowings | Agricultural Bank of China and other | 3M LIBOR[4] + 2.65 | | 182,841 | 280,212 |
| Syndicated loans | Development Bank of China and others | 3M LIBOR[4] + 2.95 | | 209,348 | 298,787 |
| Funds for equipment | Standard Chartered Bank Korea Ltd. | 3M LIBOR[4] + 3.45 | | 118,653 | - |
| Mortgage loans | HITECH | 7.16 | | 18,162 | 96,236 |
| Finance lease liabilities | HITECH | 4.70 ~ 7.16 | | 59,415 | 81,615 |
| | | | | 1,436,177 | 1,585,764 |
| | | | | 2,084,242 | 2,468,476 |
| Less: Discount on present value | | | | (615) | (5,952) |
| Current maturities | | | | (820,855) | (732,341) |
| | | | ₩ | 1,262,772 | 1,730,183 |

[1] The Group entered into interest swap contracts with Standard Chartered Bank Korea Ltd for the interest on the foreign currency loans.
[2] As of December 31, 2014, industrial financial debentures (4 years) rate is 3.05%.
[3] As of December 31, 2014, CD (91 days) rate is 2.13%.
[4] As of December 31, 2014, 3M LIBOR rate is 0.2552%.
[5] As of December 31, 2014, exchange equilization fund rate is 0.78%.

## 18. Borrowings, Continued

(4) Details of debentures as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | Maturity date | Annual interest rate in 2014 (%) | | 2014 | 2013 |
|---|---|---|---|---|---|
| **Unsecured notes in local currency:** | | | | | |
| 210th | Jan. 14, 2015 | 6.35 | ₩ | 200,000 | 200,000 |
| 211th | May 6, 2016 | 6.20 | | 400,000 | 400,000 |
| 212th | May 30, 2019 | 5.35 | | 450,000 | 550,000 |
| 213th | Sep. 4, 2017 | 3.72 | | 200,000 | 200,000 |
| **Secured notes in foreign currency** | | | | | |
| Foreign 8th[1] | Jun. 20, 2017 | 3M Libor + 2.85 | | 109,920 | 105,530 |
| | | | | 1,359,920 | 1,455,530 |
| Less: Discounts on debentures | | | | (2,953) | (4,753) |
| Current portion | | | | (200,000) | - |
| | | | ₩ | 1,156,967 | 1,450,777 |

[1] The Group is provided with USD100 million of payment guarantee from Shinhan Bank as of December 31, 2014.

(5) Details of convertible bonds as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | Maturity date | Annual interest rate in 2014 (%) | | 2014 | 2013 |
|---|---|---|---|---|---|
| **Convertible bond in foreign currency:** | | | | | |
| Foreign 7th[1] | May 14, 2015 | - | ₩ | - | 527,650 |
| | | | | - | 527,650 |
| Less: Conversion rights adjustment | | | | - | (26,434) |
| Discount on bonds | | | | - | (2,281) |
| | | | ₩ | - | 498,935 |

[1] The entire convertible bond was convertedor repaid during the year ended December 31, 2014.

## 18. Borrowings, Continued

(6) 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, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Total minimum lease payment** | | | |
| No later than 1 year | ₩ | 106,318 | 103,077 |
| Between 1 and 5 years | | 116,277 | 216,391 |
| | | 222,595 | 319,468 |
| **Discount on present value** | | (16,346) | (25,410) |
| **Net minimum lease payment** | | | |
| No later than 1 year | | 97,567 | 90,139 |
| Between 1 and 5 years | | 108,682 | 203,919 |
| | ₩ | 206,249 | 294,058 |

(7) Details of book value and fair value of non-current borrowings as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | | Book value | Fair value | Book value | Fair value |
| Long-term borrowings | ₩ | 1,262,772 | 1,271,718 | 1,730,183 | 1,759,397 |
| Debentures | | 1,156,967 | 1,217,236 | 1,450,777 | 1,501,810 |
| Convertible bond | | - | - | 498,935 | 653,653 |
| | ₩ | 2,419,739 | 2,488,954 | 3,679,895 | 3,914,860 |

## 19. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Current** | | | |
| Advance receipts | ₩ | 2,682 | 2,616 |
| Unearned income | | 322 | 2,403 |
| Withholdings | | 67,174 | 21,180 |
| Deposits received | | 858 | 531 |
| Others | | 163 | 110 |
| | | 71,199 | 26,840 |
| **Non-current** | | | |
| Long-term advance receipts | | - | 155 |
| Long-term withholdings | | - | 935 |
| Other long-term employee benefits | | 59,464 | 51,280 |
| | | 59,464 | 52,370 |
| | ₩ | 130,663 | 79,210 |

## 20. Provisions

(1) Details of changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Beginning balance | Increase | Utilization | Reversal | Ending balance |
| Warranty | ₩ | 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 |
| | ₩ | 52,584 | 62,010 | (87,987) | (675) | 25,932 |

*(In millions of won)*

| | | 2013 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Beginning balance | Increase | Utilization | Reversal | Other[1] | Ending balance |
| Warranty | ₩ | 2,949 | 10,991 | (26) | - | - | 13,914 |
| Sales returns | | 5,305 | 7,259 | - | - | - | 12,564 |
| Legal claims | | 322,361 | 58,959 | (158,762) | (211,152) | 14,700 | 26,106 |
| | ₩ | 330,615 | 77,209 | (158,788) | (211,152) | 14,700 | 52,584 |

[1] Others include foreign exchange rate differences.

