

SK hynix Inc.

**Separate Financial Statements
December 31, 2013 and 2012**

SK hynix Inc.
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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 separate statements of financial position of SK hynix Inc. (the "Company") as of December 31, 2013 and 2012, and the related separate 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 Company'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 separate financial statements, referred to above, present fairly, in all material respects, the financial position of SK hynix Inc. as of December 31, 2013 and 2012, and its 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 separate 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.
Separate Statements of Financial Position
December 31, 2013 and 2012

| <i>(in millions of Korean won)</i> | Notes | 2013 | 2012 |
|--|--------------|---------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5,6,9 | ₩ 371,204 | ₩ 477,747 |
| Short-term financial instruments | 5,6,10 | 2,115,581 | 1,074,661 |
| Trade receivables | 6,7,11 | 1,803,460 | 1,622,659 |
| Loans and other receivables | 5,6,11 | 207,625 | 184,907 |
| Inventories | 12 | 920,590 | 1,199,485 |
| Current tax assets | | 7,731 | 11,014 |
| Other financial assets | 5,6,10 | 245,808 | - |
| Other current assets | 13 | 126,910 | 125,434 |
| | | <u>5,798,909</u> | <u>4,695,907</u> |
| Non-current assets | | | |
| Investments in subsidiaries, jointly controlled entity and associate | 15 | 3,326,243 | 3,259,185 |
| Available-for-sale financial assets | 5,6,14 | 158,374 | 43,901 |
| Property, plant and equipment | 16 | 9,243,030 | 8,944,484 |
| Intangible assets | 18 | 819,009 | 713,688 |
| Investment property | 17 | 28,609 | 29,888 |
| Loans and other receivables | 5,6,11 | 46,361 | 20,065 |
| Other financial assets | 5,6,10,40 | 594 | 521 |
| Deferred income tax assets | 26 | 110,254 | 307,918 |
| Other non-current assets | 13 | 364,876 | 187,927 |
| | | <u>14,097,350</u> | <u>13,507,577</u> |
| Total assets | | <u>19,896,259</u> | <u>18,203,484</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 4,6 | 661,059 | 737,207 |
| Other payables | 4,5,6 | 595,959 | 377,239 |
| Other non-trade payables | 4,5,6,20 | 598,456 | 335,020 |
| Provisions | 22 | 62,387 | 335,752 |
| Other financial liabilities | 4,5,6,23,40 | 267 | 13,764 |
| Borrowings | 4,5,6,21 | 547,836 | 2,427,207 |
| Other current liabilities | 24 | 11,033 | 14,490 |
| | | <u>2,476,997</u> | <u>4,240,679</u> |
| Non-current liabilities | | | |
| Borrowings | 4,5,6,21 | 3,264,565 | 3,317,533 |
| Other non-trade payables | 4,5,6,20 | 168,158 | 79,614 |
| Defined benefit liabilities | 25 | 626,906 | 565,495 |
| Other financial liabilities | 5,6,23,40 | 107,094 | 1,615 |
| Other non-current liabilities | 24 | 49,928 | 38,905 |
| | | <u>4,216,651</u> | <u>4,003,162</u> |
| Total liabilities | | <u>6,693,648</u> | <u>8,243,841</u> |
| Equity | | | |
| Capital stock | 27 | 3,568,645 | 3,488,419 |
| Capital surplus | 27 | 3,444,363 | 3,092,155 |
| Accumulated other comprehensive income | 29 | 7,824 | 8,479 |
| Retained earnings | 28 | 6,181,779 | 3,370,590 |
| Total equity | | <u>13,202,611</u> | <u>9,959,643</u> |
| Total liabilities and equity | | <u>₩ 19,896,259</u> | <u>₩ 18,203,484</u> |

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

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

| <i>(in millions of Korean won, except per share amounts)</i> | Notes | 2013 | 2012 |
|--|--------------|--------------------|--------------------|
| Net sales | | ₩ 13,896,309 | ₩ 10,001,783 |
| Cost of sales | 32 | <u>(8,947,323)</u> | <u>(8,947,795)</u> |
| Gross profit | | 4,948,986 | 1,053,988 |
| Selling and administrative expenses | 32,33 | <u>(1,733,870)</u> | <u>(1,670,273)</u> |
| Operating income (loss) | | 3,215,116 | (616,285) |
| Financial income | 35 | 459,701 | 627,348 |
| Financial costs | 35 | (669,239) | (606,002) |
| Other non-operating income | 34 | 36,604 | 64,646 |
| Other non-operating expenses | 34 | <u>(47,240)</u> | <u>(46,584)</u> |
| Profit (loss) before income tax (benefit) | | 2,994,942 | (576,877) |
| Income tax expense (benefit) | 36 | <u>197,975</u> | <u>(86,887)</u> |
| Profit (loss) for the year | | <u>₩ 2,796,967</u> | <u>₩ (489,990)</u> |
| Other comprehensive income (loss) after tax | | | |
| Line item will not be reclassified to profit or loss | | | |
| Remeasurements of the net defined benefit liability | 25 | 14,222 | (80,589) |
| Line item will be reclassified subsequently to profit or loss when specific conditions are met | | | |
| Changes in value of available-for-sale financial assets | 14,29 | <u>(655)</u> | <u>(1,896)</u> |
| Total comprehensive income (loss) for the year | | <u>₩ 2,810,534</u> | <u>₩ (572,475)</u> |
| Earnings (loss) per share | 37 | | |
| Basic earnings (loss) per share | | ₩ 3,938 | ₩ (719) |
| Diluted earnings (loss) per share | | 3,938 | (719) |

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

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

| <i>(in millions of Korean won)</i> | Notes | Capital Stock | Capital Surplus | Accumulated Other Comprehensive Income (loss) | Other Components of Equity | Retained Earnings | Total Equity |
|--|-------|------------------|--------------------|--|----------------------------------|----------------------|-----------------|
| Balance at January 1, 2012 | | ₩ 2,978,498 | ₩ 1,267,257 | ₩ 10,375 | ₩ 5,762 | ₩ 3,941,169 | ₩ 8,203,061 |
| Comprehensive income | | | | | | | |
| Loss for the year | | - | - | - | - | (489,990) | (489,990) |
| Remeasurements of the net defined benefit liability | 25 | - | - | - | - | (80,589) | (80,589) |
| Loss on the valuation of available-for-sale financial assets | 14,29 | - | - | (1,896) | - | - | (1,896) |
| Total comprehensive loss | | - | - | (1,896) | - | (570,579) | (572,475) |
| Transactions with equity holders of the Company | | | | | | | |
| Issuance of share capital | 27 | 509,250 | 1,816,726 | - | - | - | 2,325,976 |
| Exercise of conversion rights | 27 | 52 | 210 | - | - | - | 262 |
| Exercise of stock options | 27,30 | 619 | 4,400 | - | (2,200) | - | 2,819 |
| Expiration of stock options | 27,30 | - | 3,562 | - | (3,562) | - | - |
| Total transactions with equity holders of the Company | | 509,921 | 1,824,898 | - | (5,762) | - | 2,329,057 |
| Balance at December 31, 2012 | | ₩ 3,488,419 | ₩ 3,092,155 | ₩ 8,479 | ₩ - | ₩ 3,370,590 | ₩ 9,959,643 |
| Balance at January 1, 2013 | | ₩ 3,488,419 | ₩ 3,092,155 | ₩ 8,479 | ₩ - | ₩ 3,370,590 | ₩ 9,959,643 |
| Comprehensive income | | | | | | | |
| Profit for the year | | - | - | - | - | 2,796,967 | 2,796,967 |
| Remeasurements of the net defined benefit liability | 25 | - | - | - | - | 14,222 | 14,222 |
| Loss on the valuation of available-for-sale financial assets | 14,29 | - | - | (655) | - | - | (655) |
| Total comprehensive income | | - | - | (655) | - | 2,811,189 | 2,810,534 |
| Transactions with equity holders of the Company | | | | | | | |
| Exercise of conversion rights | 27 | 80,226 | 352,208 | - | - | - | 432,434 |
| Total transactions with equity holders of the Company | | 80,226 | 352,208 | - | - | - | 432,434 |
| Balance at December 31, 2013 | | ₩ 3,568,645 | ₩ 3,444,363 | ₩ 7,824 | ₩ - | ₩ 6,181,779 | ₩ 13,202,611 |

