

# **SK hynix Inc. and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2013 and 2012**

**SK hynix Inc. and Subsidiaries**  
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**December 31, 2013 and 2012**

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## Report of Independent Auditors

To the Shareholders and Board of Directors of  
SK hynix Inc.

We have audited the accompanying consolidated statements of financial position of SK hynix Inc. and its subsidiaries (collectively "the Group") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of SK hynix Inc. and its subsidiaries as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

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

*Samuel Pricewaterhouse Coopers*

Seoul, Korea  
February 25, 2014

This report is effective as of February 25, 2014, 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 there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**SK hynix Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2013 and 2012**

<i>(in millions of Korean won)</i>	<b>Notes</b>			<b>2013</b>			<b>2012</b>
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	5,7,8,10	₩	631,867	₩	658,387		
Short-term financial instruments	5,7,11		2,154,532		1,126,229		
Trade receivables	7,8,12		1,941,675		1,719,521		
Loans and other receivables	5,7,12		323,759		125,055		
Inventories	13		1,178,300		1,509,331		
Assets classified as held for sale	20		26,557		26,958		
Current tax assets			9,242		12,719		
Other financial assets	5,7,11		245,808		-		
Other current assets	14		141,384		135,373		
			<u>6,653,124</u>		<u>5,313,573</u>		
<b>Non-current assets</b>							
Investments in jointly controlled entity and associate	16		107,097		104,100		
Available-for-sale financial assets	5,7,15		158,770		44,297		
Property, plant and equipment	17		12,129,797		11,586,192		
Intangible assets	19		1,110,403		983,630		
Investment property	18		28,609		29,888		
Loans and other receivables	5,7,12		43,090		19,127		
Other financial assets	5,7,11,41		2,017		525		
Deferred income tax assets	27		198,570		378,366		
Other non-current assets	14		365,821		188,995		
			<u>14,144,174</u>		<u>13,335,120</u>		
<b>Total assets</b>		₩	<u>20,797,298</u>	₩	<u>18,648,693</u>		
<b>Liabilities</b>							
<b>Current liabilities</b>							
Trade payables	4,5,7	₩	648,793	₩	592,738		
Other payables	4,5,7		788,304		381,260		
Other non-trade payables	4,5,7,21		677,120		361,076		
Provisions	23		52,584		330,615		
Other financial liabilities	4,5,7,24,41		2,194		17,020		
Borrowings	4,5,7,22		870,320		2,719,197		
Other current liabilities	25		26,840		25,906		
Current tax liabilities			12,084		13,368		
			<u>3,078,239</u>		<u>4,441,180</u>		
<b>Non-current liabilities</b>							
Borrowings	4,5,7,22		3,679,895		3,752,779		
Other non-trade payables	4,5,7,21		177,101		97,533		
Net defined benefit liabilities	26		635,740		575,096		
Other financial liabilities	4,5,7,24,41		107,094		1,615		
Other non-current liabilities	25		52,370		41,048		
			<u>4,652,200</u>		<u>4,468,071</u>		
<b>Total liabilities</b>			<u>7,730,439</u>		<u>8,909,251</u>		
<b>Equity attributable to owners of the Parent Company</b>							
Capital stock	28		3,568,645		3,488,419		
Capital surplus	28		3,406,083		3,053,874		
Accumulated other comprehensive income (loss)	30		(108,807)		(115,402)		
Retained earnings	29		6,201,322		3,313,265		
			<u>13,067,243</u>		<u>9,740,156</u>		
<b>Non-controlling interest</b>			<u>(384)</u>		<u>(714)</u>		
<b>Total equity</b>			<u>13,066,859</u>		<u>9,739,442</u>		
<b>Total liabilities and equity</b>		₩	<u>20,797,298</u>	₩	<u>18,648,693</u>		

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

**SK hynix Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2013 and 2012**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
<b>Net sales</b>	6	₩ 14,165,102	₩ 10,162,210
<b>Cost of sales</b>	33	<u>(8,864,587)</u>	<u>(8,550,989)</u>
<b>Gross profit</b>		5,300,515	1,611,221
Selling and administrative expenses	33,34	<u>(1,920,730)</u>	<u>(1,838,570)</u>
<b>Operating income (loss)</b>	6	3,379,785	(227,349)
Financial income	36	560,570	689,709
Financial costs	36	(747,329)	(682,594)
Share of profit of associates	16	19,256	16,713
Other non-operating income	35	368,513	67,130
Other non-operating expenses	35	<u>(505,870)</u>	<u>(62,910)</u>
<b>Profit (loss) before income tax (benefit)</b>		3,074,925	(199,301)
Income tax expense (benefit)	37	<u>202,068</u>	<u>(40,506)</u>
<b>Profit (loss) for the year</b>		<u>₩ 2,872,857</u>	<u>₩ (158,795)</u>
<b>Other comprehensive income (loss) after tax</b>			
Line item will not be reclassified to profit or loss			
Remeasurements of the net defined benefit liability	26	<u>15,587</u>	<u>(82,872)</u>
Line items will be reclassified subsequently to profit or loss when specific conditions are met			
Change in value of available-for-sale financial assets	15	(655)	(1,896)
Currency translation differences		8,419	(216,490)
Other comprehensive income from jointly controlled entity and associate	16	<u>(1,226)</u>	<u>(4,343)</u>
<b>Total comprehensive income (loss) for the year</b>		<u>₩ 2,894,982</u>	<u>₩ (464,396)</u>
<b>Profit (loss) for the year attributable to:</b>			
Equity holders of the Parent Company	₩	2,872,470	₩ (158,886)
Non-controlling interest		387	91
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Equity holders of the Parent Company	₩	2,894,652	₩ (464,267)
Non-controlling interest		330	(129)
<b>Earning (loss) per share attributable to the equity holders of the Parent Company for the year</b>	38		
Basic earnings (loss) per share	₩	4,045	₩ (233)
Diluted earnings (loss) per share		4,045	(233)

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

**SK hynix Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2013 and 2012**

	Notes	Attributable to equity holders of the Parent Company						Non-controlling Interest	Total Equity
		Capital stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Retained Earnings	Total		
<i>(in millions of Korean won)</i>									
<b>Balance at January 1, 2012</b>		₩ 2,978,498	₩ 1,229,052	₩ 107,107	₩ 5,762	₩ 3,555,323	₩ 7,875,742	₩ (471)	₩ 7,875,271
<b>Comprehensive income</b>									
Loss for the year		-	-	-	-	(158,886)	(158,886)	91	(158,795)
Loss on the valuation of available-for-sale financial assets	15	-	-	(1,896)	-	-	(1,896)	-	(1,896)
Currency translation differences		-	-	(216,270)	-	-	(216,270)	(220)	(216,490)
Other comprehensive loss from jointly controlled entity and associate	16	-	-	(4,343)	-	-	(4,343)	-	(4,343)
Remeasurements of the net defined benefit liability	26	-	-	-	-	(82,872)	(82,872)	-	(82,872)
Total comprehensive loss		-	-	(222,509)	-	(241,758)	(464,267)	(129)	(464,396)
<b>Transactions with equity holders of the Parent company</b>									
Issuance of common stock	28	509,250	1,816,726	-	-	-	2,325,976	-	2,325,976
Exercise of conversion rights	28	52	210	-	-	-	262	-	262
Exercise of stock options	28	619	4,400	-	(2,200)	-	2,819	-	2,819
Expiration of stock options	28	-	3,562	-	(3,562)	-	-	-	-
Changes in the Parent's ownership interest in subsidiaries		-	(76)	-	-	-	(76)	(105)	(181)
Others		-	-	-	-	(300)	(300)	(9)	(309)
Total transactions with equity holders of the Parent Company		509,921	1,824,822	-	(5,762)	(300)	2,328,681	(114)	2,328,567
<b>Balance at December 31, 2012</b>		₩ 3,488,419	₩ 3,053,874	₩ (115,402)	₩ -	₩ 3,313,265	₩ 9,740,156	₩ (714)	₩ 9,739,442
<b>Balance at January 1, 2013</b>		₩ 3,488,419	₩ 3,053,874	₩ (115,402)	₩ -	₩ 3,313,265	₩ 9,740,156	₩ (714)	₩ 9,739,442
<b>Comprehensive income</b>									
Profit for the year		-	-	-	-	2,872,470	2,872,470	387	2,872,857
Loss on the valuation of available-for-sale financial assets	15	-	-	(655)	-	-	(655)	-	(655)
Currency translation differences		-	-	8,476	-	-	8,476	(57)	8,419
Other comprehensive loss from jointly controlled entity and associate	16	-	-	(1,226)	-	-	(1,226)	-	(1,226)
Remeasurements of the net defined benefit liability	26	-	-	-	-	15,587	15,587	-	15,587
Total comprehensive income		-	-	6,595	-	2,888,057	2,894,652	330	2,894,982
<b>Transactions with equity holders of the Parent Company</b>									
Exercise of conversion rights	28	80,226	352,209	-	-	-	432,435	-	432,435
Total transactions with equity holders of the Parent Company		80,226	352,209	-	-	-	432,435	-	432,435
<b>Balance at December 31, 2013</b>		₩ 3,568,645	₩ 3,406,083	₩ (108,807)	₩ -	₩ 6,201,322	₩ 13,067,243	₩ (384)	₩ 13,066,859

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

**SK hynix Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

<i>(in millions of Korean won)</i>	Notes	2013	2012
<b>Cash flows from operating activities</b>			
Cash generated from operations	42 ₩	6,521,553 ₩	2,420,894
Interest received		58,888	81,931
Interest paid		(199,553)	(275,169)
Dividends received		17,414	12,098
Income tax paid		(26,246)	(28,103)
<b>Net cash generated from operating activities</b>		<u>6,372,056</u>	<u>2,211,651</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		3,927,831	2,754,789
Increase in short-term financial instruments		(4,956,446)	(3,252,006)
Decrease in other financial assets		29,681	-
Increase in other financial assets		(276,591)	-
Decrease in loans and other receivables		2,728	11,640
Increase in loans and other receivables		(5,969)	(8,661)
Proceeds from derivatives		3,656	2,419
Payments of derivatives		(6,550)	(44,507)
Proceeds from disposal of assets classified as held for sale		-	23
Proceeds from disposal of available-for-sale financial assets		331	11,190
Acquisition of available-for-sale financial assets		(115,564)	(3,618)
Proceeds from disposal of property, plant and equipment		15,509	35,809
Acquisition of property, plant and equipment		(3,205,797)	(3,772,879)
Proceeds from disposal of intangible assets		200	1,226
Acquisition of intangible assets		(301,496)	(159,072)
Acquisition of investments in subsidiaries		(3,648)	(274,732)
<b>Net cash used in investing activities</b>		<u>(4,892,125)</u>	<u>(4,698,379)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,528,687	6,966,003
Repayments of borrowings		(5,028,676)	(7,377,491)
Proceeds from issuance of common stock		-	2,328,791
Changes in a parent's ownership interest in subsidiaries		-	(181)
<b>Net cash provided by (used in) financing activities</b>		<u>(1,499,989)</u>	<u>1,917,122</u>
<b>Effect of foreign exchange rates on cash and cash equivalents</b>		<u>(6,462)</u>	<u>(15,795)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(26,520)</u>	<u>(585,401)</u>
<b>Cash and cash equivalents at the beginning of year</b>		658,387	1,243,788
<b>Cash and cash equivalents at the end of year</b>		<u>₩ 631,867</u>	<u>₩ 658,387</u>

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



**SK hynix Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**1. General Information**

General information about SK hynix Inc. (the “Parent Company”) and its subsidiaries (collectively “the Group”) is as follows:

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

As of December 31, 2013, the shareholders of the Parent Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.57
National Pension Service	66,460,851	9.36
Share Management Council <sup>1</sup>	12,961,976	1.82
Individual investors	484,678,064	68.25
	<b>710,200,891</b>	<b>100.00</b>

<sup>1</sup>As of December 31, 2013, 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	10,092,500	1.42
Korea Finance Corporation	1,214,309	0.17
Shinhan Bank	850,000	0.12
Other financial institutions	805,167	0.11
	<b>12,961,976</b>	<b>1.82</b>

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 the shares following SK Telecom Co., Ltd.’s decision in designating officers of the Parent 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, 2013.