(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.

## 21. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Present value of defined benefit obligations | ₩ | 887,277 | 656,080 |
| Fair value of plan assets | | (421,927) | (20,340) |
| | ₩ | 465,350 | 635,740 |

(2) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Discount rate for defined benefit obligations | 3.19% ~ 4.50% | 1.11% ~ 5.85% |
| Expected rate of salary increase | 4.92% ~ 5.81% | 4.92% ~ 6.18% |

(3) Weighted average durations of defined benefit obligations as of December 31, 2014 and 2013 are 12.67 and 13.07 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 656,080 | 592,171 |
| Current service cost | | 109,403 | 98,095 |
| Interest cost | | 35,442 | 28,079 |
| Benefits paid | | (35,529) | (46,538) |
| Remeasurements: | | | |
| Demographic assumption | | 7 | - |
| Financial assumption | | 119,206 | (18,324) |
| Adjustment based on experience | | 262 | 2,559 |
| Business combinations and disposal of a subsidiary | | 1,711 | - |
| Transfer from associates | | 552 | 344 |
| Others | | 143 | (306) |
| **Ending balance** | ₩ | 887,277 | 656,080 |

(5) Changes in plan assets for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Beginning balance** | ₩ | 20,340 | 17,075 |
| Interest income | | 1,413 | 679 |
| Contributions | | 402,894 | 4,131 |
| Benefits paid | | (1,385) | (1,367) |
| Remeasurements | | (399) | (178) |
| Business combinations and disposal of a subsidiary | | (1,133) | - |
| Others | | 197 | - |
| **Ending balance** | ₩ | 421,927 | 20,340 |

## 21. Defined Benefit Liabilities, Continued

(6) The amounts recognized in profit or loss for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Current service cost | ₩ | 109,403 | 98,095 |
| Net interest expense | | 34,029 | 27,400 |
| | ₩ | 143,432 | 125,495 |

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Cost of sales (manufacturing costs) | ₩ | 82,922 | 73,950 |
| Selling and administrative expenses | | 60,510 | 51,545 |
| | ₩ | 143,432 | 125,495 |

(8) Details of plan assets as of December 31, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Deposits | ₩ | 420,300 | 18,485 |
| Other | | 1,627 | 1,855 |
| | ₩ | 421,927 | 20,340 |

Actual return on plan assets for the years ended December 31, 2014 and 2013 amounted to ₩1,014 million and ₩501 million, respectively.

(9) As of December 31, 2014, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2014 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%) | ₩ | (100,702) | 119,599 |
| Expected rate of salary increase (if changed by 1%) | | 120,284 | (103,002) |

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.

## 22. Deferred Income Tax

(1) Changes in deferred taxes for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **At January 1** | ₩ | 198,570 | 378,366 |
| Recorded in profit or loss | | 69,176 | (180,928) |
| Tax charge relating to components of other comprehensive income | | - | 311 |
| Exchange differences | | 893 | 821 |
| **At December 31** | ₩ | 268,639 | 198,570 |

## 22. Deferred Income Tax, continued

(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2014 and 2013 without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

| *(In millions of won)* | | 2014 | | | | |
|---|---|---|---|---|---|---|
| | | **January 1, 2014** | **Profit or loss** | **Other comprehensive income** | **Currency translation differences** | **December 31, 2014** |
| **Deferred tax liabilities:** | | | | | | |
| Advanced depreciation provision | ₩ | (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 | | 92,829 | (41,917) | - | 776 | 51,688 |
| 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 |
| Tax credit carryforwards | | 642,121 | (76,048)) | - | 131 | 566,204 |
| Others | | 209,967 | 30,701 | - | 5,938 | 246,606 |
| | | 1,647,911 | (104,420) | - | 6,486 | 1,549,977 |
| Deferred tax assets, net | | 1,562,747 | (191,261) | - | 6,423 | 1,377,909 |
| Deferred tax assets not recognized | | (1,364,177) | 260,437 | - | (5,530) | (1,109,270) |
| **Deferred tax assets recognized** | ₩ | 198,570 | 69,176 | - | 893 | 268,639 |