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

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

(in millions of Korean won)

| | Notes | 2013 | 2012 |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 41 ₩ | 5,529,830 | ₩ 1,086,482 |
| Interest received | | 54,812 | 76,376 |
| Interest paid | | (185,524) | (255,180) |
| Dividends received | | 17,414 | 18,019 |
| Income tax refunded(paid) | | 3,283 | (948) |
| Net cash generated from operating activities | | 5,419,815 | 924,749 |
| Cash flows from investing activities | | | |
| Decrease in short-term financial assets | | 3,789,918 | 2,354,352 |
| Proceeds from derivatives | | 3,656 | 2,418 |
| Decrease in loans and other receivables | | 15,944 | 40,674 |
| Proceeds from disposal of assets classified as held for sale | | - | 23 |
| Proceeds from disposal of available-for-sale financial assets | | 331 | 11,190 |
| Proceeds from investment in subsidiaries, jointly controlled entity and associate | | 2,179 | - |
| Proceeds from disposal of other financial assets | | 29,670 | - |
| Proceeds from disposal of property, plant and equipment | | 42,599 | 36,139 |
| Proceeds from disposal of intangible assets | | 200 | 1,226 |
| Increase in short-term financial assets | | (4,830,838) | (2,840,486) |
| Payments of derivatives | | (6,550) | (44,506) |
| Acquisition of available-for-sale financial assets | | (115,565) | (3,387) |
| Acquisition of investment in subsidiaries, jointly controlled entity and associate | | (69,585) | (282,492) |
| Acquisition of property, plant and equipment | | (2,312,081) | (3,001,628) |
| Acquisition of intangible assets | | (275,102) | (158,879) |
| Increase in loans and other receivables | | (5,685) | (14,339) |
| Increase in other financial assets | | (275,478) | - |
| Net cash used in investing activities | | (4,006,387) | (3,899,695) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 3,184,919 | 6,538,147 |
| Repayments of borrowings | | (4,704,890) | (6,394,604) |
| Proceeds from issuance of common stock | | - | 2,328,791 |
| Net cash provided by (used in) financing activities | | (1,519,971) | 2,472,334 |
| Effect of foreign exchange rates on cash and cash equivalents | | - | - |
| Net decrease in cash and cash equivalents | | (106,543) | (502,612) |
| Cash and cash equivalents at the beginning of year | | 477,747 | 980,359 |
| Cash and cash equivalents at the end of year | ₩ | 371,204 | ₩ 477,747 |

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

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Notes to Separate Financial Statements
December 31, 2013 and 2012

1. General Information

General information about SK hynix Inc. (the "Company") is as follows:

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

As of December 31, 2013, the shareholders of the 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 ¹ | 12,961,976 | 1.82 |
| Individual investors | 484,678,064 | 68.25 |
| | 710,200,891 | 100.00 |

¹As 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 |
| | 12,961,976 | 1.82 |

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 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.

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Notes to Separate Financial Statements
December 31, 2013 and 2012

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate 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 Company 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 separate 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 Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

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

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separate 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 separate 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.

- Amendments to Korean IFRS 1027, *Separate Financial Statements*

Korean IFRS 1027, *Separate Financial Statements*, contains accounting treatments and requirements for investments in subsidiaries, associates and joint ventures relating only to separate financial statements of the Controlling Company.

- 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 Company 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 separate 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 Company are as follows:

- 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 Company is assessing the impact of application of this amendment on its separate 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 Company is assessing the impact of application of this amendment on its separate 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 Company expects that the application of this standard would not have a material impact on its separate financial statements.

2.3 Subsidiaries, associates, and joint ventures

The financial statements of the Company are separate financial statements in accordance with Korean IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the Korean IFRS as deemed cost of investments. The Group recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The separate financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end of each reporting period 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.

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2.5 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.

2.6 Financial Assets

(a) Classification and Measurement

The Company 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 Company 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.

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 Company writes off financial assets when the assets are determined to be no longer recoverable.

The criteria that the Company 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

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- 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 Company transfers a financial asset and the transfer does not result in derecognition because the Company 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 Company 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 21).

2.7 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.

2.8 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, as follows:

| | |
|------------|---------------|
| Buildings | 10 - 50 years |
| Structures | 10 - 20 years |
| Machinery | 5 - 15 years |
| Vehicles | 5 years |
| Other | 5 - 10 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.

2.9 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.

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2.10 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Company 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.

2.11 Intangible Assets

(a) Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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.

(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 Company tests annually for impairment of development cost. (d) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized

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because there is no foreseeable limit to the period over which the asset is expected to be utilized.

2.12 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.

2.13 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 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.

2.14 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.

2.15 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 Company 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.

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2.16 Financial Guarantee Contract

Financial guarantees contracts provided by the Company are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities'.

- 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*.

2.17 Compound Financial Instruments

Compound financial instruments issued by the Company are convertible bonds that can be converted into equity instrument 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.

2.18 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.

2.19 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 Company 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

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temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

2.20 Employee Benefits

(a) Post-employment benefits

The Company 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 separate statement of financial position 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 Company 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 Company 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 Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

2.21 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of

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goods or rendering of services arising from the normal activities of the Company. It is stated as net of value added taxes, returns, rebates and discounts.

The Company 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 Company's activities, as described below. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of 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 Company 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.

2.22 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 Company 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 Company 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.

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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 Company). 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 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.

2.23 Approval of Issuance of the Financial Statements

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

3. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. 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 Company 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 (Notes 26 and 36).

(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 Company 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 (Note 5).

(c) Provisions

Provisions for legal claims are recognized when the Company 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.

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The Company estimates the expected sales return reasonably and adjusts to sales and cost of sales and estimated expenses are recorded as provisions. The Company also estimates the expected warranty costs based on historical results and accrues provisions for warranty (Note 22).

(d) 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 25).

4. Financial Risk Management

4.1 Financial Risk Factors

The Company'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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company 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 Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company'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 Company 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 ₩ 30,430 million (2012: ₩ 187,934 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 ₩ 18,481 million (2012: ₩ 19,396 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 ₩ 281 million (2012: ₩ 7,989 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 Company is exposed to equity securities price risk because of investments held by the Company and classified on the separate statement of financial position as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio.