In addition, according to the share purchase agreement, SK Telecom Co., Ltd. or a third party designated by SK Telecom Co., Ltd. has purchase offering right when the Share Management Council sells all or a part of its shares. The exercise period of the purchase offering right would be automatically renewed until the shareholding of the Share Management Council drops below 10 million shares.

**SK hynix Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

As of December 31, 2013, the Group's consolidated subsidiaries are as follows:

<b>Names of subsidiaries</b>	<b>Number of Shares</b>	<b>Ownership (%)</b>	<b>Locations</b>	<b>Remarks</b>
SK Hyeng Co., Ltd.	674,327	100	Korea	Domestic subsidiary
SK Hystec Co., Ltd.	277,203	100	Korea	Domestic subsidiary
SK hynix America Inc.(SKHYA)	6,285,587	97.7	U.S.A.	Overseas sales entity
Hynix Semiconductor Manufacturing America Inc.(HSMA)	200,000,100	100	U.S.A.	Discontinued entity
SK hynix Deutschland GmbH(SKHYD)	Certificate	100	Germany	Overseas sales entity
SK hynix Europe Holding Ltd.(SKHYE)	-	100	U.K.	Under liquidation
SK hynix U.K. Ltd.(SKHYU)	186,240,200	100	U.K.	Overseas sales entity
SK hynix Asia Pte. Ltd.(SKHYS)	196,303,500	100	Singapore	Overseas sales entity
SK hynix Semiconductor India Pvt. Ltd.(SKHYIS)	27,000	100	India	Overseas sales entity
SK hynix Semiconductor HongKong Ltd.(SKHYH)	170,693,661	100	HongKong	Overseas sales entity
SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS)	Certificate	100	China	Overseas sales entity
SK hynix Japan Inc.(SKHYJ)	20,000	100	Japan	Overseas sales entity
SK hynix Semiconductor Taiwan Inc.(SKHYT)	35,725,000	100	Taiwan	Overseas sales entity
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Certificate	100	China	Manufacturing entity
SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC)	Certificate	100	China	Manufacturing entity
SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW)	Certificate	100	China	Overseas sales entity
SK hynix Italy S.r.l.(SKHYIT)	Certificate	100	Italy	Overseas R&D center
SK hynix memory solutions Inc.(SKHMS)	105	100	U.S.A.	Overseas R&D center
SK hynix Flash Solution Taiwan(SKHYFST)	Certificate	100	Taiwan	Overseas R&D center
SK APTECH Ltd.(SKAPTECH)	50,000,000	100	HongKong	Holding company
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	Certificate	100	China	Manufacturing entity

Subsidiaries newly included in the consolidation and excluded from the consolidation during this year, are as follows:

	<b>Names of subsidiaries</b>	<b>Reason</b>
Newly included	SK hynix Flash Solution Taiwan(SKHYFST) SK APTECH Ltd.(SKAPTECH) SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	Included in consolidation scope as subsidiaries due to acquisition of interests
Excluded	Ami Power Co., Ltd.	Excluded from consolidation scope due to liquidation

**SK hynix Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

Major subsidiaries' summarized statements of financial position as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	31-Dec-13			31-Dec-12		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	964,682	911,513	53,169	867,351	836,418	30,933
SK hynix Asia Pte.Ltd.(SKHYS)	231,649	164,390	67,259	146,471	80,538	65,933
SK hynix Semiconductor HongKong Ltd.(SKHYH)	353,248	284,438	68,810	326,673	275,851	50,822
SK hynix Japan Inc.(SKHYJ)	302,971	250,962	52,009	194,730	141,766	52,964
SK hynix Semiconductor Taiwan Inc.(SKHYT)	240,489	197,975	42,514	276,666	238,930	37,736
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,652,044	1,212,007	2,440,037	3,234,346	848,071	2,386,275
SK hynix Deutschland GmbH(SKHVD)	98,150	63,706	34,444	82,039	50,918	31,121
SK hynix U.K. Ltd.(SKHYU)	78,020	66,080	11,940	81,677	71,264	10,413

Major subsidiaries' summarized statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		
	Sales	Profit	Total Comprehensive income
SK hynix America Inc.(SKHYA)	5,187,848	23,547	23,547
SK hynix Asia Pte. Ltd.(SKHYS)	1,203,290	2,385	2,385
SK hynix Semiconductor HongKong Ltd.(SKHYH)	3,022,397	19,471	19,471
SK hynix Japan Inc.(SKHYJ)	790,736	10,335	10,447
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,769,055	6,680	6,680
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,718,074	23,611	23,611
SK hynix Deutschland GmbH(SKHVD)	594,166	2,440	2,440
SK hynix U.K. Ltd.(SKHYU)	494,305	1,743	1,743
<i>(in millions of Korean won)</i>	2012		
	Sales	Profit	Total Comprehensive income
SK hynix America Inc.(SKHYA)	3,848,368	10,498	10,498
SK hynix Asia Pte.Ltd.(SKHYS)	693,598	4,619	4,619
SK hynix Semiconductor HongKong Ltd.(SKHYH)	1,889,126	3,548	3,548
SK hynix Japan Inc.(SKHYJ)	736,702	13,410	13,416
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,428,484	3,815	3,815
SK hynix Semiconductor (China) Ltd.(SKHYCL)	2,400,043	244,995	244,995
SK hynix Deutschland GmbH(SKHVD)	415,572	2,534	2,534
SK hynix U.K. Ltd.(SKHYU)	399,810	3,260	3,260

# SK hynix Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2013 and 2012

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## 2. Significant Accounting Policies

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

### 2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

### 2.2 Changes in Accounting Policy and Disclosures

New standards, amendments and interpretations issued and effective for the financial year beginning January 1, 2013, and adopted by the Group are as follows:

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

The amendment requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and there is no impact of the application of this amendment on its total comprehensive income or loss.

- Amendments to Korean IFRS 1019, *Employee Benefits*

The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense (income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities (assets). There is no material impact of the application of this amendment on the consolidated financial statements.

**SK hynix Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, *Consolidated Financial Statements*, introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on the consolidation scope in the consolidated financial statements.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, reflects the substance of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosure of Interests in Other Entities*, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, provides a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across K-IFRS. The Group has applied this standard prospectively according to the transitional provisions of K-IFRS 1113 and there is no material impact of the application of this standard on the consolidated financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendment to Korean IFRS 1110, *Consolidated Financial Statements*

Amendment to Korean IFRS 1110, *Consolidated Financial Statements*, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit and loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

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#### - Amendment to Korean IFRS 1039, Financial Instruments: *Recognition and Measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

#### - Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This standard is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this standard would not have a material impact on its consolidated financial statements.

### **2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1110, Consolidated Financial Statements.

#### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Parent Company controls the corresponding 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 a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

If the Group loses control of a subsidiary, any investment continuously retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss.

*(b) Associates*

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

*(c) Joint Arrangements*

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

**2.4 Segment Reporting**

Information of operating segments is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as chief executive officer that makes strategic decisions.

**2.5 Foreign Currency Translation**

*(a) Functional and presentation currency*

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

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*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

**2.6 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method.

**2.7 Financial Assets**

*(a) Classification and Measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

*(b) Impairment*

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



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Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

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

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

*(c) Derecognition*

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position (Note 22).

**2.8 Derivative Financial Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'financial income and expenses' according to the nature of transactions.

**2.9 Property, Plant and Equipment**

Property, plant and equipment is stated at its historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures directly attributable to the acquisition of the items.

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

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as follows:

Buildings	10 - 50 years
Structures	10 - 30 years
Machinery	4 - 15 years
Vehicles	4 - 10 years
Other	3 - 15 years

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

### **2.10 Borrowing Costs**

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

### **2.11 Government Grants**

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

### **2.12 Intangible Assets**

#### *(a) Goodwill*

Goodwill is measured as explained in 'Note 2.3 Consolidation', and goodwill arises on the acquisition of subsidiaries and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

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*(b) Industrial rights*

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using straight-line method over their estimated useful lives of ten years.

*(c) Development Costs*

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

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project;
- There is an ability to use or sell the development project;
- It can be demonstrated how the development project will generate probable future economic benefits;
- Ability to obtain adequate technical, financial and other resources to complete or use or sell the development project-
- The expenditure attributable to the individual project during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Amortization of development costs based on the straight-line method over their useful lives (1 to 2 years) begins at the commencement of the commercial production of related development products. The Group tests annually for impairment of development cost.

*(d) Membership rights*

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

**2.13 Investment Property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using straight-line method over their estimated useful lives.

**2.14 Impairment of Non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be

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recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **2.15 Non-current Assets Held for Sale**

Non-current assets are classified as assets held for sale (or disposal group) when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

#### **2.16 Financial Liabilities**

##### *(a) Classification and Measurement*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

##### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

#### **2.17 Financial Guarantee Contract**

Financial guarantees contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group the obligation specified in the contract is discharged, cancelled or expmouts below and recognized as nized as act is discharged, ca

- The amount calculated in accordance with Korean-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; or
- the initial amount, less accumulated amortization recognized in accordance with Korean-IFRS 1018, *Revenue*.

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**2.18 Compound Financial Instruments**

Compound financial instruments are convertible bonds that can be converted into equity instruments at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

**2.19 Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

**2.20 Current and Deferred Income Tax**

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for 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. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

**2.21 Employee Benefits**

*(a) Post-employment benefits*

The Group operates defined benefit plan. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as ages, years of service and compensation. The liability recognized in the consolidated statement of financial position

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in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. The re-measurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

*(b) Share-based payments*

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is re-measured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

*(c) Long-term employee benefits*

The Group provides long-term employee benefits, which are entitled to employees with service period for five years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on long-term employee benefits and re-measurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

*(d) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

**2.22 Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

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

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each arrangement.

*(a) Sales of goods*

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

*(b) Interest income*

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

*(c) Dividend income*

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

*(d) Royalty income*

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

**2.23 Leases**

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not be immediately recognized as income by a seller-lessee (the Group). Instead, it is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. Also, if the sale price is below fair value, any profit or loss is recognized immediately, unless the loss is compensated for by future lease payments at below market price, and

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it then is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

**2.24 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2013 consolidated financial statements of the Group was approved by the Board of Directors on January 27, 2014.

**3. Critical Accounting Estimates and Judgments**

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(a) Income taxes*

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 27 and 37).

*(b) Fair value of financial instruments*

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

*(c) Provisions*

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

The Group estimates the expected sales return reasonably and adjusts to sales and cost of sales and estimated expenses are recorded as provisions. The Group also estimates the expected warranty costs based on historical results and accrues provisions for warranty (Note 23).

*(e) Net Defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 26).



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**4. Financial Risk Management**

**4.1 Financial Risk Factors**

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management 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 a central treasury department under policies approved by the board of directors. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board 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 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 and recognized assets and liabilities in foreign currencies and net investments in foreign operations.

At December 31, 2013, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit before income tax for the year would have been ₩ 59,654 million (2012: ₩ 218,037 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings and payables.

At December 31, 2013, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, profit before income tax for the year would have been ₩ 36,083 million (2012: ₩ 23,887 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated trade receivables and foreign exchange losses/gains on translation of Japanese Yen-denominated trade payables.

At December 31, 2013, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, profit before income tax for the year would have been ₩ 763 million (2012: ₩ 8,006 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated trade payables.

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ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The listed securities held by the Group are traded in active markets such as KOSDAQ stock index and TWSE(Taiwan) index.

As of December 31, 2013, the impact of increases/decreases of the stock price by 20% with all other variables held constant on the Group's equity for the year and equity is as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	20% increase	20% decrease	20% increase	20% decrease
KOSDAQ	1,705	(1,705)	1,822	(1,822)
TWSE	3,343	(3,343)	3,529	(3,529)
Non-listed investments	25,361	(25,361)	2,273	(2,273)

Other components of equity would increase/decrease as a result of changes in the price of the equity securities classified as available-for-sale financial assets.

iii) 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 cash held at floating rates.

The Group manages its cash flow 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 that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As of December 31, 2013, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing borrowings with variable interest-bearing financial deposits.