## 22. Deferred Income Tax, continued

| *(In millions of won)* | | 2014 | | | | |
|---|---|---|---|---|---|---|
| | | January 1, 2013 | Profit or loss | Other comprehensive income | Currency translation differences | December 31, 2013 |
| **Deferred tax liabilities:** | | | | | | |
| Advanced depreciation provision | ₩ | (55,666) | - | - | - | (55,666) |
| Valuation of derivatives | | (5,356) | (96) | - | - | (5,452) |
| Gains on foreign currency translation | | (30,398) | 27,801 | - | - | (2,597) |
| Conversion rights adjustment | | (14,944) | 8,117 | - | - | (6,827) |
| Others | | (19,676) | 4,720 | 311 | 23 | (14,622) |
| | | (126,040) | 40,542 | 311 | 23 | (85,164) |
| **Deferred tax assets:** | | | | | | |
| Loss on valuation of inventories | | 27,804 | (8,915) | - | (13) | 18,876 |
| Valuation of equity-method investments | | 322,919 | (111,402) | - | 4,817 | 216,334 |
| Accumulated depreciation | | 98,499 | (6,214) | - | 544 | 92,829 |
| Net defined benefits | | 107,219 | 30,414 | - | (55) | 137,578 |
| Deemed investments and others | | 162,507 | (117) | - | - | 162,390 |
| Provisions and others | | 104,468 | (98,652) | - | - | 5,816 |
| Impairment of available-for-sale financial assets | | 36,964 | 3,170 | - | - | 40,134 |
| Losses on foreign currency translation | | 29,906 | (27,360) | - | - | 2,546 |
| Property, plant and equipment | | 24,439 | (9,222) | - | - | 15,217 |
| Losses on valuation of derivative | | 9,182 | 22,185 | - | - | 31,367 |
| Tax loss carryforwards | | 612,111 | (538,748) | - | (627) | 72,736 |
| Tax credit carryforwards | | 658,899 | (16,732) | - | (46) | 642,121 |
| Others | | 230,455 | (18,423) | - | (2,065) | 209,967 |
| | | 2,425,372 | (780,016) | - | 2,555 | 1,647,911 |
| Deferred tax assets, net | | 2,299,332 | (739,474) | 311 | 2,578 | 1,562,747 |
| Deferred tax assets not recognized | | (1,920,966) | 558,546 | - | (1,757) | (1,364,177) |
| **Deferred tax assets recognized** | ₩ | 378,366 | (180,928) | 311 | 821 | 198,570 |

## 22. 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, 2014 and 2013 the Group recognized the entire deferred tax assets for tax loss carryforwards which are deductible from future taxable income.

In addition, the Group did not recognize deferred tax assets of ₩722,182 million (2013: ₩799,182 million) associated with deductable temporary differences amounting to ₩2,984,230 million (2013: ₩3,302,398 million).

For the year ended December 31, 2014, ₩148,052 million (2013: ₩ 108,433) of tax credit incurred which can be utilized in the future period. The unused tax credit and others that were not recognized as deferred tax assets amounted to ₩387,088 million (2013: ₩564,995 million) as of December 31, 2014.

(4) Expiration schedule of tax loss carryforwards and tax credit carryforwards as of December 31, 2014 is as follows:

| *(In millions of won)* | | Tax loss carryforwards | Tax credit carryforwards |
|---|---|---|---|
| 2015 | ₩ | - | 22,231 |
| 2016 | | - | 140,030 |
| 2017 | | - | 144,840 |
| 2018 | | - | 107,851 |
| Thereafter | | 62,878 | 151,252 |
| | ₩ | 62,878 | 566,204 |

## 23. Derivative Financial Instruments

(1) The Group has managed financial risk including interest rate risk and foreign exchange risk through interest rate swaps and other derivative instruments. In addition, 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.

(2) Details of derivative financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 | |
|---|---|---|---|---|
| | | **Liabilities** | **Assets** | **Liabilities** |
| **Current** | | | | |
| Interest rates swap | ₩ | 30 | - | 2,194 |
| | | 30 | - | 2,194 |
| **Non-current** | | | | |
| Interest rates swap | | 708 | 272 | 245 |
| Embedded derivative instruments | | - | - | 106,849 |
| | | 708 | 272 | 107,094 |
| | ₩ | 738 | 272 | 109,288 |

(3) Details of gains and losses from derivative instruments for the years ended December 31, 2014 and 2013 are follows:

| *(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 | | - | 171,016 | - | 2,691 |
| | ₩ | 215 | 171,996 | 2,955 | 2,928 |

| *(In millions of won)* | | 2013 | | | |
|---|---|---|---|---|---|
| | | **Gain on valuation** | **Loss on valuation** | **Gain on transaction** | **Loss on transaction** |
| Foreign currency forward contract | ₩ | - | - | 3,630 | 5,308 |
| Interest rates swap | | 2,507 | - | 26 | 1,242 |
| Embedded derivative instruments | | - | 93,085 | - | - |
| | ₩ | 2,507 | 93,085 | 3,656 | 6,550 |