The listed securities held by the Company 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 Company'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 | 25,282 | (25,282) | 2,194 | (2,194) |

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 Company 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 Company 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 Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company 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 Company is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Company adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing short-term 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 ₩ 8,934 million (2012: ₩ 10,186 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Company 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

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Credit risk is managed on company basis, and the Company is managing and analyzing the credit risk for each of new clients before standard payment and delivery terms and conditions are offered. The Company 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 Company is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Company forecasts its cash flow and liquidity status and sets action plans on a regular base to manage liquidity risk proactively.

The Company 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 Company held cash equivalents and short-term financial instruments of approximately ₩ 371,193 million (2012: ₩ 477,739 million) and ₩ 2,080,973 million (2012: ₩ 1,040,000 million), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

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

| | 2013 | | | | Total |
|--|-----------------------------|---|--|-------------------------|------------------|
| | Less than 1 year | Between 1 year and 2 years | Between 2 years and 5 years | Over 5 years | |
| <i>(in millions of Korean won)</i> | | | | | |
| Borrowings (other than finance lease) | 578,547 | 1,376,357 | 1,423,625 | 564,713 | 3,943,242 |
| Finance lease liabilities | 126,839 | 106,249 | 111,145 | - | 344,233 |
| Trade payables | 661,059 | - | - | - | 661,059 |
| Other payables | 609,080 | - | - | - | 609,080 |
| Other non-trade payables | 581,402 | 57,238 | 131,565 | - | 770,205 |
| Derivatives | 512 | - | - | - | 512 |
| Financial guarantee contract | 10,724 | - | - | - | 10,724 |
| | 2,568,163 | 1,539,844 | 1,666,335 | 564,713 | 6,339,055 |
| | | | | | |
| | 2012 | | | | |
| | Less than 1 year | Between 1 year and 2 years | Between 2 years and 5 years | Over 5 years | Total |
| <i>(in millions of Korean won)</i> | | | | | |
| Borrowings (other than finance lease) | 2,546,834 | 562,483 | 2,242,830 | 594,138 | 5,946,285 |
| Finance lease liabilities | 138,339 | 127,631 | 218,301 | - | 484,271 |
| Trade payables | 737,207 | - | - | - | 737,207 |
| Other payables | 386,442 | - | - | - | 386,442 |
| Other non-trade payables | 333,089 | 27,073 | 66,243 | 5,520 | 431,925 |
| Derivatives | 1,615 | - | - | - | 1,615 |
| Financial guarantee contract | 13,034 | - | - | - | 13,034 |
| | 4,156,560 | 717,187 | 2,527,374 | 599,658 | 8,000,779 |

The table above analyzes the Company'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 Company's trading portfolio derivative instruments have been included at their fair value of ₩ 512 million (2012: ₩ 1,615 million) within the less than one year time bucket as of December 31, 2013. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. 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 Company to manage the Company's interest rate profile.

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4.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company'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 Company 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) | 6,693,648 | 8,243,841 |
| Total equity (B) | 13,202,611 | 9,959,643 |
| Cash and cash equivalents and others (C) ¹ | 2,486,785 | 1,552,408 |
| Total borrowings (D) | 3,812,401 | 5,744,740 |
| Debt-to-equity ratio (A/B) | 51% | 83% |
| Net borrowing ratio (D-C)/B | 10% | 42% |

¹ Cash and cash equivalents includes short-term financial instruments.

5. Fair Value

5.1 Fair Value of Financial Instruments

The following table presents the Company'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>December 31, 2013</u> | | <u>December 31, 2012</u> | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Book value</u> | <u>Fair value</u> | <u>Book value</u> | <u>Fair value</u> |
| Financial assets¹ | | | | |
| Cash and cash equivalents | 371,204 | 371,204 | 477,747 | 477,747 |
| Short-term financial instruments | 2,115,581 | 2,115,581 | 1,074,661 | 1,074,661 |
| Loans and other receivable | 253,986 | 253,986 | 204,972 | 204,972 |
| Other financial assets | 246,402 | 246,402 | 521 | 521 |
| Available-for-sale financial assets ² | 31,966 | 31,966 | 32,932 | 32,932 |
| Total | 3,019,139 | 3,019,139 | 1,790,833 | 1,790,833 |
| Financial liabilities¹ | | | | |
| Other payables | 595,959 | 595,959 | 377,239 | 377,239 |
| Other non-trade payables | 766,614 | 766,614 | 414,634 | 414,634 |
| Borrowings | 3,812,401 | 4,047,366 | 5,744,740 | 5,836,456 |
| Other financial liabilities | 107,361 | 107,361 | 15,379 | 15,379 |
| Total | 5,282,336 | 5,517,301 | 6,551,992 | 6,643,708 |

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

² 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.

5.2 Financial Instruments Measured at Cost

The following table presents available-for-sale financial assets measured at historical 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 | - |
| Others | 109 | 109 |
| | <u>126,408</u> | <u>10,969</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 Measurement

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 and 2012, are as follows:

| | | 2013 | | | |
|--|---------------|------------------|----------------|------------------|--------------|
| <i>(in millions of Korean won)</i> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| 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 | |
| | 31,966 | 1,046,246 | - | 1,078,212 | |
| Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | |
| Trading derivatives | - | 107,361 | - | 107,361 | |
| | - | 107,361 | - | 107,361 | |
| | | 2012 | | | |
| <i>(in millions of Korean won)</i> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| 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 | |
| | 32,932 | 198 | - | 33,130 | |
| Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | |
| Trading derivatives | - | 15,379 | - | 15,379 | |
| | - | 15,379 | - | 15,379 | |

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 classified as level 2:

| <i>(in millions of Korean won)</i> | <u>Fair value</u> | <u>Level</u> | <u>Valuation technique</u> |
|---|-------------------|--------------|----------------------------|
| Short-term financial instruments | | | |
| Financial assets at fair value through profit or loss | 1,045,974 | 2 | Present value technique |
| Derivative assets | | | |
| Interest rates swap | 272 | 2 | Present value technique |
| Derivative liabilities | | | |
| Interest rates swap | 512 | 2 | Present value technique |
| Conversion option | 106,849 | 2 | Option pricing model |

6. 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> | 2013 | | | | |
|-------------------------------------|---|--|--|------------------------------|------------------|
| | <u>Assets at fair value through the profit and loss</u> | <u>Available-for-sale financial assets</u> | <u>Held-to-maturity financial assets</u> | <u>Loans and receivables</u> | <u>Total</u> |
| Cash and cash equivalents | - | - | - | 371,204 | 371,204 |
| Short-term financial instruments | 1,045,974 | - | - | 1,069,607 | 2,115,581 |
| Trade receivables | - | - | - | 1,803,460 | 1,803,460 |
| Other receivables | - | - | - | 253,986 | 253,986 |
| Other financial assets | 272 | - | 245,808 | 322 | 246,402 |
| Available-for-sale financial assets | - | 158,374 | - | - | 158,374 |
| | <u>1,046,246</u> | <u>158,374</u> | <u>245,808</u> | <u>3,498,579</u> | <u>4,949,007</u> |