At December 31, 2013, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been ₩ 15,272 million (2012: ₩ 16,220 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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*(b) Credit risk*

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

i) Trade and other receivables

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

ii) Other assets

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures from short-term and long-term loans. The maximum exposure to credit risk at the end of reporting date is the book value of assets. For banks and financial institutions, only independently rated parties with a high credit rating are accepted, and accordingly managements do not expect any losses from non-performance by these counterparties.

*(c) Liquidity risk*

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

The 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. As of December 31, 2013, the Group held cash equivalents and short-term financial instruments of approximately ₩ 631,801 million (2012: ₩ 658,338 million) and ₩ 2,091,188 million (2012: ₩ 1,050,006 million), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

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The analyses of the Group's liquidity risk as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>				<b>Total</b>
	<b>Less than 1 year</b>	<b>Between 1 year and 2 years</b>	<b>Between 2 years and 5 years</b>	<b>Over 5 years</b>	
Borrowings (other than finance lease)	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
	<b>3,154,917</b>	<b>1,893,206</b>	<b>1,087,344</b>	<b>1,228,487</b>	<b>7,363,954</b>

<i>(in millions of Korean won)</i>	<b>2012</b>				<b>Total</b>
	<b>Less than 1 year</b>	<b>Between 1 year and 2 years</b>	<b>Between 2 years and 5 years</b>	<b>Over 5 years</b>	
Borrowings (other than finance lease)	2,883,583	786,358	2,507,033	594,138	6,771,112
Finance lease liabilities	112,585	103,512	217,282	-	433,379
Trade payables	592,738	-	-	-	592,738
Other payables	390,463	-	-	-	390,463
Other non-trade payables	361,076	44,992	66,243	5,520	477,831
Derivatives	4,871	-	-	-	4,871
Financial guarantee contract	31	-	-	-	31
	<b>4,345,347</b>	<b>934,862</b>	<b>2,790,558</b>	<b>599,658</b>	<b>8,670,425</b>

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings 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. The Group's trading portfolio derivative instruments have been included at their fair value of ₩ 2,439 million (2012: ₩ 4,871 million) within the less than one-year time bucket as of December 31, 2013. 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 profile.

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**4.2 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 paid 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, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Total liabilities (A)	7,730,439	8,909,251
Total equity (B)	13,066,859	9,739,442
Cash and cash equivalents and others(C) <sup>1</sup>	2,786,399	1,784,616
Total borrowings (D)	4,550,215	6,471,976
Debt-to-equity ratio (A/B)	59%	91%
Net borrowing ratio (D-C)/B	13%	48%

<sup>1</sup> Cash and cash equivalents include short-term financial instruments.

**5. Fair Value**

**5.1 Fair Value of Financial Instruments**

The following table presents the Group's book and fair values of financial instruments by categories as of December 31, 2013 and 2012:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
<b>Financial assets<sup>1</sup></b>				
Cash and cash equivalents	631,867	631,867	658,387	658,387
Short-term financial instruments	2,154,532	2,154,532	1,126,229	1,126,229
Loans and other receivable	366,849	366,849	144,182	144,182
Other financial assets	247,825	247,825	525	525
Available-for-sale financial assets <sup>2</sup>	31,966	31,966	32,932	32,932
<b>Total</b>	<b><u>3,433,039</u></b>	<b><u>3,433,039</u></b>	<b><u>1,962,255</u></b>	<b><u>1,962,255</u></b>
<b>Financial liabilities<sup>1</sup></b>				
Other payables	779,176	779,176	381,260	381,260
Other non-trade payables	854,221	854,221	458,609	458,609
Borrowings	4,550,215	4,785,180	6,471,976	6,563,692
Other financial liabilities	109,288	109,288	18,635	18,635
<b>Total</b>	<b><u>6,292,900</u></b>	<b><u>6,527,865</u></b>	<b><u>7,330,480</u></b>	<b><u>7,422,196</u></b>

<sup>1</sup> Short-term trade receivables and payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

<sup>2</sup> Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

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**5.2 Financial Instruments Measured at Cost**

The following table presents available-for-sale financial assets measured at cost as of December 31, 2013 and 2012:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
JNT Frontier Private Equity Unit	1,307	1,400
SV M&A No.1 Equity Unit	1,196	1,196
Seoul Investment Initial & Green	1,868	1,900
TS 2011-4 Technology Transfer & Business Buildup Fund	1,600	800
IMM investment	786	499
L&S Investment	1,124	565
Daishin Aju IB Investment Co., Ltd.	1,518	500
KTC-NP-Growth	540	-
Intellectual Discovery, Ltd.	4,000	4,000
SKY Property	112,360	-
Equity investment in a construction guarantee association	396	396
Others	109	109
	<u>126,804</u>	<u>11,365</u>

The equity instruments above are measured at cost as the variability of estimated cash flows is significant, and the probabilities of the various estimates cannot be reasonably assessed.

**5.3 Fair Value Hierarchy**

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

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

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

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Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Short-term financial instruments	-	1,045,974	-	1,045,974
Trading derivatives	-	272	-	272
Available-for-sale financial assets				
Equity securities (at fair value)	31,966	-	-	31,966
	<b>31,966</b>	<b>1,046,246</b>	<b>-</b>	<b>1,078,212</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	109,288	-	109,288
	<b>-</b>	<b>109,288</b>	<b>-</b>	<b>109,288</b>
<b>2012</b>				
<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Trading derivatives	-	198	-	198
Available-for-sale financial assets				
Equity securities (at fair value)	32,932	-	-	32,932
	<b>32,932</b>	<b>198</b>	<b>-</b>	<b>33,130</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	18,635	-	18,635
	<b>-</b>	<b>18,635</b>	<b>-</b>	<b>18,635</b>

There was no transfer between fair value hierarchy levels for the year ended December 31, 2013.

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**5.4 Valuation Techniques**

The following table presents the valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2.

<i>(in millions of Korean won)</i>	<u>Fair value</u>	<u>Level</u>	<u>Valuation technique</u>
<b>Short-term financial instruments :</b>			
Financial assets at fair value through profit or loss	1,045,974	2	Present value technique
<b>Derivative assets :</b>			
Interest rates swap	272	2	Present value technique
<b>Derivative liabilities :</b>			
Interest rates swap	2,439	2	Present value technique
Conversion option	106,849	2	Option pricing model

**6. Segment Information**

The reportable operating segments derive their revenue primarily from the manufacturing and sales of semiconductors.

The segment information for revenue and operating profit (loss) for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>			<u>2012</u>		
	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	14,119,951	283,995	14,403,946	10,119,390	274,293	10,393,683
Inter-segment revenue	-	(238,844)	(238,844)	-	(231,473)	(231,473)
<b>Revenue from external customers</b>	<b>14,119,951</b>	<b>45,151</b>	<b>14,165,102</b>	<b>10,119,390</b>	<b>42,820</b>	<b>10,162,210</b>
<b>Operating Profit(Loss)</b>	<b>3,370,086</b>	<b>9,699</b>	<b>3,379,785</b>	<b>(231,993)</b>	<b>4,644</b>	<b>(227,349)</b>

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the year ended December 31, 2013, the share of each type of products among the total revenue is approximately 72.1% and 23.9% (2012: 71.2% and 24.9%), respectively.



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The Group's revenue information by geographical segments (location of subsidiaries) for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Domestic	1,105,083	771,396
China	3,038,355	1,901,742
Asia	3,751,737	2,852,579
United States	5,191,619	3,827,725
Europe	1,078,308	808,768
	<u><b>14,165,102</b></u>	<u><b>10,162,210</b></u>

The Group's non-current assets (excluding financial assets, investments in jointly controlled entities and associates and deferred income tax assets) information by geographical segments as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Domestic	10,424,568	9,853,629
China	2,912,948	2,638,507
Asia	5,834	1,614
United States	289,682	293,181
Europe	1,598	1,775
	<u><b>13,634,630</b></u>	<u><b>12,788,706</b></u>

Details of the Groups' revenue for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Sale of goods	14,088,421	10,129,725
Sale of services	76,681	30,908
Royalty income	-	1,577
	<u><b>14,165,102</b></u>	<u><b>10,162,210</b></u>

The customer, which contributed to more than 10% of the Group's sales revenue for the year ended December 31, 2013, is related to the semi-conductor segment, and the total sales earned from the customer amounted to ₩ 2,457,867 million (2012 : ₩ 2,154,986 million).

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**7. Financial Instruments by Categories**

Details of financial assets by category as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>				
	<b>Assets at fair value through the profit and</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash	-	-	-	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
Other receivables	-	-	-	366,849	366,849
Other financial assets	272	-	245,808	1,745	247,825
Available-for-sale financial assets	-	158,770	-	-	158,770
	<b>1,046,246</b>	<b>158,770</b>	<b>245,808</b>	<b>4,050,694</b>	<b>5,501,518</b>
	<b>2012</b>				
<i>(in millions of Korean won)</i>	<b>Assets at fair value through the profit and</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash	-	-	-	658,387	658,387
Short-term financial instruments	-	-	-	1,126,229	1,126,229
Trade receivables	-	-	-	1,719,521	1,719,521
Other receivables	-	-	-	144,182	144,182
Other financial assets	198	-	-	327	525
Available-for-sale financial assets	-	44,297	-	-	44,297
	<b>198</b>	<b>44,297</b>	<b>-</b>	<b>3,648,646</b>	<b>3,693,141</b>

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Details of financial liabilities by category of December 31, 2013 and 2012, are as follows:

<b>2013</b>				
<i>(in millions of Korean won)</i>	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Other</b>	<b>Total</b>
Trade payables	-	648,793	-	648,793
Other payables	-	788,304	-	788,304
Other non-trade payables	-	854,221	-	854,221
Borrowings	-	4,550,215	-	4,550,215
Other financial liabilities	109,288	-	-	109,288
	<b>109,288</b>	<b>6,841,533</b>	<b>-</b>	<b>6,950,821</b>
<b>2012</b>				
<i>(in millions of Korean won)</i>	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Other</b>	<b>Total</b>
Trade payables	-	592,738	-	592,738
Other payables	-	381,260	-	381,260
Other non-trade payables	-	458,609	-	458,609
Borrowings	-	6,130,542	341,434	6,471,976
Other financial liabilities	18,635	-	-	18,635
	<b>18,635</b>	<b>7,563,149</b>	<b>341,434</b>	<b>7,923,218</b>

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Details of gain and loss of financial assets and liabilities by category for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Loans and receivables</b>		
Interest income	59,262	80,154
Foreign exchange difference	(61,819)	(127,274)
Impairment reversal	2,250	460
	<u>(307)</u>	<u>(46,660)</u>
<b>Available-for-sale financial assets</b>		
Other comprehensive loss	(966)	(1,566)
Gain on disposal	205	5,943
Dividend income	2,381	216
	<u>1,620</u>	<u>4,593</u>
<b>Held-to-maturity financial assets</b>		
Interest income	853	-
	<u>853</u>	<u>-</u>
<b>Assets at fair value through the profit and loss</b>		
Interest income	6,296	-
Gain on valuation of derivatives	73	198
	<u>6,369</u>	<u>198</u>
<b>Liabilities measured at amortized cost</b>		
Interest expense	(256,623)	(317,926)
Loss on redemption of debenture	-	(10,470)
Foreign exchange difference	169,509	381,687
	<u>(87,114)</u>	<u>53,291</u>
<b>Liabilities at fair value through the profit and loss</b>		
Loss on valuation of derivatives	(90,652)	(6,757)
Loss on derivative transactions	(2,894)	(7,762)
	<u>(93,546)</u>	<u>(14,519)</u>
	<b><u>(172,125)</u></b>	<b><u>(3,097)</u></b>

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**8. Credit Risk of Financial Instruments**

Details of credit quality of trade receivables that are not impaired and assessed by reference to external credit ratings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Trade receivables that are not impaired		
Group 1	1,395,349	1,241,089
Group 2	423,209	363,589
Group 3	125,555	117,013
	<u>1,944,113</u>	<u>1,721,691</u>

Group 1 – Related party, public institutions, strategic counterparty with a high credit rating and others

Group 2 – Counterparty that limits credit risk by entering into export resale insurance contract with Korea Trade Insurance Corporation

Group 3 – Counterparty that limits credit risk by securing collaterals or guarantying bank payment for the counterparty

Details of credit quality of cash and cash equivalents and short-term financial instruments in consideration with financial institutions as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Cash and cash equivalents</b>		
Banks	598,455	367,829
Securities firms	33,347	290,509
Others	65	49
	<u>631,867</u>	<u>658,387</u>
<b>Short-term financial instruments</b>		
Banks	1,107,060	864,706
Securities firms	1,047,472	261,523
	<u>2,154,532</u>	<u>1,126,229</u>
	<u>2,786,399</u>	<u>1,784,616</u>

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

As of December 31, 2013, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 28 million (2012: ₩ 31 million) which will be paid upon request of warrantee as mentioned in Note 40.