## 24. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of December 31, 2014 and 2013 are as follows:

*(In millions of won, thousands of shares)*

| | | 2014 | 2013 |
|---|---|---|---|
| Authorized shares | | 9,000,000 | 9,000,000 |
| Issued shares[1] | | 731,530 | 713,729 |
| | | | |
| Capital stock: | | | |
| Common stock | ₩ | 3,657,652 | 3,568,645 |
| Capital surplus: | | | |
| Additional paid in capital | | 3,625,797 | 2,888,144 |
| Consideration for conversion rights | | 42,928 | 42,928 |
| Others | | 475,011 | 475,011 |
| | | 4,143,736 | 3,406,083 |
| Other equity | | | |
| Acquisition cost of treasury shares | ₩ | (24) | - |
| Number of treasury shares | | 1 | - |

[1] As of December 31, 2014, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the result of stock retirement.

(2) Issue of ordinary shares related to the acquisition of a subsidiary and exercise of conversion rights resulted in increase in both capital stock and capital surplus during the year ended December 31, 2014. Changes in number of outstanding shares as of December 31, 2014 and December 31, 2013 are as follows:

*(In thousands of shares)*

| | 2014 | 2013 |
|---|---|---|
| **Beginning** | 710,201 | 694,156 |
| Issue of ordinary shares related to the acquisition of a subsidiary | 1,358 | - |
| Exercise of conversion rights | 16,443 | 16,045 |
| **Ending** | 728,002 | 710,201 |

## 25. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Available-for-sale financial assets – unrealized net change in fair value | ₩ | - | 7,824 |
| Equity-accounted investees – share of other comprehensive loss | | (4,631) | (8,337) |
| Foreign operations – foreign currency translation differences | | (37,184) | (108,294) |
| | ₩ | (41,815) | (108,807) |

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | |
|---|---|---|---|---|
| | | Beginning | Change | Ending |
| Available-for-sale financial assets – unrealized net change in fair value | ₩ | 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) |
| | ₩ | (108,807) | 66,992 | (41,815) |

| *(In millions of won)* | | 2013 | | |
|---|---|---|---|---|
| | | Beginning | Change | Ending |
| Available-for-sale financial assets – unrealized net change in fair value | ₩ | 8,479 | (655) | 7,824 |
| Equity-accounted investees – share of other comprehensive loss | | (7,111) | (1,226) | (8,337) |
| Foreign operations – foreign currency translation differences | | (116,770) | 8,476 | (108,294) |
| | ₩ | (115,402) | 6,595 | (108,807) |

## 26. Retained Earnings

(1) Retained earnings as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Legal reserve[1] | ₩ | 8,854 | 8,854 |
| Discretionary reserve[2] | | 235,506 | 235,506 |
| Unappropriated retained earnings | | 10,032,544 | 5,956,962 |
| | ₩ | 10,276,904 | 6,201,322 |

## 26. Retained Earnings, 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 for the years ended December 31, 2014 and 2013 are as follows:

(a) Details of dividends for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won and In thousands of shares)*

| | | 2014 | 2013 |
|---|---|---|---|
| Type of dividends | | Cash Dividends | |
| Outstanding ordinary shares | | 728,002 | 710,201 |
| Par value (in won) | ₩ | 5,000 | 5,000 |
| Dividend rate | | 6% | |
| Total dividends | ₩ | 218,401 | - |

(b) Dividend payout ratio for the years ended December 31, 2014 and 2013 is as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Dividends | ₩ | 218,401 | - |
| Profit attributable to owners of the Parent Company | | 4,195,456 | 2,872,470 |
| Dividend payout ratio | | 5.21% | - |

(c) Dividend yield ratio for the years ended December 31, 2014 and 2013 is as follows:

*(In won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Dividends per share | ₩ | 300 | |
| Closing price | | 47,750 | 36,800 |
| Dividend yield ratio | | 0.63% | - |

## 27. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013[1] |
|---|---|---|---|
| Salaries | ₩ | 351,318 | 265,137 |
| Defined benefit plan related expenses | | 22,801 | 19,132 |
| Employee benefits | | 60,277 | 60,459 |
| Commission expense | | 211,111 | 158,107 |
| Depreciation | | 58,608 | 51,240 |
| Amortization | | 169,844 | 155,313 |
| Research and development | | 1,409,530 | 968,804 |
| Freight and custody charge | | 37,453 | 33,201 |
| Legal cost | | 7,210 | 11,374 |
| Rental expense | | 11,521 | 14,650 |
| Taxes and dues | | 15,145 | 17,912 |
| Training expense | | 42,737 | 26,863 |
| Sales promotional expenses | | 31,018 | 28,414 |
| Utility expense | | 5,673 | 10,804 |
| Supplies | | 42,737 | 26,863 |
| Repair expense | | 9,994 | 19,890 |
| Other | | 67,398 | 52,567 |
| | ₩ | 2,554,375 | 1,920,730 |

[1] Expenses for the year ended December 31, 2013 are reclassified to conform with the classification for the year ended December 31, 2014.