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| | 2012 | | | | Total |
|-------------------------------------|---|--|--|------------------------------|------------------|
| | Assets at fair value through the profit and loss | Available-for-sale financial assets | Held-to-maturity financial assets | Loans and receivables | |
| <i>(in millions of Korean won)</i> | | | | | |
| Cash and cash equivalents | - | - | - | 477,747 | 477,747 |
| Short-term financial instruments | - | - | - | 1,074,661 | 1,074,661 |
| Trade receivables | - | - | - | 1,622,659 | 1,622,659 |
| Other receivables | - | - | - | 204,972 | 204,972 |
| Other financial assets | 198 | - | - | 323 | 521 |
| Available-for-sale financial assets | - | 43,901 | - | - | 43,901 |
| | 198 | 43,901 | - | 3,380,362 | 3,424,461 |

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

| | 2013 | | | Total |
|------------------------------------|--|---|--------------|------------------|
| | Liabilities at fair value through the profit and loss | Liabilities measured at amortized cost | Other | |
| <i>(in millions of Korean won)</i> | | | | |
| Trade payables | - | 661,059 | - | 661,059 |
| Other payables | - | 595,959 | - | 595,959 |
| Other non-trade payables | - | 766,614 | - | 766,614 |
| Borrowings | - | 3,812,401 | - | 3,812,401 |
| Other financial liabilities | 107,361 | - | - | 107,361 |
| | 107,361 | 5,836,033 | - | 5,943,394 |

| | 2012 | | | Total |
|------------------------------------|--|---|----------------|------------------|
| | Liabilities at fair value through the profit and loss | Liabilities measured at amortized cost | Other | |
| <i>(in millions of Korean won)</i> | | | | |
| Trade payables | - | 737,207 | - | 737,207 |
| Other payables | - | 377,239 | - | 377,239 |
| Other non-trade payables | - | 414,634 | - | 414,634 |
| Borrowings | - | 5,403,306 | 341,434 | 5,744,740 |
| Other financial liabilities | 15,379 | - | - | 15,379 |
| | 15,379 | 6,932,386 | 341,434 | 7,289,199 |

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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> | 2013 | 2012 |
|--|------------------|-----------------|
| Loans and receivables | | |
| Interest income | 56,424 | 77,411 |
| Foreign exchange difference | (70,827) | (126,383) |
| Impairment reversal(loss) | 2,412 | (283) |
| | (11,991) | (49,255) |
| Available-for-sale financial assets | | |
| Other comprehensive loss | (966) | (1,566) |
| Gain on disposal | 205 | 5,943 |
| Dividend income | 2,381 | 215 |
| | 1,620 | 4,592 |
| Held-to-maturity financial assets | | |
| Interest income | 853 | - |
| | 853 | - |
| Assets at fair value through the profit and loss | | |
| Interest income | 6,296 | - |
| Gain on valuation of derivatives | 73 | 198 |
| | 6,369 | 198 |
| Liabilities measured at amortized cost | | |
| Interest expense | (243,042) | (288,531) |
| Loss on redemption of debenture | - | (10,470) |
| Foreign exchange difference | 131,230 | 346,123 |
| | (111,812) | 47,122 |
| Liabilities at fair value through the profit and loss | | |
| Loss on valuation of derivatives | (91,982) | (7,595) |
| Loss on derivative transactions | (2,894) | (7,761) |
| | (94,876) | (15,356) |
| | (209,837) | (12,699) |

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7. 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 | 1,785,219 | 1,608,256 |
| Group 2 | - | - |
| Group 3 | 19,805 | 16,008 |
| | <u>1,805,024</u> | <u>1,624,264</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> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents | | |
| Banks | 351,193 | 177,739 |
| Securities firms | 20,000 | 300,000 |
| Others | 11 | 8 |
| | <u>371,204</u> | <u>477,747</u> |
| Short-term financial instruments | | |
| Banks | 1,069,608 | 814,661 |
| Securities firms | 1,045,973 | 260,000 |
| | <u>2,115,581</u> | <u>1,074,661</u> |
| | <u>2,486,785</u> | <u>1,552,408</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 Company is ₩ 10,724 million (2012: ₩ 13,034 million) which will be paid upon request of warrantee as mentioned in Note 39.

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8. Derecognition of financial assets

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

9. 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> | 2013 | 2012 |
|------------------------------------|----------------|----------------|
| Cash on hand | 11 | 8 |
| Ordinary deposits | 7 | 718 |
| Time deposits | 180,000 | 40,000 |
| MMDA | 163,044 | 130,626 |
| MMF and others | 28,142 | 306,395 |
| Total | 371,204 | 477,747 |

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

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10. 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> |
|---|-------------------------|-------------------------|
| Short-term financial instruments | | |
| Time deposits | 894,600 | 654,600 |
| Specified money trust | 341,596 | 260,000 |
| CD | 55,000 | - |
| RP | 120,000 | 160,000 |
| MMDA | 8 | 61 |
| MMW | 704,377 | - |
| | <u>2,115,581</u> | <u>1,074,661</u> |
| Other financial assets | | |
| Current | | |
| Held-to-maturity financial assets | 245,808 | - |
| | <u>245,808</u> | <u>-</u> |
| Non-current | | |
| Time deposits | 308 | 308 |
| Bank overdraft guarantee deposits | 14 | 15 |
| Derivative assets | 272 | 198 |
| | <u>594</u> | <u>521</u> |
| | <u>2,361,983</u> | <u>1,075,182</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> |
|------------------------------------|----------------------|----------------------|---------------------------------------|
| Short-term financial instruments | 8 | 61 | Restricted for government grants |
| | <u>34,600</u> | <u>34,600</u> | Restricted for support small business |
| | <u>34,608</u> | <u>34,661</u> | |
| Other financial assets | 308 | 308 | Pledged for borrowings |
| | <u>14</u> | <u>15</u> | Bank overdraft guarantee deposit |
| | <u>322</u> | <u>323</u> | |
| | <u>34,930</u> | <u>34,984</u> | |

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11. 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> | 2013 | 2012 |
|------------------------------------|-----------------------|-----------------------|
| Current | | |
| Other receivables | 149,058 | 113,633 |
| Accrued income | 10,793 | 8,327 |
| Short-term loans | <u>47,774</u> | <u>62,947</u> |
| | <u>207,625</u> | <u>184,907</u> |
| Non-current | | |
| Long-term other receivables | 22,292 | - |
| Long-term loans | 11,453 | 11,938 |
| Long-term accrued income | 9 | 9 |
| Guarantee deposits | 12,045 | 7,538 |
| Other deposits | <u>562</u> | <u>580</u> |
| | <u>46,361</u> | <u>20,065</u> |
| | <u>253,986</u> | <u>204,972</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> | 2013 | 2012 |
|---|-------------------------|-------------------------|
| Trade receivables | 1,805,909 | 1,625,149 |
| Less : provision for impairment | <u>(2,449)</u> | <u>(2,490)</u> |
| Trade receivables - net | <u>1,803,460</u> | <u>1,622,659</u> |
| Current loans and other receivables | 209,687 | 189,941 |
| Less : provision for impairment | <u>(2,062)</u> | <u>(5,034)</u> |
| Current other receivables - net | <u>207,625</u> | <u>184,907</u> |
| Non-current loans and other receivables | 57,699 | 31,273 |
| Less : provision for impairment | <u>(11,338)</u> | <u>(11,208)</u> |
| Non-current other receivables - net | <u>46,361</u> | <u>20,065</u> |
| | <u>2,057,446</u> | <u>1,827,631</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> | 2013 | 2012 |
|--------------------------------------|--------------|--------------|
| Beginning | 2,490 | 2,233 |
| Provision for receivables impairment | - | 257 |
| Unused amounts reversed | (41) | - |
| Ending | 2,449 | 2,490 |