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**9. Derecognition of financial assets**

The Group has entered into trade receivables discounting agreements with several financial institutions. There are no outstanding trade receivables discounted but not yet matured(2012: W 341,434 million) as of December 31, 2013. The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

**10. Cash and cash equivalents**

Cash and cash equivalents as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Cash on hand	66	49
Checking account	59,157	94,879
Ordinary deposits	12,705	7,816
Time deposits	348,165	104,724
MMDA	163,118	130,626
MMF and others	48,656	320,293
	<u><b>631,867</b></u>	<u><b>658,387</b></u>

As of December 31, 2013, there are no cash equivalents pledged as collateral.

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**11. Short-term Financial Instruments and Other Financial Assets**

Short-term financial instruments and other financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Short-term financial instruments</b>		
Time deposits	932,052	704,645
Specified money trust	341,596	260,000
MMW	704,378	-
RP	120,000	160,000
CD	55,000	-
MMDA	8	61
Other	1,498	1,523
	<u>2,154,532</u>	<u>1,126,229</u>
<b>Other financial assets</b>		
<b>Current</b>		
Held-to-maturity financial assets	245,808	-
	<u>245,808</u>	<u>-</u>
<b>Non-current</b>		
Time deposits	1,731	313
Bank overdraft guarantee deposits	14	14
Derivative assets	272	198
	<u>2,017</u>	<u>525</u>
	<u>2,402,357</u>	<u>1,126,754</u>

Restricted short-term financial instruments and other financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>	<u>Description</u>
	8	61	Restricted for government grants
	23,713	35,320	Pledged for borrowings
Short-term financial instruments	5,023	6,238	Pledged for consumption tax
	-	4	Pledged for letters of credit
	<u>34,600</u>	<u>34,600</u>	Restricted for support small business
	<u>63,344</u>	<u>76,223</u>	
Other financial assets	308	308	Pledged for borrowings
	14	14	Bank overdraft guarantee deposit
	3	4	Value added tax deposit
	1,419	-	Deposit for import duties
	<u>1,744</u>	<u>326</u>	
	<u>65,088</u>	<u>76,549</u>	

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**12. Trade and Other Receivables**

Details of current and non-current loans and other receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Current</b>		
Other receivables	307,414	111,986
Accrued income	11,071	8,569
Short-term loans	2,665	1,823
Short-term guarantee deposits	397	320
Deposits	2,212	2,357
	<u>323,759</u>	<u>125,055</u>
<b>Non-current</b>		
Long-term other receivables	21,152	80
Long-term loans	6,659	6,630
Guarantee deposits	14,409	11,540
Long-term deposits	870	877
	<u>43,090</u>	<u>19,127</u>
	<u><b>366,849</b></u>	<u><b>144,182</b></u>

Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Trade receivables	1,945,121	1,722,778
Less : provision for impairment	(3,446)	(3,257)
Trade receivables - net	<u>1,941,675</u>	<u>1,719,521</u>
Current loans and other receivables	325,821	130,090
Less : provision for impairment	(2,062)	(5,035)
Current loans and other receivables - net	<u>323,759</u>	<u>125,055</u>
Non-current loans and other receivables	55,600	31,966
Less : provision for impairment	(12,510)	(12,839)
Non-current loans and other receivables - net	<u>43,090</u>	<u>19,127</u>
	<u><b>2,308,524</b></u>	<u><b>1,863,703</b></u>



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Movements in the provision for impairment of trade receivables for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Beginning</b>	3,257	3,855
Provision for receivables impairment	174	-
Unused amounts reversed	-	(390)
Effect of exchange rates	15	(208)
<b>Ending</b>	<u>3,446</u>	<u>3,257</u>

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Beginning</b>	5,035	4,925
Provision for receivables impairment	47	297
Receivables written off during the year as uncollectible	(293)	-
Unused amounts reversed	(2,685)	(153)
Effect of exchange rates	(42)	(34)
<b>Ending</b>	<u>2,062</u>	<u>5,035</u>

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Beginning</b>	12,839	12,984
Provision for receivables impairment	225	25
Receivables written off during the year as uncollectible	(137)	-
Unused amounts reversed	(12)	(239)
Effect of exchange rates	(405)	69
<b>Ending</b>	<u>12,510</u>	<u>12,839</u>

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The aging analyses of trade receivables, loans and other receivables as of December 31, 2013 and 2012, are as follows:

		<b>2013</b>					
		<b>Not Past due</b>	<b>Over due</b>			<b>Impaired</b>	<b>Total</b>
<i>(in millions of Korean won)</i>			<b>Less than 3 months</b>	<b>Over 3 months and less than 6 months</b>	<b>Over 6 months</b>		
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
		<b>2,307,384</b>	<b>3,784</b>	<b>205</b>	<b>14</b>	<b>15,155</b>	<b>2,326,542</b>

  

		<b>2012</b>					
		<b>Not Past due</b>	<b>Over due</b>			<b>Impaired</b>	<b>Total</b>
<i>(in millions of Korean won)</i>			<b>Less than 3 months</b>	<b>Over 3 months and less than 6 months</b>	<b>Over 6 months</b>		
Trade receivables		1,720,446	980	186	79	1,087	1,722,778
Current loans and other receivables		125,342	1	-	-	4,747	130,090
Non-current loans and other receivables		19,202	-	-	-	12,764	31,966
		<b>1,864,990</b>	<b>981</b>	<b>186</b>	<b>79</b>	<b>18,598</b>	<b>1,884,834</b>

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**13. Inventories**

Details of inventories as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Finished goods	375,783	645,889
Less : valuation allowance	(29,911)	(82,638)
Finished goods - net	345,872	563,251
Work in progress	650,450	721,707
Less : valuation allowance	(42,048)	(38,355)
Work in progress - net	608,402	683,352
Raw materials	142,727	179,689
Less : valuation allowance	(1,102)	(3,704)
Raw materials - net	141,625	175,985
Supplies	45,727	42,227
Less : valuation allowance	(55)	(61)
Supplies - net	45,672	42,166
Goods in transit	36,729	44,709
Less : valuation allowance	-	(132)
Goods in transit - net	36,729	44,577
	<b><u>1,178,300</u></b>	<b><u>1,509,331</u></b>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 8,646,711 million (2012: ₩ 8,630,501 million) and relevant reversal of valuation allowance amounted to ₩ 51,773 million (2012: recognition of valuation allowance amounted to ₩ 83,799) for the year ended December 31, 2013.

**14. Other Current and Non-current Assets**

Details of other current and non-current assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Current Assets</b>		
Advance payments	7,405	4,255
Prepaid expenses	128,125	123,197
Others	5,854	7,921
	<u>141,384</u>	<u>135,373</u>
<b>Non-current Assets</b>		
Long-term advance payments	21	62
Long-term prepaid expenses	346,774	167,356
Others	19,026	21,577
	<u>365,821</u>	<u>188,995</u>
	<b><u>507,205</u></b>	<b><u>324,368</u></b>

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**15. Available-for-sale Financial Assets**

Available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>				<b>2012</b>
	<b>Number of Stock</b>	<b>Owner-ship (%)</b>	<b>Acquisition cost</b>	<b>Book value</b>	<b>Book value</b>
Hyundai Information Technology Co., Ltd.	1,160,180	2.3	3,481	1,885	2,251
HYUNDAI LOGISTICS CO.,LTD.	15,115	0.08	76	98	98
EQ bestech Co.,Ltd.	2,000	1.67	10	10	10
Itest Co., Ltd.	481,780	1.04	1,166	768	990
Hyundai IBT Co., Ltd.	2,528	0.01	63	4	5
Fidelix Co., Ltd.	1,605,854	8.79	3,560	3,870	3,019
Futures Corp Technology Co., Ltd.	60,000	10.44	300	-	-
iA, Inc. (formerly C&S Technology Co., Ltd.)	1,031,590	3.9	4,508	3,389	3,389
ZMOS Technology	2,000,000	4.72	995	-	-
Phison Electronics Corp.	3,277,054	1.82	11,661	22,050	23,277
ProMos	201,600,000	7.93	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	-	1,307	1,307	1,400
SV M&A No.1 Equity Unit	Certificate	-	1,196	1,196	1,196
Daishin Aju IB Investment Co., Ltd.	Certificate	-	1,518	1,518	500
Seoul Investment Early & Green Venture Fund	Certificate	-	1,867	1,867	1,900
TS 2011-4 Technology Transfer & Business	Certificate	-	1,600	1,600	800
IMM Investment	Certificate	-	786	786	499
L&S venture capital	Certificate	-	1,124	1,124	565
KTC-NP-Growth	Certificate	-	540	540	-
Intellectual Discovery, Ltd.	800,000	8.94	4,000	4,000	4,000
SKY Property	5,745	15	112,360	112,360	-
Equity Investment in a construction guarantee association	132	0.01	396	396	396
Others	-		3,140	2	2
			<b>177,501</b>	<b>158,770</b>	<b>44,297</b>

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Changes in the book value of available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	44,297	47,492
Acquisition	115,564	3,618
Disposal	(125)	(5,247)
Net losses transferred to equity <sup>1</sup>	(966)	(1,566)
<b>At December 31</b>	<b><u>158,770</u></b>	<b><u>44,297</u></b>

<sup>1</sup> Net of income tax effect of ₩ 311 million ( 2012: ₩ 330 million).

**16. Investments in Jointly Controlled Entity and Associate**

Details of investments in jointly controlled entity and associate as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>		<u>2013</u>				<u>2012</u>	
Type	Investee	Number of Stock	Owner- ship (%)	Acquisition cost	Net asset value	Book value	Book value
Associate	Siliconfile Technologies Inc. <sup>1</sup>	2,358,832	27.93	22,835	9,996	10,962	8,909
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH)	Certificate	45.00	90,149	96,135	96,135	95,191
				<b><u>112,984</u></b>	<b><u>106,131</u></b>	<b><u>107,097</u></b>	<b><u>104,100</u></b>

<sup>1</sup> As of December 31, 2013, fair value on the active market amounting to ₩ 19,791 million (2012: ₩ 16,677 million).