## 28. Expenses by Nature

Nature of expenses for the years ended December 31, 2014 and 2013 is as follows:

*(In millions of won)*

| | | 2014 | 2013[2] |
|---|---|---|---|
| Changes in finished goods and work-in-process | ₩ | (216,403) | 292,330 |
| Raw materials and consumables | | 2,595,972 | 2,328,140 |
| Employee benefit expenses | | 2,429,533 | 1,969,650 |
| Depreciation and amortization | | 3,439,078 | 2,956,040 |
| Royalty expense | | 167,167 | 14,597 |
| Commission expense | | 723,946 | 445,231 |
| Utilities expense | | 616,422 | 552,413 |
| Repair expense | | 1,032,816 | 1,031,023 |
| Outsourcing expense | | 1,018,075 | 952,457 |
| Other[1] | | 209,494 | 243,436 |
| | ₩ | 12,016,100 | 10,785,317 |

[1] Total expenses consist of cost of sales and selling and administrative expenses.
[2] Expenses for the year ended December 31, 2013 were reclassified to conform with the classification for the year ended December 31, 2014.

## 29. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Finance income:** | | | |
| Interest income | ₩ | 52,122 | 66,410 |
| Dividend income | | 1,233 | 2,381 |
| Gain on disposal of financial assets | | 38,547 | 205 |
| Foreign exchange differences | | 576,577 | 485,411 |
| Gain from derivative instruments | | 3,170 | 6,163 |
| Gain on valuation of financial assets at fair value through profit or loss | | 6,921 | - |
| | | 678,570 | 560,570 |
| **Finance expenses:** | | | |
| Interest expenses | | 170,363 | 256,623 |
| Loss on disposal of financial assets | | 3,500 | - |
| Foreign exchange differences | | 448,060 | 391,071 |
| Loss on redemption of debentures | | 2,924 | - |
| Loss from derivative instruments | | 174,924 | 99,635 |
| | | 799,771 | 747,329 |
| **Net finance expense** | ₩ | (121,201) | (186,759) |

## 30. Other Income and Expenses

Other income for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Gain on disposal of property, plant and equipment | ₩ | 5,611 | 9,560 |
| Gain on disposal of intangible assets | | - | 191 |
| Insurance compensation[1] | | 587,429 | 327,659 |
| Other | | 25,644 | 31,103 |
| | ₩ | 618,684 | 368,513 |

Other expenses for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Loss on disposal of property, plant and equipment | ₩ | 11,522 | 7,952 |
| Loss on disposal of intangible assets | | 9,522 | 17,278 |
| Donation | | 16,111 | 3,222 |
| Loss on disposal of trade receivables | | 3,756 | 3,317 |
| Loss on impairment of property, plant and equipment | | 25,397 | - |
| Loss on impairment of intangible assets | | 529 | 183 |
| Amortization of suspended assets | | 4,902 | 3,254 |
| Casualty losses[1] | | 123,957 | 450,752 |
| Other[2] | | 386,728 | 19,912 |
| | ₩ | 582,424 | 505,870 |

[1] For the year ended December 31, 2014, the Group recognized casualty losses of ₩123,957 million (2013: ₩450,752 million) caused by a fire on the manufacturing facilities located in Wuxi, China, which includes impairment losses on property, plant and equipment, impairment losses on inventories, depreciation of temporarily idle property, plant and equipment and others. In 2014, the Group and insurance companies reached an agreement about the insurance compensation amounting to USD560 million (₩587,429 million), which was recognized as other income (2013: ₩327,659 million).

[2] Expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD 278 million (₩ 306,161 million equivalent) during 2014 are included.(Note 34 (1))

## 31. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Current tax:** | | | |
| Current tax on profits for the year | ₩ | 922,228 | 22,728 |
| Adjustments in respect of prior years | | (551) | (1,588) |
| | | 921,677 | 21,140 |
| **Deferred tax:** | | | |
| Origination and reversal of temporary differences | | (69,176) | 180,928 |
| | | (69,176) | 180,928 |
| **Income tax expense** | ₩ | 852,501 | 202,068 |