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> | 2013 | 2012 |
|--|--------------|--------------|
| Beginning | 5,034 | 4,924 |
| Provision for receivables impairment | - | 110 |
| Receivables written off during the year as uncollectible | (2,679) | - |
| Unused amounts reversed | (293) | - |
| Ending | 2,062 | 5,034 |

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> | 2013 | 2012 |
|--|---------------|---------------|
| Beginning | 11,208 | 11,292 |
| Provision for receivables impairment | 267 | 150 |
| Receivables written off during the year as uncollectible | - | (234) |
| Unused amounts reversed | (137) | - |
| Ending | 11,338 | 11,208 |

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

| <i>(in millions of Korean won)</i> | 2013 | | |
|---|---------------------|-----------------|------------------|
| | Not past due | Impaired | Total |
| Trade receivables | 1,805,024 | 885 | 1,805,909 |
| Current loans and other receivables | 207,706 | 1,981 | 209,687 |
| Non-current loans and other receivables | 46,706 | 10,993 | 57,699 |
| | 2,059,436 | 13,859 | 2,073,295 |
| | 2012 | | |
| | Not past due | Impaired | Total |
| Trade receivables | 1,624,264 | 885 | 1,625,149 |
| Current loans and other receivables | 185,194 | 4,747 | 189,941 |
| Non-current loans and other receivables | 20,140 | 11,133 | 31,273 |
| | 1,829,598 | 16,765 | 1,846,363 |

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12. Inventories

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|------------------------------------|----------------|------------------|
| Finished goods | 317,959 | 516,966 |
| Less: valuation | (25,541) | (72,431) |
| Finished goods - net | 292,418 | 444,535 |
| Work in progress | 512,529 | 596,264 |
| Less : valuation | (41,891) | (33,479) |
| Work in progress - net | 470,638 | 562,785 |
| Raw materials | 114,319 | 141,266 |
| Less : valuation | (1,102) | (3,704) |
| Raw materials - net | 113,217 | 137,562 |
| Supplies | 19,024 | 17,299 |
| Less : valuation | - | - |
| Supplies - net | 19,024 | 17,299 |
| Goods in transit | 25,293 | 37,436 |
| Less : valuation | - | (132) |
| Goods in transit - net | 25,293 | 37,304 |
| | 920,590 | 1,199,485 |

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 8,993,470 million (2012: ₩ 8,989,406 million) and relevant reversal of valuation allowance amounted to ₩ 41,212 million (2012: recognition of valuation allowance amounted to ₩ 13,426 million) for the year ended December 31, 2013.

13. 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> | 2013 | 2012 |
|------------------------------------|----------------|----------------|
| Current Assets | | |
| Advance payments | 1,475 | 777 |
| Prepaid expenses | 119,581 | 116,753 |
| Others | 5,854 | 7,904 |
| | 126,910 | 125,434 |
| Non-current Assets | | |
| Long-term prepaid expenses | 345,850 | 166,349 |
| Others | 19,026 | 21,578 |
| | 364,876 | 187,927 |
| | 491,786 | 313,361 |

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14. 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> | 2013 | | | | 2012 |
|---|------------------------|-----------------------|-------------------------|-------------------|-------------------|
| | Number of Stock | Owner-ship (%) | Acquisition cost | Book value | Book value |
| Hyundai Information Technology Co., Ltd. | 1,160,180 | 2.30 | 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 | 3.90 | 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 Buildup Fund | 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 | - |
| Others | | | 3,140 | 2 | 2 |
| | | | 177,105 | 158,374 | 43,901 |

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|---|----------------|---------------|
| At January 1 | 43,901 | 47,327 |
| Acquisitions | 115,565 | 3,387 |
| Disposal | (126) | (5,247) |
| Changes in the unrealized gain or loss ¹ | (966) | (1,566) |
| At December 31 | 158,374 | 43,901 |

¹ Net of income tax effect of ₩ 311 million (2012: ₩ 330 million).

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15. Investments in Subsidiaries, Associate and Jointly Controlled Entity

Details of investments in subsidiaries as of December 31, 2013 and 2012, are as follows:

| Names of subsidiaries | Loca- tions | Percentage of Ownership(%) | Acquisition cost | Book Value | |
|---|----------------|-------------------------------|---------------------|------------------|------------------|
| | | | | 2013 | 2012 |
| SK Hyeng Co., Ltd. | Korea | 100.00 | 15,154 | 15,154 | 15,154 |
| SK Hystech Co., Ltd. | Korea | 100.00 | 6,760 | 6,760 | 6,760 |
| Ami Power Co., Ltd. ¹ | Korea | - | - | - | 715 |
| SK hynix America Inc.(SKHYA) | U.S.A | 97.74 | 31 | 31 | 31 |
| SK hynix Deutschland GmbH(SKHYD) | Germany | 100.00 | 22,011 | 22,011 | 22,011 |
| SK hynix Europe Holding Ltd.(SKHYE) | U.K. | - | - | - | 1,811 |
| SK hynix U.K. Ltd.(SKHYU) | U.K. | 100.00 | 1,775 | 1,775 | - |
| SK hynix Asia Pte. Ltd.(SKHYS) | Singapore | 100.00 | 52,380 | 52,380 | 52,380 |
| SK hynix Semiconductor India Private Ltd.(SKHYIS) ² | India | 1.00 | 5 | 5 | 5 |
| SK hynix Semiconductor HongKong Ltd.(SKHYH) | HongKong | 100.00 | 32,623 | 32,623 | 32,623 |
| SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS) | China | 100.00 | 4,032 | 4,032 | 4,032 |
| SK hynix Japan Inc.(SKHYJ) | Japan | 100.00 | 42,905 | 42,905 | 42,905 |
| SK hynix Semiconductor Taiwan Inc.(SKHYT) | Taiwan | 100.00 | 37,562 | 37,562 | 37,562 |
| SK hynix Semiconductor (China) Ltd.(SKHYCL) | China | 90.26 | 2,421,631 | 2,421,631 | 2,421,631 |
| SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC) | China | 100.00 | 238,271 | 238,271 | 238,271 |
| SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW) | China | 100.00 | 237 | 237 | 237 |
| SK hynix Italy S.r.l(SKHYIT) | Italy | 100.00 | 18 | 18 | 18 |
| SK hynix memory solutions Inc.(SKHMS) | U.S.A | 100.00 | 287,602 | 287,602 | 282,293 |
| Hynix Semiconductor Manufacturing America Inc. (HSMA) ³ | U.S.A | 0.05 | - | - | - |
| SK hynix Flash solution Taiwan (SKHYFST) ⁴ | Taiwan | 100.00 | 7,819 | 7,819 | - |
| SK APTECH Ltd.(SKAPTECH) ⁴ | HongKong | 100.00 | 54,681 | 54,681 | - |
| | | | 3,225,497 | 3,225,497 | 3,158,439 |

¹ Excluded from subsidiaries due to its liquidation during the year ended December 31, 2013.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK hynix America Inc.