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Changes in investments in jointly controlled entity and associate for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		
	<b>Siliconfile Technologies Inc.</b>	<b>HITECH</b>	<b>Total</b>
<b>At January 1</b>	<b>8,909</b>	<b>95,191</b>	<b>104,100</b>
Dividend	-	(15,033)	(15,033)
Share of profit	2,153	17,103	19,256
Other equity movement	(99)	(1,127)	(1,226)
<b>At December 31</b>	<b>10,963</b>	<b>96,134</b>	<b>107,097</b>

<i>(in millions of Korean won)</i>	<b>2012</b>		
	<b>Siliconfile Technologies Inc.</b>	<b>HITECH</b>	<b>Total</b>
<b>At January 1</b>	<b>8,138</b>	<b>95,475</b>	<b>103,613</b>
Dividend	-	(11,883)	(11,883)
Share of profit(loss)	826	15,887	16,713
Other equity movement	(55)	(4,288)	(4,343)
<b>At December 31</b>	<b>8,909</b>	<b>95,191</b>	<b>104,100</b>

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Investments in jointly controlled entity and associate's summarized statements of financial position as of December 31, 2013 and 2012, are as follows:

		<b>2013</b>			
<i>(in millions of Korean won)</i>	<b>Locations</b>	<b>Current Assets</b>	<b>Non-Current Assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Siliconfile Technologies Inc.	Korea	44,042	19,644	26,034	1,860
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	213,172	353,432	182,036	170,935

  

		<b>2012</b>			
<i>(in millions of Korean won)</i>	<b>Locations</b>	<b>Current Assets</b>	<b>Non-Current Assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Siliconfile Technologies Inc.	Korea	49,481	12,933	31,567	2,407
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	180,509	397,564	129,219	237,317

Investments in jointly controlled entity and associate's summarized statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
	<b>Sales</b>	<b>Net Income</b>	<b>Sales</b>	<b>Net Income</b>
Siliconfile Technologies Inc.	131,914	7,708	131,126	3,083
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	566,065	38,008	597,091	37,892

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**17. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

2013

<i>(in millions of Korean won)</i>	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Others</b>	<b>CIP</b>	<b>Total</b>
<b>At January 1</b>								
<b>Net book amount</b>	<b>462,067</b>	<b>1,301,330</b>	<b>181,615</b>	<b>9,033,566</b>	<b>340</b>	<b>188,021</b>	<b>419,253</b>	<b>11,586,192</b>
<b>Changes during 2013</b>								
Additions	226	125	82	14,682	34	6,486	3,528,676	3,550,311
Acquisition of subsidiaries	-	-	-	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
<b>Closing net book amount</b>	<b>504,398</b>	<b>1,309,816</b>	<b>207,299</b>	<b>9,222,376</b>	<b>227</b>	<b>209,111</b>	<b>676,570</b>	<b>12,129,797</b>
<b>At December 31</b>								
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)
<b>Net book amount</b>	<b>504,398</b>	<b>1,309,816</b>	<b>207,299</b>	<b>9,222,376</b>	<b>227</b>	<b>209,111</b>	<b>676,570</b>	<b>12,129,797</b>



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2012

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Others	CIP	Total
<b>At January 1</b>								
<b>Net book amount</b>	<b>462,586</b>	<b>1,224,520</b>	<b>185,961</b>	<b>8,425,712</b>	<b>452</b>	<b>155,103</b>	<b>444,974</b>	<b>10,899,308</b>
<b>Changes during 2012</b>								
Additions	338	654	101	30,549	107	3,689	3,909,085	3,944,523
Disposals	-	-	-	2,095	-	811	-	2,906
Depreciation	-	(16)	(620)	(25,105)	(40)	(382)	(7,784)	(33,947)
Transfers	-	(49,783)	(19,505)	(2,925,699)	(183)	(61,406)	-	(3,056,576)
Impairment losses	-	139,905	21,654	3,671,679	25	92,299	(3,925,578)	(16)
Exchange differences	(857)	(13,950)	(5,976)	(145,665)	(21)	(2,093)	(1,444)	(170,006)
<b>Closing net book amount</b>	<b>462,067</b>	<b>1,301,330</b>	<b>181,615</b>	<b>9,033,566</b>	<b>340</b>	<b>188,021</b>	<b>419,253</b>	<b>11,586,192</b>
<b>At December 31</b>								
Acquisition cost	462,067	1,792,237	486,984	29,149,281	2,537	677,361	419,253	32,989,720
Accumulated depreciation	-	(467,030)	(285,441)	(19,817,741)	(2,197)	(486,508)	-	(21,058,917)
Accumulated impairment	-	(23,877)	(19,928)	(289,951)	-	(2,832)	-	(336,588)
Government grants	-	-	-	(8,023)	-	-	-	(8,023)
<b>Net book amount</b>	<b>462,067</b>	<b>1,301,330</b>	<b>181,615</b>	<b>9,033,566</b>	<b>340</b>	<b>188,021</b>	<b>419,253</b>	<b>11,586,192</b>

Depreciation expense of ₩ 2,616,341 million (2012: ₩ 2,859,445 million) has been charged to 'cost of sales', ₩ 154,673 million (2012: ₩ 179,425 million) to 'selling and administrative expenses', ₩ 122,471 million (2012: ₩ nil) to casualty losses of 'other non-operating expenses' and ₩ 27,481 million (2012: ₩ 17,706 million) has been capitalized as development costs for the year ended December 31, 2013.

Certain amounts of the property, plant and equipment are pledged as collaterals for borrowings of the Group as of December 31, 2013 (Note 40).

During the year, the Group has capitalized borrowing costs amounting to ₩ 7,687 million (2012: ₩ 5,859 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.87% (2012: 2.96%) for the year ended December 31, 2013.

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 242,187 million (2012: ₩ 355,365 million) as of December 31, 2013. The machinery is pledged as collateral for the finance lease liabilities.

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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, 2013, is as follows:

<i>(in millions of Korean won)</i>	<b>Minimum lease payments</b>
No later than 1 year	10,122
Later than 1 year	2,093
	<b>12,215</b>

As of December 31, 2013, certain inventories, property, plant and equipment, and investment properties are insured and details of insured assets are as follows:

<i>(in millions of Korean won)</i>	<b>Insured assets</b>	<b>Insured amount</b>	<b>Insurance company</b>
Package insurance	Property, plant and equipment, inventories and others		
	Business interruption		Hyundai Marine & Fire
Fire Insurance	Property, plant and equipment, investment property	34,926,444	Insurance Co., Ltd. and others
Erection all risks insurance	Property, plant and equipment		
		<b>34,926,444</b>	

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**18. Investment Property**

Details of changes in investment property during the years ended December 31, 2013 and 2012, are as follows:

	<u>2013</u>
	<u>Buildings</u>
<i>(in millions of Korean won)</i>	
<b>At January 1</b>	
<b>Net book amount</b>	<b>29,888</b>
<b>Changes during 2013</b>	
Depreciation	(1,279)
<b>Closing net book amount</b>	<b>28,609</b>
<b>At December 31</b>	
Acquisition cost	48,390
Accumulated depreciation	(19,781)
<b>Net book amount</b>	<b>28,609</b>

	<u>2012</u>
	<u>Buildings</u>
<i>(in millions of Korean won)</i>	
<b>At January 1</b>	
<b>Net book amount</b>	<b>31,168</b>
<b>Changes during 2012</b>	
Depreciation	(1,280)
<b>Closing net book amount</b>	<b>29,888</b>
<b>At December 31</b>	
Acquisition cost	48,390
Accumulated depreciation	(18,502)
<b>Net book amount</b>	<b>29,888</b>

The depreciation expense of ₩ 1,279 million (2012: ₩ 1,280 million) has been charged to 'cost of sales' for the year ended December 31, 2013.

Rental income from investment property during the year ended December 31, 2013, is ₩ 4,283 million (2012: ₩ 4,666 million).



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Amortization of ₩ 501 million (2012: ₩ 54 million) is included in the 'cost of sales' and ₩ 155,775 million (2012: ₩ 145,644 million) in 'selling and administrative expenses' in the statements of comprehensive income for the year ended December 31, 2013.

Among costs associated with development activities, ₩ 190,271 million (2012: ₩ 130,576 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the year ended December 31, 2013. However, costs associated with research activities and other development expenditures that did not meet the criteria amounted to ₩ 968,804 million (2012: ₩ 975,057 million) and were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2013.

The Group allocates goodwill into the semiconductor operating segment. The Group used the same goodwill allocation method for both years ended December 31, 2013 and 2012. Goodwill impairment reviews are undertaken annually. Impairment test suggests that the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash generating units have been determined based on the net fair value.

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**20. Non-current assets held for sale**

Details of changes in non-current assets held for sale during the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	26,958	29,033
Disposal	(4)	(5)
Other	(397)	(2,070)
<b>At December 31</b>	<b>26,557</b>	<b>26,958</b>

**21. Other Non-trade Payables**

Details of other non-trade payables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Current</b>		
Accrued expenses	677,120	361,076
<b>Non-current</b>		
Long-term other payables	166,641	75,492
Long-term accrued expense	616	3,531
Rent deposit payables	9,844	18,510
	177,101	97,533
	<b>854,221</b>	<b>458,609</b>

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**22. Borrowings**

Details of borrowings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Current</b>		
Short-term borrowings	137,979	1,020,609
Current maturities of debentures	-	299,697
Current maturities of convertible bonds	-	980,316
Current maturities of long-term borrowings	732,341	418,575
	<u>870,320</u>	<u>2,719,197</u>
<b>Non-current</b>		
Long-term borrowings	1,730,183	2,301,807
Debentures	1,450,777	1,450,972
Convertible bonds	498,935	-
	<u>3,679,895</u>	<u>3,752,779</u>
	<u><b>4,550,215</b></u>	<u><b>6,471,976</b></u>

Details of short-term borrowings as of December 31, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	<u>Financial Institutions</u>	<u>Annual Interest Rate(%) at 2013</u>	<u>2013</u>	<u>2012</u>
Usance borrowings	Kookmin Bank and other	0.65	10,610	527,926
Borrowings on trade receivables collateral	Shinhan Bank and other	-	-	341,434
Refinancing	China Construction Bank and other	2.75	127,369	151,249
			<u><b>137,979</b></u>	<u><b>1,020,609</b></u>

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Details of long-term borrowings as of December 31, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	<b>Financial Institutions</b>	<b>Annual Interest Rate(%) at 2013</b>	<b>2013</b>	<b>2012</b>
<b>Local currency loans</b>				
Borrowing for housing	Kookmin Bank	3.50	24	28
Borrowings for childcare facilities	NH Bank	2.00	246	308
Funds for equipment	Korea Finance Corporation	-	-	25,000
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures(4year) + 0.93	250,000	250,000
Funds for equipment	Korea Exchange Bank Hanyang Securities and other	CD (91days) + 1.31	50,000	50,000
Commercial paper	ME Semiconductor Rental First LLC.	3.63 ~ 3.9	370,000	370,000
Finance lease liabilities		5.00	212,442	266,731
			<u>882,712</u>	<u>962,067</u>
<b>Foreign currency loans</b>				
General borrowings	Export Import Korea Bank	3M Libor + 3.15	105,530	107,110
General borrowings <sup>1</sup>	SC Bank <sup>1</sup>	3M Libor + 3.00	86,271	151,025
General borrowings	Hana Bank	3M Libor + 3.10	23,744	48,200
General borrowings	Korea Development Bank	3M Libor + 3.06~3.36	316,590	321,330
General borrowings	Comerica Bank	6.48	32,954	34,282
General borrowings	NK Bank and other	3M Libor + 3.19~3.79	263,825	267,775
General borrowings	Agricultural Bank of China and other	3M Libor + 2.65	280,212	118,839
Syndicated loans	Development Bank of China and other	3M Libor + 2.95	298,787	425,659
Mortgage loans	HITECH	7.16	96,236	177,954
Finance lease liabilities	Good memory and other	4.7~7.16	81,615	122,919
			<u>1,585,764</u>	<u>1,775,093</u>
			<u>2,468,476</u>	<u>2,737,160</u>
Less: Discount on present value			(5,952)	(16,778)
Current maturities			<u>(732,341)</u>	<u>(418,575)</u>
			<u><b>1,730,183</b></u>	<u><b>2,301,807</b></u>

<sup>1</sup>The Group entered into interest swap contracts with SC Bank for the interest on the foreign currency loans.



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Details of debentures as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Maturity Date</b>	<b>Annual Interest Rate(%) at 2013</b>	<b>2013</b>	<b>2012</b>
<b>Unsecured notes in local currency:</b>				
209th	Sep. 9, 2013	-	-	300,000
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	550,000	550,000
213th	Sep. 4, 2017	3.72	200,000	200,000
<b>Secured notes in foreign currency</b>				
Foreign 8th <sup>1</sup>	June 20, 2017	3M Libor+2.85	105,530	107,110
			1,455,530	1,757,110
Less: Discount on debentures			(4,753)	(6,441)
Current maturities			-	(299,697)
			<b>1,450,777</b>	<b>1,450,972</b>

<sup>1</sup>The Group is provided with USD 100 million of bank guarantee payment from Shinhan Bank as of December 31, 2013.