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| **Profit before tax** | ₩ | 5,047,670 | 3,074,925 |
| **Tax calculated at domestic tax rates applicable to profits in the respective countries** | | 1,181,621 | 744,847 |
| **Tax effects of:** | | | |
| Tax-exempt income | | (13) | 251 |
| Non-deductible expenses | | 71,531 | 28,450 |
| Tax credit | | (148,052) | (108,433) |
| Change in unrecognized deferred tax assets | | (260,437) | (450,113) |
| Others | | 7,851 | 35,557 |
| **Income tax expense** | ₩ | 852,501 | 202,068 |

(3) The income taxes recorded directly in equity for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | 2013 |
|---|---|---|---|
| Recognized in other comprehensive income: | | | |
| Gains on valuation of available-for-sale financial assets | ₩ | - | 311 |

(4) The income taxes charged directly to equity as of December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|
| | | **Before Tax** | **Tax Charge** | **After Tax** | **Before Tax** | **Tax Charge** | **After Tax** |
| Gain on valuation of available-for-sale financial assets | ₩ | - | - | - | 11,447 | (3,623) | 7,824 |
| Remeasurements of the net defined benefit liability | | (305,551) | - | (305,551) | (185,677) | - | (185,677) |
| | ₩ | (305,551) | - | (305,551) | (174,230) | (3,623) | (177,853) |

## 32. Earnings Per Share

(1) Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

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

| | | 2014 | 2013 |
|---|---|---|---|
| Profit attributable to ordinary shareholders | ₩ | 4,195,456 | 2,872,470 |
| Weighted average number of outstanding ordinary shares[1] | | 718,197,377 | 710,200,891 |
| **Basic earnings per share** | ₩ | 5,842 | 4,045 |

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

*(In shares)*

| | 2014 | 2013 |
|---|---|---|
| Outstanding ordinary shares | 710,200,891 | 694,155,767 |
| Exercise of conversion rights | 7,051,443 | 16,045,124 |
| Issue of ordinary shares related to the acquisition of a subsidiary | 945,393 | - |
| Acquisition of treasury shares | (350) | - |
| **Weighted average number of outstanding ordinary shares** | 718,197,377 | 710,200,891 |

(2) The convertible bond was excluded from diluted earnings per share calculation as its effect was anti-dilutive during the years ended December 31, 2014 and 2013. Accordingly, diluted earnings per share for the years ended December 31, 2014 and 2013 are the same as basic earnings per share.

## 33. Related Party Transactions

(1) Details of joint venture and other related parties as of December 31, 2014 are as follows:

| Type | Name of related parties |
|---|---|
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd. |
| Other related parties | SK Telecom Co., Ltd., which has significant influence over the Company, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries |

(2) Significant transactions for the years ended December 31, 2014 and 2013 are as follows:

| *(In millions of won)* | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Company | | Operating revenue and others | Operating expense and others | Dividend income | Asset acquisition |
| Associate | Siliconfile Technologies Inc.[1] | ₩ | 25,109 | 411 | 236 | - |
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | | 1,734 | 612,890 | 15,664 | - |
| Other related parties | SK Telecom Co., Ltd. | | 3,391 | 7,493 | - | 2,685 |
| | SK Holdings Co., Ltd.[2] | | - | 33,273 | - | - |
| | SK C&C Co., Ltd.[3] | | 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 |
| | | ₩ | 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] The Group entered into a contract with SK Holdings Co., Ltd. under which the Group shall pay royalty for the use of SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2014, royalty paid for the use of the SK brand amounted to ₩28,780 million (2013: ₩18,251 million).

[3] SK C&C Co., Ltd. was excluded from related party after April 2014 due to exchange in CEO.

### 33. Related Party Transactions, Continued

| | Company | | 2013 Operating revenue and others | 2013 Operating expense and others | 2013 Dividend Income | 2013 Asset acquisition |
|---|---|---|---|---|---|---|
| Associate | Siliconfile Technologies Inc. | ₩ | 100,975 | 1,585 | - | - |
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | | 61,368 | 581,374 | 15,033 | - |
| Other related parties | SK Telecom Co., Ltd. | | 954 | 2,811 | - | 230 |
| | SK Holdings Co., Ltd. | | - | 20,583 | - | - |
| | SK C&C Co., Ltd. | | 150 | 22,374 | - | 30,522 |
| | SK Engineering & Construction Co., Ltd. | | 637 | 12,056 | - | 166,423 |
| | SK Energy Co., Ltd. | | 13,103 | 28,258 | - | - |
| | SK Networks Co., Ltd. | | - | 927 | - | 112,360 |
| | Ko-one energy service Co., Ltd. | | - | 20,452 | - | - |
| | SKC solmics Co., Ltd. | | - | 24,041 | - | 300 |
| | Chungcheong energy service Co., Ltd. | | - | 28,231 | - | - |
| | HAPPYNARAE Co., Ltd. | | 62 | 59,624 | - | 7,763 |
| | Others | | 261 | 9,095 | - | 332 |
| | | ₩ | 177,510 | 811,411 | 15,033 | 317,930 |

(3) The balances of significant transactions as of December 31, 2014 and December 31,2013 are as follows:

*(In millions of won)*

| | Company | | 2014 Trade receivables and others | 2014 Other payables and others | 2014 Borrowings[1] |
|---|---|---|---|---|---|
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | ₩ | 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 | - |
| | | ₩ | 21,674 | 728,017 | 22,552 |

[1] The Parent Company repaid ₩ 78,541 milliion of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. during the year ended December 31, 2014.