⁴ Newly acquired subsidiaries during the year ended December 31, 2013.

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

(in millions of Korean won)

| Type | Investee | Number of Stock | Owner-ship (%) | 2013 | | 2012 | |
|---------------------------|--|-----------------|----------------|------------------|-----------------|----------------|----------------|
| | | | | Acquisition cost | Net asset value | Book value | Book value |
| Associate | Siliconfile Technologies Inc. ¹ | 2,358,832 | 27.93 | 18,775 | 9,996 | 8,138 | 8,138 |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH) | Certificate | 45.00 | 80,427 | 96,135 | 92,608 | 92,608 |
| | | | | 99,202 | 106,131 | 100,746 | 100,746 |

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

Changes in investments in subsidiaries for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

| | 2013 | 2012 |
|------------------------------|------------------|------------------|
| At January 1 | 3,158,440 | 2,889,117 |
| Addition | 69,585 | 282,492 |
| Liquidation ¹ | (2,528) | - |
| Impairment loss ¹ | - | (13,170) |
| At December 31 | 3,225,497 | 3,158,439 |

¹ The Company recognized impairment loss for the difference between carrying amount and fair value of investment in Ami Power Co., Ltd. in 2012. It is the distributed amount of remaining assets as the liquidation process was completed in 2013.

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

(in millions of Korean won)

| | 2013 | 2012 |
|-----------------------|----------------|----------------|
| At January 1 | 100,746 | 100,746 |
| Addition | - | - |
| Impairment loss | - | - |
| At December 31 | 100,746 | 100,746 |

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Certain amounts of the property, plant and equipment are pledged as collaterals for borrowings of the Company as of December 31, 2013 (Note 39).

During the year, the Company 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 Company leases certain machinery and others from ME Semiconductor Rental First L.L.C. and others under finance lease agreements. In addition, SK hynix Semiconductor (Wuxi) Ltd. sold its machinery and equipment to HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH), a joint venture of the Company and Taiji Industry Ltd., and HITECH uses the machinery only for the purpose of providing the post-process service to the Company. The Company records those assets as finance lease.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 268,302 million (2012: ₩ 408,694 million) as of December 31, 2013. The machineries are pledged as collateral for the finance lease liabilities.

The Company leases certain machinery and others from Macquarie Capital and Itest Co., Ltd. under operating lease agreements. The payment schedule of minimum lease payments under operating lease as of December 31, 2013, is as follows:

| <i>(in millions of Korean won)</i> | <u>Total lease payment</u> |
|------------------------------------|-----------------------------------|
| No later than 1 year | 4,189 |
| Later than 1 year | 1,194 |
| | <u>5,383</u> |

The Company provides SK Hyeng Co., Ltd. and others with certain machinery and others under operating lease agreements. The book value of the machinery and others subject to operating lease agreement amounted to ₩ 51,367 million as of December 31, 2013.

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

| <i>(in millions of Korean won)</i> | <u>Insured assets</u> | <u>Insured amount</u> | <u>Insurance company</u> |
|------------------------------------|---|------------------------------|---|
| Package Insurance | Property, plant and equipment, inventories and other | 25,076,369 | Hyundai Marine & Fire Insurance Co., Ltd. and other |
| | Business interruption | | |
| Fire Insurance | Property, plant and equipment, investment property | 3,408 | |
| Erection all risks insurance | Property, plant and equipment | 1,380,300 | |
| | | <u>26,460,077</u> | |

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17. Investment Property

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

| | 2013 |
|------------------------------------|------------------|
| | Buildings |
| <i>(in millions of Korean won)</i> | |
| At January 1 | |
| Net book amount | 29,888 |
| Changes during 2013 | |
| Depreciation | (1,279) |
| Closing net book amount | 28,609 |
| At December 31 | |
| Acquisition Cost | 48,390 |
| Accumulated depreciation | (19,781) |
| Net book amount | 28,609 |
| | |
| | 2012 |
| | Buildings |
| <i>(in millions of Korean won)</i> | |
| At January 1 | |
| Net book amount | 31,168 |
| Changes during 2012 | |
| Depreciation | (1,280) |
| Closing net book amount | 29,888 |
| At December 31 | |
| Acquisition Cost | 48,390 |
| Accumulated depreciation | (18,502) |
| Net book amount | 29,888 |

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 for the year ended December 31, 2013, is ₩ 4,283 million (2012: ₩ 4,666 million).

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18. Intangible Assets

Intangible assets as of December 31, 2013 and 2012, are as follows:

| <i>(in millions of Korean won)</i> | 2013 | | | | |
|---|-----------------|-----------------------------------|--------------------------|---------------|----------------|
| | Goodwill | Industrial property rights | Development costs | Others | Total |
| At January 1 | | | | | |
| Net book amount | 386,450 | 92,188 | 223,188 | 11,862 | 713,688 |
| Changes during 2013 | | | | | |
| Additions | - | 13,128 | 190,271 | 71,703 | 275,102 |
| Disposals | - | (17,287) | - | - | (17,287) |
| Impairment | - | - | - | (183) | (183) |
| Amortization | - | (14,221) | (136,529) | (1,561) | (152,311) |
| Closing net book amount | 386,450 | 73,808 | 276,930 | 81,821 | 819,009 |
| At December 31 | | | | | |
| Acquisition Cost | 386,450 | 164,013 | 595,943 | 84,907 | 1,231,313 |
| Accumulated amortization and impairment | - | (90,205) | (319,013) | (3,086) | (412,304) |
| Net book amount | 386,450 | 73,808 | 276,930 | 81,821 | 819,009 |
| | | | 2012 | | |
| <i>(in millions of Korean won)</i> | Goodwill | Industrial property rights | Development costs | Others | Total |
| At January 1 | | | | | |
| Net book amount | 386,450 | 84,400 | 221,910 | 13,047 | 705,807 |
| Changes during 2012 | | | | | |
| Additions | - | 28,302 | 130,576 | - | 158,878 |
| Disposals | - | (5,680) | - | (920) | (6,600) |
| Impairment | - | - | - | (265) | (265) |
| Amortization | - | (14,834) | (129,298) | - | (144,132) |
| Closing net book amount | 386,450 | 92,188 | 223,188 | 11,862 | 713,688 |
| At December 31 | | | | | |
| Acquisition Cost | 386,450 | 199,766 | 405,671 | 13,204 | 1,005,091 |
| Accumulated amortization and impairment | - | (107,578) | (182,483) | (1,342) | (291,403) |
| Net book amount | 386,450 | 92,188 | 223,188 | 11,862 | 713,688 |

Amortization of ₩ 152,311 million (2012: ₩ 144,132 million) is recorded as 'selling and administrative expenses' in the statement of comprehensive income for the year ended December 31, 2013.

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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 ₩ 974,511 million (2012: ₩ 970,075 million) and were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2013.

The Company allocates goodwill into the semiconductor operating segment. The Company 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.