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Details of convertible bonds as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Maturity Date</b>	<b>Annual Interest Rate(%) at 2013</b>	<b>2013</b>	<b>2012</b>
<b>Convertible bond in local currency</b>				
207th	Sep. 5, 2013	-	-	440,499
<b>Convertible bond in foreign currency</b>				
Foreign 7th	May 14, 2015	2.65	527,650	535,550
			527,650	976,049
Add: Call premium on bonds			-	70,952
Less: Conversion rights adjustment			(26,434)	(61,752)
Discount on bonds			(2,281)	(4,933)
Current maturities			-	(980,316)
			<b>498,935</b>	<b>-</b>

Details of terms and conditions of conversion rights of convertible bond as of December 31, 2013, are as follows:

	<b>Details</b>
	<b>Foreign 7th</b>
Face value of convertible bond	USD 500,000,000
Convertible rate at face value	100%
Conversion term (per share)	Par value of ₩ 34,394 (KRW 1,133.8/USD 1)
Number of convertible shares	16,483,000 shares
Convertible periods	May 15,2011 ~ Apr.28,2015
Deemed exercise date	The first day of the year of conversion

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**Finance lease liability**

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Details of future minimum lease payments to the lessor as of December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	<u>2013</u>	<u>2012</u>
<b>Total minimum lease payment</b>		
No later than 1 year	103,077	112,585
Between 1 and 5 years	<u>216,391</u>	<u>320,794</u>
	319,468	433,379
<b>Unearned finance income</b>	(25,410)	(43,729)
<b>Net minimum lease payment</b>		
No later than 1 year	90,139	94,372
Between 1 and 5 years	<u>203,919</u>	<u>295,278</u>
	<b><u>294,058</u></b>	<b><u>389,650</u></b>

Details of book value and fair value of non-current borrowings as of December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	<u>2013</u>		<u>2012</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Long-term borrowings	1,730,183	1,759,397	2,301,806	2,339,963
Debentures	1,450,777	1,501,810	1,450,973	1,504,532
Convertible bond	498,935	653,653	-	-
	<b><u>3,679,895</u></b>	<b><u>3,914,860</u></b>	<b><u>3,752,779</u></b>	<b><u>3,844,495</u></b>

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**23. Provisions**

Details of changes in provisions during the years ended December 31, 2013 and 2012, are as follows:

	<b>2013</b>			
<i>(in millions of Korean won)</i>	<b>Sales returns</b>	<b>Warranty</b>	<b>Legal claims</b>	<b>Total</b>
<b>At January 1</b>	5,305	2,949	322,361	330,615
Addition	7,259	10,965	58,959	77,183
Reversal and utilization	-	-	(228,321)	(228,321)
Foreign exchange difference and other	-	-	(126,893)	(126,893)
<b>At December 31</b>	<b>12,564</b>	<b>13,914</b>	<b>26,106</b>	<b>52,584</b>

  

	<b>2012</b>			
<i>(in millions of Korean won)</i>	<b>Sales returns</b>	<b>Warranty</b>	<b>Legal claims</b>	<b>Total</b>
<b>At January 1</b>	3,806	-	349,661	353,467
Addition	1,499	2,949	86,398	90,846
Reversal and utilization	-	-	(88,699)	(88,699)
Foreign exchange difference and other	-	-	(24,999)	(24,999)
<b>At December 31</b>	<b>5,305</b>	<b>2,949</b>	<b>322,361</b>	<b>330,615</b>

**Provisions for sales returns**

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

**Provisions for warranty**

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

**Provisions for legal claims**

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 40).

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**24. Other Financial Liabilities**

Details of other financial liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Current</b>		
Derivative liabilities (Note 41)	2,194	17,020
<b>Non-current</b>		
Derivative liabilities (Note 41)	107,094	1,615
	<u><b>109,288</b></u>	<u><b>18,635</b></u>

**25. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Current</b>		
Unearned income	2,403	1,431
Withholdings	21,180	19,915
Deposits received	531	841
Advance receipts	2,616	3,684
Other	110	35
	<u>26,840</u>	<u>25,906</u>
<b>Non-current</b>		
Long-term withholdings	935	666
Other long-term employee benefit liabilities	51,280	40,335
Long-term advance receipts	155	-
Other	-	47
	<u>52,370</u>	<u>41,048</u>
	<u><b>79,210</b></u>	<u><b>66,954</b></u>

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**26. Defined Benefit Liabilities**

Defined benefit liabilities recognized in the statements of financial position as of December 31, 2013 and 2012, are determined as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Present value of defined benefit obligations	656,080	592,171
Fair value of plan assets <sup>1</sup>	(20,340)	(17,075)
	<u><b>635,740</b></u>	<u><b>575,096</b></u>

<sup>1</sup> The contributions to the National Pension Fund of ₩ 1,855 million are included in the fair value of plan assets (2012: ₩ 1,952 million) as of December 31, 2013.

The amounts recognized in the statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Current service cost	98,095	81,034
Interest expenses	28,079	27,152
Interest income	(679)	(456)
	<u><b>125,495</b></u>	<u><b>107,730</b></u>

The line items in which severance benefits are included for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Cost of Sales (manufacturing costs)	73,950	68,462
Selling and administrative expenses	51,545	39,268
	<u><b>125,495</b></u>	<u><b>107,730</b></u>

The remeasurements recognized as other comprehensive loss for the year ended December 31, 2013, amount to ₩ 15,587 million (2012: ₩ 82,872 million), and cumulative remeasurements recognized as other comprehensive loss as of December 31, 2013, amount to ₩ 185,677 million.

As of December 31, 2013, the Group funded at approximately 2.91% (2012: 2.55%) of the total retirement benefit obligations through insurance plans with Hanwha Life Insurance Co., Ltd. and Samsung Insurance Co., Ltd.

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Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	592,171	471,290
Current service cost	98,095	81,034
Interest expense	28,079	27,152
Transferred from associates	344	444
Benefits paid	(46,538)	(70,945)
Remeasurements		
- Actuarial gains and losses arising from changes in assumptions	(18,324)	62,273
- Actuarial gains and losses arising from experience adjustments	2,559	20,417
Other	(306)	506
<b>At December 31</b>	<b><u>656,080</u></b>	<b><u>592,171</u></b>

The movements in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	17,075	12,591
Interest income	679	456
Employer contribution	4,131	5,994
Benefits paid	(1,367)	(1,784)
Remeasurements	(178)	(182)
<b>At December 31</b>	<b><u>20,340</u></b>	<b><u>17,075</u></b>

The actual return of plan assets for the year ended December 31, 2013, was ₩ 492 million (2012: ₩ 274 million).

The principal actuarial assumptions as of December 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Salary growth rate	4.92% ~ 6.18%	5.04% ~ 5.58%
Discount rate	1.11% ~ 5.85%	1.65% ~ 5.03%
Expected rate of return on plan assets	1.11% ~ 5.85%	4.18% ~ 4.97%

Plan assets as of December 31, 2013 and 2012, consist of the following:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Deposits	18,485	15,123
Other	1,855	1,952
	<b><u>20,340</u></b>	<b><u>17,075</u></b>

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The sensitivity of the defined benefit obligations as of December 31, 2013, to changes in the principal assumptions is as follows:

<i>(in percentage, %)</i>	<b>Effect on defined benefit obligation</b>		
	<b>Changes in principal assumption</b>	<b>Increase in principal assumption</b>	<b>Decrease in principal assumption</b>
Discount rate	1%	11.2% decrease	13.3% increase
Salary growth rate	1%	13.5% increase	11.5% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

**27. Deferred Income Tax**

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	105,260	317,109
Deferred tax asset to be recovered within 12 months	178,473	187,904
	<u>283,733</u>	<u>505,013</u>
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(79,090)	(118,431)
Deferred tax liability to be recovered within 12 months	(6,073)	(8,216)
	<u>(85,163)</u>	<u>(126,647)</u>
<b>Deferred tax assets, net</b>	<b><u>198,570</u></b>	<b><u>378,366</u></b>

The gross movements on the deferred income tax account for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	378,366	315,718
Income statement charge	(180,928)	69,404
Tax charge (credit) relating to components of other comprehensive income	311	(330)
Exchange differences	821	(6,426)
<b>At December 31</b>	<b><u>198,570</u></b>	<b><u>378,366</u></b>



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The movements in deferred income tax assets and liabilities for the years ended December 31, 2013 and 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in millions of Korean won)</i>	<b>January 1, 2013</b>	<b>Income statement</b>	<b>2013 Other compre- nsive income</b>	<b>Currency translation differences</b>	<b>December 31, 2013</b>
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)
	<b>(126,040)</b>	<b>40,542</b>	<b>311</b>	<b>23</b>	<b>(85,164)</b>
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 interest of suspense payment and other	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
	<b>2,425,372</b>	<b>(780,016)</b>	<b>-</b>	<b>2,555</b>	<b>1,647,911</b>
Deferred income tax assets	2,299,332	(739,474)	311	2,578	1,562,747
Deferred income tax assets not recognized	(1,920,966)	558,546	-	(1,757)	(1,364,177)
<b>Deferred income tax assets recognized</b>	<b>378,366</b>	<b>(180,928)</b>	<b>311</b>	<b>821</b>	<b>198,570</b>

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<i>(in millions of Korean won)</i>	<b>January 1, 2012</b>	<b>Income statement</b>	<b>2012 Other compre- nsive income</b>	<b>Currency translation differences</b>	<b>December 31, 2012</b>
Deferred tax liabilities					
Advanced depreciation provision	(55,666)	-	-	-	(55,666)
Valuation of derivatives	(15,816)	10,460	-	-	(5,356)
Gains on foreign currency translation	(62,363)	31,965	-	-	(30,398)
Conversion rights adjustment	(25,923)	10,979	-	-	(14,944)
Others	(22,114)	2,634	(330)	134	(19,676)
	<b>(181,882)</b>	<b>56,038</b>	<b>(330)</b>	<b>134</b>	<b>(126,040)</b>
Deferred tax assets					
Loss on valuation of inventories	39,371	(11,508)	-	(59)	27,804
Valuation of equity-method investments	422,452	(99,533)	-	-	322,919
Accumulated depreciation	158,857	(49,335)	-	(11,023)	98,499
Net defined benefits	94,968	12,312	-	(61)	107,219
Deemed interest of suspense payment and other	162,313	194	-	-	162,507
Provisions and others	122,982	(18,514)	-	-	104,468
Impairment of available-for-sale financial assets	36,187	777	-	-	36,964
Losses on foreign currency translation	100,517	(70,611)	-	-	29,906
Property, plant and equipment	24,689	(250)	-	-	24,439
Losses on valuation of derivative	26,844	(17,662)	-	-	9,182
Tax loss carryforwards	467,047	149,771	-	(4,707)	612,111
Tax credit carryforwards	712,485	(53,373)	-	(213)	658,899
Others	120,628	120,097	-	(10,270)	230,455
	<b>2,489,340</b>	<b>(37,635)</b>	<b>-</b>	<b>(26,333)</b>	<b>2,425,372</b>
Deferred income tax assets	2,307,458	18,403	(330)	(26,199)	2,299,332
Deferred income tax assets not recognized	(1,991,740)	51,001	-	19,773	(1,920,966)
<b>Deferred income tax assets recognized</b>	<b>315,718</b>	<b>69,404</b>	<b>(330)</b>	<b>(6,426)</b>	<b>378,366</b>

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

As of December 31, 2013, the Group recognized the entire deferred income tax assets for loss carryforwards which are deductible from future taxable income. However, as of December 31, 2012, the Group did not recognize deferred income tax assets amounting to ₩ 225,155 million for a loss carryforwards of ₩ 928,469 million.

Also, the Group did not recognize deferred income tax assets of ₩ 799,182 million (2012: ₩ 1,038,435 million) in respect of deductible temporary differences amounting to ₩ 3,302,398 million (2012: ₩ 4,133,301 million) that can be carried forward against future taxable income.

For the year ended December 31, 2013, ₩ 108,433 million ( 2012: ₩ 140,711 million) of tax credit occurred which can be utilized in the future period. However, the Group did not recognize deferred income tax assets of ₩ 564,995 million (2012: ₩ 658,899 million) in respect of unused tax credit and others accumulated as of December 31, 2013.