## 33. Related Party Transactions, Continued

*(In millions of won)*

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Company | | Trade receivables and others | Other payables and others | Borrowings |
| Associate | Siliconfile Technologies Inc. | ₩ | 18,102 | - | - |
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | | 11,356 | 2,828 | 101,093 |
| Other related parties | SK Telecom Co., Ltd. | | - | 419 | - |
| | SK Holdings Co., Ltd. | | - | 2,332 | - |
| | SK C&C Co., Ltd. | | 11 | 25,388 | - |
| | SK Engineering & Construction Co., Ltd. | | 234 | 82,238 | - |
| | SK Energy Co., Ltd. | | 76 | 5,802 | - |
| | SK Networks Co., Ltd. | | - | 78 | - |
| | SKC solmics Co., Ltd. | | - | 3,116 | - |
| | Chungcheong energy service Co., Ltd. | | - | 3,102 | - |
| | HAPPYNARAE Co., Ltd. | | 22 | 13,670 | - |
| | Others | | - | 1,579 | - |
| | | ₩ | 29,801 | 140,552 | 101,093 |

(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, 2014 and 2013 are as follows:

*(In millions of won)*

| Details | | 2014 | 2013 |
|---|---|---|---|
| Salaries | ₩ | 74,599 | 30,909 |
| Defined benefit plan related expenses | | 7,061 | 4,546 |
| Others | | 19 | 6 |
| | ₩ | 81,679 | 35,461 |

## 34. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of December 31, 2014 are as follows:

(a) Lawsuit from Toshiba Corporation ("Toshiba") and SanDisk Corporation ("SanDisk")
Toshiba filed a lawsuit against the Parent Company in Tokyo District Court, alleging misappropriation of trade secrets, on March 13, 2014, in which it is seeking damages of JPY 109,151 million ("Toshiba lawsuit"). The Parent Company's response against the petition was submitted, and oral proceedings began. On December 19, 2014, Toshiba agreed with the Parent Company to withdraw the lawsuit filed against the Parent Company in return for settlement fee amounting to USD278 million (₩306,101 million equivalent). This settlement fee was recoded as other expenses in the Company's financial statements for the year ended December 31, 2014.

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, on March 13, 2014 ("SanDisk lawsuit"). The litigation value of the SanDisk lawsuit has not been determined. Meanwhile, on November 6, 2014, the Parent Company requested transfer of the lawsuit to the United States District Court for California (the federal courts), for which SanDisk filed opposition. A hearing on this case is scheduled in the near future. As of December 31, 2014, above lawsuits are at an early stage and the final outcome of these matters cannot be predicted.

(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. In this regard, the Parent Company submitted a written response on September 5, 2014, and oral pleading is planned in the near future. As of December 31, 2014, the Group did not recognize any provision as the likelihood of defending this case appears probable. However, the final outcome of this contingency cannot be predicted as of December 31, 2014.

(d) Other patent infringement claims and litigation
The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as management believes it not likely an outflow of the Group's resources will be required to settle these matters. As of December 31, 2014, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements.

(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.

## 34. 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. In addition, HITECH entered into agreements to purchase corresponding machinery from the Parent Company and its subsidiary, SKHYMC. According to the contracts, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively until September 2015. In 2011, the Parent Company entered into an additional contract for the purpose of module processing service and HITECH purchased corresponding machinery from the Parent Company. 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, 2014 are as follows:

| *(In millions of won)* | | Book value | Pledged amount | Remark |
|---|---|---|---|---|
| Land | ₩ | 25,202 | | |
| Buildings | | 119,622 | 1,236,513 | Borrowings for equipment and others |
| Machinery | | 868,487 | | |
| | ₩ | 1,013,311 | 1,236,513 | |

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.