19. 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> | <u>2013</u> | <u>2012</u> |
|------------------------------------|-------------|-------------|
| At January 1 | - | 5 |
| Disposal | - | (5) |
| At December 31 | <u>-</u> | <u>-</u> |

20. 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> | <u>2013</u> | <u>2012</u> |
|------------------------------------|-----------------------|-----------------------|
| Current | | |
| Accrued expense | 598,456 | 335,020 |
| | <u>598,456</u> | <u>335,020</u> |
| Non-current | | |
| Long-term other payables | 166,146 | 74,623 |
| Long-term accrued expense | 615 | 3,531 |
| Rent deposit payables | 1,397 | 1,460 |
| | <u>168,158</u> | <u>79,614</u> |
| | <u>766,614</u> | <u>414,634</u> |

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21. 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> |
|--|-------------------------|-------------------------|
| Current | | |
| Short-term borrowings | 10,610 | 869,360 |
| Current maturities of debentures | - | 299,697 |
| Current maturities of convertible bonds | - | 980,316 |
| Current maturities of long-term borrowings | 537,226 | 277,834 |
| | <u>547,836</u> | <u>2,427,207</u> |
| Non-current | | |
| Long-term borrowings | 1,314,853 | 1,866,561 |
| Debentures | 1,450,777 | 1,450,972 |
| Convertible bonds | 498,935 | - |
| | <u>3,264,565</u> | <u>3,317,533</u> |
| | <u>3,812,401</u> | <u>5,744,740</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 |
| | | | <u>10,610</u> | <u>869,360</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> | Financial Institutions | Annual Interest Rate(%) at 2013 | 2013 | 2012 |
|-------------------------------------|-------------------------------------|---|-------------------------|-------------------------|
| Local currency loans | | | | |
| Borrowing for housing | Kookmin Bank | 3.5 | 24 | 28 |
| Borrowings for childcare facilities | NH Bank | 2.0 | 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 | CD (91days)+1.31 | 50,000 | 50,000 |
| Commercial paper | Hanyang Securities and other | 3.63~3.9 | 370,000 | 370,000 |
| Finance lease liabilities | ME Semiconductor Rental First L.L.C | 5.00 | 212,442 | 266,731 |
| | | | <u>882,712</u> | <u>962,067</u> |
| Foreign currency loans | | | | |
| General borrowings | Export Import Korea Bank | 3M Libor + 3.15 | 105,530 | 107,110 |
| General borrowings ¹ | SC Bank | 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 | Korea Exchange Bank | 3M Libor + 3.79 | 52,765 | 53,555 |
| General borrowings | NH Bank | 3M Libor + 3.19 | 211,060 | 214,220 |
| Mortgage loans | HITECH | 7.16 | 71,469 | 127,062 |
| Finance lease liabilities | HITECH and other | 4.7~7.16 | 105,457 | 170,233 |
| | | | <u>972,886</u> | <u>1,192,735</u> |
| | | | <u>1,855,598</u> | <u>2,154,802</u> |
| Less: Discount on present value | | | (3,519) | (10,407) |
| Current maturities | | | (537,226) | (277,834) |
| | | | <u>1,314,853</u> | <u>1,866,561</u> |

¹The Company 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> | Maturity Date | Annual Interest Rate(%) At 2013 | 2013 | 2012 |
|---|--------------------------|--|------------------|------------------|
| Unsecured notes in local currency: | | | | |
| 209th | - | - | - | 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 |
| Secured notes in foreign currency | | | | |
| Foreign 8th ¹ | June 20, 2017 | 3M Libor+2.85 | 105,530 | 107,110 |
| | | | 1,455,530 | 1,757,110 |
| Add: Adjust embedded derivatives | | | - | - |
| Less: Discount on debentures | | | (4,753) | (6,441) |
| Current maturities | | | - | (299,697) |
| Debentures | | | 1,450,777 | 1,450,972 |

¹ The Company is provided with USD 100 million of bank guarantee payment from Shinhan Bank as of December 31, 2013.

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

| <i>(in millions of Korean won)</i> | Maturity Date | Annual Interest Rate(%) at 2013 | 2013 | 2012 |
|---|--------------------------|--|----------------|-------------|
| Convertible bond in local currency | | | | |
| 207th | Sep 5, 2013 | - | - | 440,499 |
| Convertible bond in foreign currency | | | | |
| 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) |
| Convertible bonds | | | 498,935 | - |

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

| | Details |
|--------------------------------|---|
| | Foreign 7th |
| 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) |
| 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 |

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:

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|------------------------------------|-----------------------|-----------------------|
| Total minimum lease payment | | |
| No later than 1 year | 126,839 | 138,339 |
| Between 1 and 5 years | 217,394 | 345,932 |
| | <u>344,233</u> | <u>484,271</u> |
| Unearned finance income | (26,334) | (47,307) |
| Net minimum lease payment | | |
| No later than 1 year | 112,986 | 117,486 |
| Between 1 and 5 years | 204,913 | 319,478 |
| | <u>317,899</u> | <u>436,964</u> |

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

| <i>(in millions of Korean won)</i> | 2013 | | 2012 | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Book value | Fair value | Book value | Fair value |
| Long-term borrowings | 1,314,853 | 1,344,067 | 1,866,561 | 1,904,717 |
| Debentures | 1,450,777 | 1,501,810 | 1,450,972 | 1,504,532 |
| Convertible bond | 498,935 | 653,653 | - | - |
| | <u>3,264,565</u> | <u>3,499,530</u> | <u>3,317,533</u> | <u>3,409,249</u> |

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22. Provisions

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

| <i>(in millions of Korean won)</i> | 2013 | | | | |
|---------------------------------------|-----------------------------|-----------------|----------------------|---------------------|---------------|
| | Purchase commitments | Warranty | Sales returns | Legal claims | Total |
| At January 1 | 4,875 | 2,949 | 5,566 | 322,362 | 335,752 |
| Addition | - | 10,965 | 16,644 | 58,959 | 86,568 |
| Reversal and utilization | (4,718) | - | - | (228,321) | (233,039) |
| Foreign exchange difference and other | - | - | - | (126,894) | (126,894) |
| At December 31 | 157 | 13,914 | 22,210 | 26,106 | 62,387 |

| <i>(in millions of Korean won)</i> | 2012 | | | | |
|---------------------------------------|-----------------------------|-----------------|----------------------|---------------------|----------------|
| | Purchase commitments | Warranty | Sales returns | Legal claims | Total |
| At January 1 | 95,367 | - | 4,668 | 349,661 | 449,696 |
| Addition | - | 2,949 | 898 | 86,397 | 90,244 |
| Reversal and utilization | (90,492) | - | - | (88,699) | (179,191) |
| Foreign exchange difference and other | - | - | - | (24,997) | (24,997) |
| At December 31 | 4,875 | 2,949 | 5,566 | 322,362 | 335,752 |

Provisions for sales returns

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

Provisions for legal claims

The Company recognizes provisions for legal claims when the Company 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 39).

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Accrual for loss on purchase commitment

The Company is committed to purchase wafers from its overseas subsidiary, SK hynix Semiconductor (China) Ltd. (SKHYCL). For the finished goods and work-in-process which will be purchased from the subsidiary, the Company records provisions for expected losses if the total manufacturing costs are expected to be greater than the sale price of finished products at the reporting date.