Expiry periods of tax loss carryforwards and tax credit carryforwards are as follows:

<i>(in millions of Korean won)</i>	<u><b>Tax loss carryforwards</b></u>	<u><b>Tax credit carryforwards</b></u>
2014	-	54,017
2015	-	186,116
2016	-	144,287
2017	-	146,123
Thereafter	258,529	111,578
	<u><b>258,529</b></u>	<u><b>642,121</b></u>

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**28. Share capital and Capital Surplus**

Details of share capital and capital surplus as of December 31, 2013, are as follows:

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

<b>Authorized shares</b>	<b>Outstanding shares<sup>1</sup></b>	<b>Par value (per share)</b>	<b>Paid in capital</b>
9,000,000	713,729	₩ 5,000	₩ 3,568,645 million

<sup>1</sup>As of December 31, 2013, the actual number of shares which the shareholders own is 710,201 thousand shares and the difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus during the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	<b>Total owned shares</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Capital Surplus</b>		
				<b>Conversion right consideration</b>	<b>Other</b>	<b>Total</b>
At January 1, 2012	592,172	2,978,498	685,177	72,350	471,525	4,207,550
Issuance of common stock	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	10	52	229	(19)	-	262
Exercise of stock options	124	619	4,400	-	-	5,019
Expiration of stock options	-	-	-	-	3,562	3,562
Others	-	-	-	-	(76)	(76)
<b>At December 31, 2012</b>	<b>694,156</b>	<b>3,488,419</b>	<b>2,506,532</b>	<b>72,331</b>	<b>475,011</b>	<b>6,542,293</b>
At January 1, 2013	694,156	3,488,419	2,506,532	72,331	475,011	6,542,293
Exercise of conversion rights	16,045	80,226	381,612	(29,403)	-	432,435
<b>At December 31, 2013</b>	<b>710,201</b>	<b>3,568,645</b>	<b>2,888,144</b>	<b>42,928</b>	<b>475,011</b>	<b>6,974,728</b>

<sup>1</sup>The Company purchased non-controlling interest of subsidiaries on September 30, 2012, and the difference between consideration paid and carrying amount of non-controlling interest was charged to capital surplus.

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of December 31, 2013, is 3,528 thousand shares.

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**29. Retained Earnings**

Retained earnings as of December 31, 2013 and 2012, consist of :

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Legal reserve <sup>1</sup>	8,854	8,854
Discretionary reserve <sup>2</sup>	235,506	235,506
Unappropriated retained earnings	5,956,962	3,068,905
	<u><b>6,201,322</b></u>	<u><b>3,313,265</b></u>

<sup>1</sup>The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, 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. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

<sup>2</sup>Discretionary reserve is a reserve for technology development.

**30. Accumulated Other Comprehensive Income**

Details of accumulated other comprehensive income as of December 31, 2013 and 2012, consist of the following :

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Gain on valuation of available-for-sale financial assets	7,824	8,479
Changes of equity from equity-method investments	(8,338)	(7,111)
Cumulative effect of foreign currency translation adjustments	(108,293)	(116,770)
	<u><b>(108,807)</b></u>	<u><b>(115,402)</b></u>

Details of changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>			<u>Ending</u>
	<u>Beginning</u>	<u>Increase (Decrease)</u>	<u>Reclassification to profit or loss</u>	
Gain on valuation of available-for-sale financial assets	8,479	(655)	-	7,824
Changes of equity from equity-method investments	(7,111)	(1,226)	-	(8,337)
Cumulative effect of foreign currency translation adjustments	(116,770)	8,476	-	(108,294)
	<u><b>(115,402)</b></u>	<u><b>6,595</b></u>	<u>-</u>	<u><b>(108,807)</b></u>

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<i>(in millions of Korean won)</i>	2012			
	<u>Beginning</u>	<u>Increase (Decrease)</u>	<u>Reclassification to profit or loss</u>	<u>Ending</u>
Gain on valuation of available-for-sale financial assets	10,375	(1,896)	-	8,479
Changes of equity from equity-method investments	(2,768)	(4,343)	-	(7,111)
Cumulative effect of foreign currency translation adjustments	99,500	(216,270)	-	(116,770)
	<b>107,107</b>	<b>(222,509)</b>	<b>-</b>	<b>(115,402)</b>

**31. Share-based Payments**

The Group granted share options to directors and selected employees with approval of the shareholders and the Board of Directors.

Changes in details of share-based payments during the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	-	5,762
Exercised	-	(2,200)
Expired	-	(3,562)
<b>At December 31</b>	<b>-</b>	<b>-</b>

Changes in details of options and weighted-average exercisable prices during the years ended December 31, 2013 and 2012, are as follows:

<i>(in thousands of shares, except for price)</i>	<u>2013</u>		<u>2012</u>	
	<u>Weighted average exercise price</u>	<u>Options</u>	<u>Weighted average exercise price</u>	<u>Options</u>
<b>At January 1</b>	-	-	₩ 22,800	324
Granted	-	-	-	-
Exercised	-	-	₩ 22,800	(124)
Expired	-	-	₩ 22,800	(200)
<b>At December 31</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The weighted average fair value of options was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price at the grant date, exercise price, volatility of share price, dividend yield, an expected option life and an annual risk-free interest rate. For the year ended December 31, 2013, there is no expense recognized in the statement of comprehensive income for share options granted to directors and employees.

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**32. Dividends**

There was no dividend paid for the years ended December 31, 2013 and 2012, and there is no plan to declare any dividend as regards the year ended December 31, 2013.

**33. Expenses by Nature**

Expense that are recorded as cost of sales, selling and administrative expenses in the statements of comprehensive income for the years ended December 31, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Changes in finished goods and WIP	292,330	(332,250)
Raw materials and consumables used	2,328,140	2,677,328
Employee benefit expenses	1,969,650	1,551,700
Depreciation and amortization	2,956,040	3,193,513
Royalty expense	187,611	167,352
Commission expense	445,231	371,975
Utilities expense	552,413	496,753
Repair expense	1,031,023	911,792
Outsourcing expense	952,457	1,015,512
Other	70,422	335,884
	<u><b>10,785,317</b></u>	<u><b>10,389,559</b></u>

Employee benefit expenses for the years ended December 31, 2013 and 2012, consist of

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Wages and salaries	1,712,052	1,336,814
Defined benefits	125,495	107,730
Other long-term employee benefits	14,067	9,911
Termination benefits	6,576	1,447
Social security costs and other	111,460	95,798
	<u><b>1,969,650</b></u>	<u><b>1,551,700</b></u>

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**34. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Salaries	265,137	211,210
Severance benefits	19,132	16,702
Employee benefits	60,459	57,502
Commission expense	158,107	161,783
Depreciation	51,240	55,602
Amortization	155,313	145,154
Research and development	968,804	975,057
Exporting expense	21,675	23,100
Legal cost	11,374	34,204
Rental expense	14,650	15,257
Taxes and dues	17,912	10,231
Other	176,927	132,768
	<u><b>1,920,730</b></u>	<u><b>1,838,570</b></u>



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**35. Other Non-operating Income and Expense**

Other non-operating income for the years ended December 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Rental income	-	17,425
Gain on disposal of assets held-for-sale	-	18
Gain on disposal of property, plant and equipment	9,560	3,231
Gain on disposal of intangible assets	191	298
Insurance income	327,659	-
Other	31,103	46,158
	<u><b>368,513</b></u>	<u><b>67,130</b></u>

Other non-operating expenses for the years ended December 31, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Loss on disposal of property, plant and equipment	7,952	1,369
Loss on disposal of intangible assets	17,278	5,672
Donation	3,222	2,614
Loss on disposal of trade receivables	3,317	1,031
Impairment losses of intangible assets	183	265
Amortization of suspended assets	3,254	10,041
Loss on disposal of assets held-for-sale	4	-
Casualty losses <sup>1</sup>	450,752	-
Other	19,908	41,918
	<u><b>505,870</b></u>	<u><b>62,910</b></u>

<sup>1</sup> For the year ended December 31, 2013, the Group recognized casualty losses of ₩ 450,752 million caused by 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. The Group and insurance companies conduct the investigation and negotiation for the loss amount and compensation amount according to insurance policies. The Group recognized insurance income of ₩ 327,659 million among negotiated amounts whose reimbursement is virtually certain as of December 31, 2013.

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**36. Financial Income and Expense**

Financial income and expense for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Finance income</b>		
Interest income	66,410	80,154
Dividend income	2,381	216
Foreign exchange differences	485,411	598,986
Gain from derivative instruments	6,163	4,409
Other	205	5,944
	<u>560,570</u>	<u>689,709</u>
<b>Finance expense</b>		
Interest expenses	256,623	317,926
Foreign exchange differences	391,071	335,468
Loss from derivative instruments	99,635	18,730
Loss on redemption of debentures	-	10,470
	<u>747,329</u>	<u>682,594</u>
<b>Net finance income (expense)</b>	<b><u>(186,759)</u></b>	<b><u>7,115</u></b>

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**37. Income Tax**

Income tax expense(benefit) for the years ended December 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Current tax:		
Current tax on profits for the year	22,728	29,555
Adjustments in respect of prior years	(1,588)	(657)
Total current tax	<u>21,140</u>	<u>28,898</u>
Deferred tax:		
Origination and reversal of temporary differences	180,928	(69,404)
Total deferred tax	<u>180,928</u>	<u>(69,404)</u>
<b>Income tax expense(benefit)</b>	<b><u>202,068</u></b>	<b><u>(40,506)</u></b>

The tax on the Group's profit (loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Profit (loss) before tax	3,074,925	(199,301)
Tax calculated at domestic tax rates applicable to profits in the respective countries	744,847	(89,590)
Tax effects of:		
Income not subject to tax	251	(469)
Expenses not deductible for tax purposes	28,450	1,949
Changes in temporary differences not recognized	(607,037)	(17,188)
Others	35,557	64,792
<b>Income tax expense(benefit)</b>	<b><u>202,068</u></b>	<b><u>(40,506)</u></b>

The income taxes charged directly to equity for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Recognized in other comprehensive income:		
Gains of valuation of available-for-sale financial assets	311	(330)

The income taxes (charged)/credited directly to equity as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>			<u>2012</u>		
	<u>Before Tax</u>	<u>Tax (charge) credit</u>	<u>After tax</u>	<u>Before tax</u>	<u>Tax (charge) credit</u>	<u>After tax</u>
Gain on valuation of available-for-sale financial assets	11,447	(3,623)	7,824	11,791	(3,312)	8,479
Remeasurements of the net defined benefit liability	(185,677)	-	(185,677)	(202,090)	-	(202,090)
	<b><u>(174,230)</u></b>	<b><u>(3,623)</u></b>	<b><u>(177,853)</u></b>	<b><u>(190,299)</u></b>	<b><u>(3,312)</u></b>	<b><u>(193,611)</u></b>

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**38. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

Basic earnings (loss) per share for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won except for shares and per share amounts)</i>	<u>2013</u>	<u>2012</u>
Profit(loss) attributable to ordinary shareholders	2,872,470	(158,886)
Weighted average number of ordinary shares outstanding <sup>1</sup>	<u>710,200,891</u>	<u>681,854,577</u>
<b>Basic earnings(loss) per share</b>	<b><u>4,045</u></b>	<b><u>(233)</u></b>

<sup>1</sup> Weighted average number of ordinary shares outstanding is calculated as follows:

<i>(in shares)</i>	<u>2013</u>	<u>2012</u>
Weighted average number of ordinary shares outstanding <sup>1</sup>	694,155,767	592,171,582
Exercise of conversion rights	16,045,124	10,385
Exercise of stock options	-	66,872
Issuance of share capital	-	<u>89,605,738</u>
<b>Adjusted number of ordinary shares outstanding</b>	<b><u>710,200,891</u></b>	<b><u>681,854,577</u></b>

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Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potentially dilutive ordinary shares: convertible bond. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and foreign exchange differences less the tax effect.

*(in millions of Korean won  
except for shares and per share  
amounts)*

	<u>2013</u>	<u>2012</u>
Profit(loss) attributable to ordinary shares	2,872,470	(158,886)
Add : Convertible bond related costs	-	(438)
Adjusted profit attributable to ordinary shares	2,872,470	(159,324)
Adjusted weighted average number of ordinary shares outstanding <sup>1</sup>	710,200,891	682,727,787
<b>Diluted profit(loss) per share</b>	<b><u>4,045</u></b>	<b><u>(233)</u></b>

<sup>1</sup>Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

*(in shares)*

	<u>2013</u>	<u>2012</u>
Weighted average number of ordinary shares outstanding	710,200,891	681,854,577
Dilutive potential ordinary shares		
Convertible bond	-	873,210
<b>Adjusted weighted average number of ordinary shares outstanding</b>	<b><u>710,200,891</u></b>	<b><u>682,727,787</u></b>

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**39. Related Party Transactions**

Details of associate, jointly controlled entity and other related parties as of December 31, 2013, are as follows:

Type	Investee
Associate	Siliconfile Technologies Inc.
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which have control over SK Telecom Co., Ltd., SK C&C Company Ltd., which are controlled by the same key management personnel of the Group, and their subsidiaries.