## 34. Commitments and Contingencies, Continued

(6) Financing agreements
Details of credit lines with financial institutions as of December 31, 2014 are as follows:

*(In millions of won and millions of foreign currencies)*

| | Financial Institution | Commitment | Currency | Amount |
|---|---|---|---|---|
| The Parent Company | Korea Exchange Bank and others | Import finance including usance | USD | 445 |
| | | Export finance including bills bought | USD | 370 |
| | | Comprehensive limit contract for import and export | USD | 1,040 |
| SK Hynix Semiconductor (China) Ltd. (SKHYCL) | Agricultural Bank of China and others | | RMB | 1,700 |
| | | Import finance including usance | EUR | 21 |
| | | | USD | 1,514 |
| SK Hynix America Inc. (SKHYA) and other sales entities | Citibank and others | Accounts receivable factoring contracts which have no right to recourse | USD | 784 |
| Domestic subsidiaries | Korea Exchange Bank | Export finance including bills bought | KRW | 5,000 |
| | | Guarantee | KRW | 2,000 |
| | | Foreign currency forward | KRW | 1 |

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to ₩220,663 million as of December 31, 2014 (as of December 31, 2013: nil). 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, 2014 are as follows:

| *(In millions of won)* | | Amount | Remark |
|---|---|---|---|
| Employees | ₩ | 27 | Guarantees for employees' borrowings relating to employee stock ownership |

(8) Capital commitments
As of December 31, 2014, the Group has ₩348,802 million (as of December 31, 2013: ₩385,106 million) of commitments in relation to the capital expenditures on fixed assets.

## 35. 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, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| **Profit for the year** | ₩ | 4,195,169 | 2,872,857 |
| **Adjustment** | | | |
| Income tax expense | | 852,501 | 202,068 |
| Defined benefit plan related expenses | | 143,432 | 125,495 |
| Depreciation of property, plant and equipment and investment property | | 3,269,705 | 2,922,245 |
| Amortization | | 174,275 | 156,276 |
| Loss on foreign currency translation | | 116,726 | 24,415 |
| Interest expense | | 170,363 | 256,623 |
| Gain on foreign currency translation | | (79,678) | (94,175) |
| Interest income | | (52,122) | (66,410) |
| Loss on derivative instruments, net | | 171,754 | 93,473 |
| Gain on equity method investments, net | | (12,506) | (19,256) |
| Others, net | | 13,072 | 116,735 |
| **Changes in operating assets and liabilities** | | | |
| Increase in trade receivables | | (1,628,665) | (278,141) |
| Increase in loans and other receivables | | (579,225) | (249,778) |
| Decrease (increase) in inventories | | (314,547) | 333,179 |
| Increase in trade payables | | 69,290 | 113,552 |
| Increase (decrease) in other payables | | (105,971) | 74,666 |
| Increase in other non-trade payables | | 498,152 | 309,974 |
| Decrease in provisions | | (26,793) | (127,052) |
| Payment of defined benefit liabilities | | (34,144) | (45,171) |
| Contribution to plan assets | | (402,894) | (4,113) |
| Others, net | | (132,665) | (195,909) |
| **Cash generated from operating activities** | ₩ | 6,305,229 | 6,521,553 |

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

| | | 2014 | 2013 |
|---|---|---|---|
| Other payables related to acquisition of property, plant and equipment | ₩ | 588,435 | 190,667 |
| Issue of ordinary shares related to the acquisition of a subsidiary | | 54,070 | - |
| Exercise of conversion rights | | 772,590 | 432,434 |
| Transferred to non-current convertible bond due to expiration of early redemption rights | | - | 486,569 |

### 36. Business Combination

(1) In April 2014, the Parent Company acquired all remaining interest in Siliconfile Technologies Inc., which is CMOS image sensor developer, located in Korea, in exchange for the Parent Company's newly issued ordinary shares and obtained control over Siliconfile Technologies Inc. The fair value of the identifiable net assets acquired at acquisition date was ₩42,432 million and the excess of the consideration transferred amounting to ₩75,028 million over the identifiable net assets acquired was accounted for as goodwill.

The following table summarizes the consideration transferred for Siliconfile Technologies Inc., the fair value of assets acquired and liabilities assumed at the acquisition date:

| *(In millions of won)* | | **Amount** |
|---|---|---|
| **Consideration** | ₩ | 75,028 |
| Recognized amounts of identifiable assets acquired and liabilities assumed[1] | | |
| Cash and cash equivalents | | 14,872 |
| Other current assets | | 30,179 |
| Non-current assets | | 25,052 |
| Current liabilities | | 20,588 |
| Non-current liabilities | | 7,083 |
| Fair value of net identifiable assets | ₩ | 42,432 |
| **Goodwill** | | 32,596 |

[1] Assets acquired and liabilities assumed were measured at their fair values.

The revenue of Siliconfile Technologies Inc. included in the consolidated statement of comprehensive income after acquisition date was ₩71,014 million. Siliconfile Technologies Inc. also contributed a profit of ₩3,239 million over the same year.

(2) The Parent Company acquired Softeq Flash Solutions LLC., which is NAND solution developer, located in Belarus, for ₩10,236 million. The fair value of the identifiable net asset acquired was ₩1,546 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.

(3) The Group acquired PCIe card operation division of Violin Memory, Inc., which is memory solution developer, located in United states, for USD23 million. The fair value of the identifiable net asset acquired was USD3 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.