Significant transactions for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	Company	2013		
		Sales	Purchases	Asset acquisition
Associate	Siliconfile Technologies Inc.	100,975	1,585	-
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.	61,368	581,374	-
	SK Telecom	954	2,811	230
	SK Holdings Co., Ltd. <sup>1</sup>	-	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	-
Other related parties	SK Networks Co., Ltd. <sup>2</sup>	-	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
		<b>177,510</b>	<b>811,411</b>	<b>317,930</b>

<sup>1</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2013, royalty on use of SK brand amounted to ₩ 18,251 million.

<sup>2</sup> The Group acquired 5,745 shares of Sky Property Management Ltd. at ₩ 112,360 million from SK Networks Co., Ltd., a related party, during 2013, and recognized them as available-for-sale securities as of December 31, 2013 (Note 15).

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<i>(in millions of Korean won)</i>	<b>Company</b>	<b>2012</b>		
		<b>Sales</b>	<b>Purchases</b>	<b>Asset acquisition</b>
Associate	Siliconfile Technologies Inc.	107,132	931	-
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.	67,662	625,657	17,168
	SK Telecom	1,196	812	-
	SK Holdings Co., Ltd. <sup>2</sup>	-	7,860	-
	SK C&C Co., Ltd.	43	3,240	15,825
	SK Engineering & Construction co., Ltd	-	-	1,817
Other related parties <sup>1</sup>	Ko-one energy service Co., Ltd.	-	34,286	-
	SKC solmics Co., Ltd.	-	8,967	387
	Chungcheong energy service Co., Ltd.	-	18,381	-
	HAPPYNARAE Co., Ltd.	36	24,271	563
	Others	135	4,128	1,015
		<b>176,204</b>	<b>728,533</b>	<b>36,775</b>

<sup>1</sup> Transactions that occurred after February 14, 2012, the date of obtaining significant influence over the Group.

<sup>2</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2012, royalty on use of SK brand amounted to ₩ 7,860 million.

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The balances of significant transactions as of December 31, 2013 and 2012, are as follows:

		<b>2013</b>			
<i>(in millions of Korean won)</i>	<b>Company</b>	<b>Trade receivables and others</b>	<b>Loan</b>	<b>Other payables</b>	<b>Borrowings</b>
Associate	Siliconfile Technologies Inc.	18,102	-	-	-
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.	11,356	-	2,828	101,093
	SK Telecom	-	-	419	-
	SK Holdings Co., Ltd.	-	-	2,332	-
	SK C&C Co., Ltd.	11	-	25,388	-
	SK Engineering & Construction co., Ltd	234	-	82,238	-
Other related parties	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	-
		<b>29,801</b>	<b>-</b>	<b>140,552</b>	<b>101,093</b>

  

		<b>2012</b>			
<i>(in millions of Korean won)</i>	<b>Company</b>	<b>Trade receivables and others</b>	<b>Loan</b>	<b>Other payables</b>	<b>Borrowings</b>
Associate	Siliconfile Technologies Inc.	26,299	-	1	-
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.	9,515	-	46,670	179,204
	SK Telecom	887	-	287	-
	SK C&C Co., Ltd.	47	-	7,590	-
	SK Engineering & Construction co., Ltd	-	-	1,344	-
	Other related parties	SKC solmics Co., Ltd.	-	-	2,353
	Chungcheong energy service Co., Ltd.	-	-	2,927	-
	HAPPYNARAE Co., Ltd.	14	-	8,983	-
	Others	-	-	558	-
		<b>36,762</b>	<b>-</b>	<b>70,713</b>	<b>179,204</b>



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**Key management compensation**

Key management includes the chief executive officer, subsidiary's executives, directors and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<b>Details</b>	<b>2013</b>	<b>2012</b>
Short-term employee benefits	Wages, salaries, bonus and other	30,909	23,157
Post-employment benefits	Retirement payment and other	4,546	2,859
Other long-term benefits	Long-term employment allowance	6	1
		<b>35,461</b>	<b>26,017</b>

**Guarantees provided to others**

Details of guarantees provided to others as of December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>	<b>Remark</b>
Employees	28	Guarantees for employees' borrowings relating to employee stock ownership

**40. Commitments and contingencies**

Significant pending litigations and claims of the Group as of December 31, 2013, are as follows:

*(a) Litigation filed by Rambus*

The Group was a defendant in lawsuits claimed by Rambus Inc. ("Rambus"), a developer of High-bandwidth chip connection technology, alleging that the Group's certain DRAM products are infringing Rambus' patents ("Patent Litigation"), and that the Group together with other major memory chip manufacturers conspired to prevent Rambus' proprietary DRAM technology from becoming the standard computer memory technology ("Antitrust Litigation").

However, on June 11, 2013, the Group entered into a settlement and patent license agreement with Rambus, and pursuant to the agreement the Group and Rambus withdrew all outstanding disputes, including Patent Litigation and Antitrust Litigation, and the Group secured rights to use the Rambus' patents for the next five years.

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

On July 24, 1997, the Group sold 13 million shares of Hyundai Investment & Securities Co., Ltd. ("HIS") to Canadian Imperial Bank of Commerce ("CIBC"). In relation to this transaction, HHI entered into a share option agreement with CIBC in which HHI was obligated to buy back the 13 million shares of HIS if CIBC exercised its put option. In return, the Group and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Group, in turn, received a similar letter from HSC. Upon CIBC's, 1997, the Group sold option, HHI repurchased the shares in July 2000 and requested approximately US\$ 220 million of

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compensation for damage which is equivalent to the repurchase price to the Group and HSC.

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

HSC and the former CEO of HSC paid about 80% of the claim amount (₩ 192,942 million) and interest thereon to HHI, and the Group paid ₩ 171,950 million and related interest to HHI recognizing the obligation based on the comfort letter provided by the Group. Therefore, the lawsuit has been finalized and concluded.

In addition, HHI initiated a separate lawsuit seeking the Group, HSC and the former CEO of HSC to compensate for the taxes levied on HHI and any related losses incurred by HHI amounting to ₩ 50,303 million in connection with HHI lawsuit seeking the Group. As a result of the litigation described above, the Supreme Court of Korea rendered a ruling that the Group and HSC should pay ₩ 48,770 million and related interest. Therefore, this lawsuit has been finalized and concluded.

**Technology and patent license agreements**

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method.

**Contract for supply of industrial water**

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ("VWID") 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.

**Post- process service contract with HITECH**

The Parent Company entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase corresponding machinery from the Parent Company and its subsidiary, SKHYMC. According to the contract, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively for the five years from its establishment. In 2011, the Parent Company entered into an additional contract for the purpose of module 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.

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**Assets provided as collaterals**

Details of assets provided as collaterals as of December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	<b>Book value</b>	<b>Pledged amount</b>	<b>Remark</b>
Land	36,013		
Buildings	86,233	1,438,844	Borrowings
Machinery	1,392,404		
	<b>1,514,650</b>	<b>1,438,844</b>	

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

**Financing agreements**

Details of credit lines with financial institutions as of December 31, 2013, are as follows:

<i>(in millions of US dollars, Korean won and Chinese Renminbi)</i>	<b>Financial Institution</b>	<b>Commitment</b>	<b>Cur.</b>	<b>Amount</b>
	Korea Exchange	Import finance like usance	USD	440
	Bank and other	Export finance like bills bought	USD	375
		Comprehensive limit contract about Import & Export	USD	1,200
The Parent Company		Export trade receivables discounting agreements <sup>1</sup>	USD	90
		Trade receivables discount agreement	KRW	100,000
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China and other	Import finance like usance	RMB	1,530
			USD	1,180
SK hynix America Inc. (SKHYA) and other sales entities <sup>1</sup>	Citibank and other	Accounts receivable factoring contracts which have no right to recourse	USD	883

<sup>1</sup> Trade receivables of the customer approved by financial institution are only entitled to discount.

Details of guarantees provided to others as of December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>	<b>Remark</b>
Employees	28	Guarantees for employees' borrowings relating to employee stock ownership

**Capital commitments**

As of December 31, 2013, the Group has ₩ 385,106 million (2012: ₩ 114,610 million) of commitments in relation to the capital expenditures on tangible assets.

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**41. Derivative Financial Instruments**

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

Details of derivative financial assets and liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Assets	Liabilities	Assets	Liabilities
<b>Current</b>				
Interest rates swap	-	2,194	-	3,256
Embedded derivatives	-	-	-	13,764
	-	2,194	-	17,020
<b>Non-current</b>				
Interest rates swap	272	245	198	1,615
Embedded derivative instruments	-	106,849	-	-
	272	107,094	198	1,615
	<b>272</b>	<b>109,288</b>	<b>198</b>	<b>18,635</b>

Details of gains and losses from derivative instruments during the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	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	-	-
	<b>2,507</b>	<b>93,085</b>	<b>3,656</b>	<b>6,550</b>
<i>(in millions of Korean won)</i>	2012			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Foreign currency forward contract	-	-	913	4,924
Interest and principal swap	-	-	1,450	4,030
Interest rates swap	1,359	613	675	1,858
Embedded derivative instruments	-	7,305	12	-
	<b>1,359</b>	<b>7,918</b>	<b>3,050</b>	<b>10,812</b>

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**42. Cash Generated from Operations**

Reconciliations between operating profit and net cash inflow from operating activities for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Profit(loss) for the year before income tax(benefit)</b>	3,074,925	(199,301)
<b>Adjustments</b>		
Defined benefits	125,495	107,730
Depreciation	2,922,245	3,057,856
Amortization	156,276	145,698
Loss on foreign currency translation	24,415	24,597
Interest expenses	256,623	317,926
Gain on foreign currency translation	(94,175)	(211,345)
Interest income	(66,410)	(80,154)
Loss on derivative instruments	93,473	14,321
Gain on equity method investments	(19,256)	(16,713)
Others	116,735	22,050
<b>Changes in operating assets and liabilities</b>		
Increase in trade receivables	(278,141)	(322,127)
Decrease(Increase) inventories	333,179	(335,580)
Decrease(Increase) in other receivables	(249,778)	69,539
Increase(Decrease) in trade payables	113,552	(374)
Increase(Decrease) in other payables	74,666	(56,749)
Increase(Decrease) in provision	(127,052)	1,446
Payment of defined benefit liability	(45,171)	(69,161)
Increase in other non-trade payables	309,974	26,604
Others	(200,022)	(75,369)
<b>Cash Generated from operations</b>	<u><b>6,521,553</b></u>	<u><b>2,420,894</b></u>

Details of significant transaction without inflows and outflows of cash for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Exercise of conversion rights	432,878	266
Transferred to non-current convertible bond due to expiration of early redemption rights	486,569	-
Acquisition of property, plant and equipment subject to finance lease agreements	-	216,682

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**43. Transactions with Non-controlling Interests**

On September 30, 2012, the Parent Company acquired the non-controlling interest of domestic subsidiaries. The difference between carrying amount of the non-controlling interests in domestic subsidiaries and consideration paid to the owners of non-controlling interest amounted to ₩ 76 million and was charged to capital (Note 28).

**44. Business Combinations**

The Group acquired e-MMC segment at ₩ 3,648 million from Innostor, a developer of USB Controller, located in Taiwan in September 2013. The identifiable acquired assets as of the acquisition date amount to ₩ 743 million and the difference of consideration for acquisition is recognized as goodwill.

**45. Events after the Reporting Period**

SK Hynix Inc. entered into a comprehensive share exchange and transfer agreement to acquire Silicon File Technologies Inc. on January 28, 2014. SK Hynix Inc. will issue 0.2232438 common share for each common share of Siliconfile Technologies Inc. on the expected exchange date of April 29, 2014. Siliconfile Technologies Inc. will be a wholly owned subsidiary of the Group.