23. 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> |
|------------------------------------|----------------|---------------|
| Current | | |
| Derivative liabilities (Note 40) | 267 | 13,764 |
| Non-current | | |
| Derivative liabilities (Note 40) | 107,094 | 1,615 |
| | <u>107,361</u> | <u>15,379</u> |

24. 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> |
|--|---------------|---------------|
| Current | | |
| Unearned income | 738 | 1,030 |
| Withholdings | 9,367 | 11,970 |
| Deposits received | 37 | 412 |
| Advance receipts | 891 | 1,078 |
| | <u>11,033</u> | <u>14,490</u> |
| Non-current | | |
| Long-term withholdings | 935 | 666 |
| Long-term advance receipts | 154 | - |
| Other long-term employee benefit liabilities | 48,839 | 38,239 |
| | <u>49,928</u> | <u>38,905</u> |
| | <u>60,961</u> | <u>53,395</u> |

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25. 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 | 631,757 | 570,499 |
| Fair value of plan assets ¹ | (4,851) | (5,004) |
| | <u>626,906</u> | <u>565,495</u> |

¹ The contributions to the National Pension Fund of ₩ 1,854 million (2012: ₩ 1,952 million) are included in the fair value of plan assets 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 | 93,361 | 77,022 |
| Interest expenses | 27,149 | 26,258 |
| Interest income | (151) | (135) |
| | <u>120,359</u> | <u>103,145</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) | 69,454 | 64,658 |
| Selling and administrative expenses | 50,905 | 38,487 |
| | <u>120,359</u> | <u>103,145</u> |

The remeasurements recognized as other comprehensive loss for the year ended December 31, 2013, amount to ₩ 14,222 million (2012: ₩ 80,589 million), and cumulative remeasurements recognized as other comprehensive loss as of December 31, 2013, amount to ₩ 180,515 million.

As of December 31, 2013, the Company funded approximately 0.47% (2012: 0.53%) of the total retirement benefit obligations through an insurance plan 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> |
|---|-----------------------|-----------------------|
| At January 1 | 570,499 | 453,865 |
| Current service cost | 93,361 | 77,022 |
| Interest expense | 27,149 | 26,258 |
| Transferred from associates | 344 | 443 |
| Benefits paid | (45,321) | (67,666) |
| Remeasurements | | |
| -Actuarial gains and losses arising from changes in assumptions | (17,344) | 60,642 |
| -Actuarial gains and losses arising from experience adjustments | 3,069 | 19,935 |
| At December 31 | <u>631,757</u> | <u>570,499</u> |

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> |
|------------------------------------|---------------------|---------------------|
| At January 1 | 5,004 | 5,435 |
| Interest income | 151 | 135 |
| Benefits paid | (251) | (555) |
| Remeasurements | (53) | (11) |
| At December 31 | <u>4,851</u> | <u>5,004</u> |

The actual return of plan assets for the year ended December 31, 2013, was ₩ 98 million (2012: ₩ 124 million).

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

| | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Salary growth rate | 5.85% | 5.50% |
| Discount rate | 5.51% | 4.89% |
| Expected rate of return on plan assets | 5.51% | 4.18% |

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 | 2,996 | 3,052 |
| Other | 1,855 | 1,952 |
| | <u>4,851</u> | <u>5,004</u> |

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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> | Effect on defined benefit obligation | | |
|---------------------------|---|---|---|
| | Changes in principal assumption | Increase in principal assumption | Decrease in principal assumption |
| Discount rate | 1.0% | 11.2% decrease | 13.3% increase |
| Salary growth rate | 1.0% | 13.5% increase | 11.6% 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.

26. Deferred Income Tax

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|--|-----------------------|-----------------------|
| Deferred tax assets | | |
| Deferred tax asset to be recovered after more than 12 months | 75,746 | 244,483 |
| Deferred tax asset to be recovered within 12 months | 117,244 | 187,904 |
| | <u>192,990</u> | <u>432,387</u> |
| Deferred tax liabilities | | |
| Deferred tax liability to be recovered after more than 12 months | (75,746) | (117,823) |
| Deferred tax liability to be recovered within 12 months | (6,990) | (6,646) |
| | <u>(82,736)</u> | <u>(124,469)</u> |
| Deferred tax assets, net | <u>110,254</u> | <u>307,918</u> |

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|--|-----------------------|-----------------------|
| At January 1 | 307,918 | 221,935 |
| Income statement charge | (197,975) | 86,313 |
| Tax charge/(credit) relating to components of other comprehensive income | 311 | (330) |
| At December 31 | <u>110,254</u> | <u>307,918</u> |

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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> | 2013 | | | December 31, 2013 |
|---|--------------------|---------------------|----------------------------------|----------------------|
| | January 1, 2013 | Income statement | Other comprehensive income | |
| Deferred tax liabilities | | | | |
| Advanced depreciation provision | (55,666) | - | - | (55,666) |
| Valuation of derivatives | (5,356) | (95) | - | (5,451) |
| Gains on foreign currency translation | (30,398) | 28,442 | - | (1,956) |
| Conversion rights adjustment | (14,943) | 8,116 | - | (6,827) |
| Others | (18,106) | 4,960 | 311 | (12,835) |
| | (124,469) | 41,423 | 311 | (82,735) |
| Deferred tax assets | | | | |
| Loss on valuation of inventories | 27,738 | (8,926) | - | 18,812 |
| Valuation of equity-method investments | 317,873 | (108,076) | - | 209,797 |
| Accumulated depreciation | 56,207 | (13,025) | - | 43,182 |
| Net defined benefits | 106,932 | 30,145 | - | 137,077 |
| Deemed interest of suspense payment and other | 162,507 | (117) | - | 162,390 |
| Provisions and others | 104,468 | (98,653) | - | 5,815 |
| Impairment of available-for-sale financial assets | 36,964 | 3,170 | - | 40,134 |
| Losses on foreign currency translation | 29,906 | (27,358) | - | 2,548 |
| Property, plant and equipment | 24,439 | (9,222) | - | 15,217 |
| Losses on valuation of derivative | 9,182 | 22,185 | - | 31,367 |
| Tax loss carryforwards | 587,290 | (545,801) | - | 41,489 |
| Tax credit carryforwards | 655,747 | (16,770) | - | 638,977 |
| Others | 90,902 | (24,660) | - | 66,242 |
| | 2,210,155 | (797,108) | - | 1,413,047 |
| Deferred income tax assets | 2,085,686 | (755,685) | 311 | 1,330,312 |
| Deferred income tax assets not recognized | (1,777,768) | 557,710 | - | (1,220,058) |
| Deferred income tax assets recognized | 307,918 | (197,975) | 311 | 110,254 |

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| <i>(in millions of Korean won)</i> | 2012 | | | |
|---|--------------------|---------------------|----------------------------------|----------------------|
| | January 1, 2012 | Income statement | Other comprehensive income | December 31, 2012 |
| 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 | (25,922) | 10,979 | - | (14,943) |
| Others | (20,233) | 2,457 | (330) | (18,106) |
| | (180,000) | 55,861 | (330) | (124,469) |
| Deferred tax assets | | | | |
| Loss on valuation of inventories | 39,000 | (11,262) | - | 27,738 |
| Valuation of equity-method investments | 346,225 | (28,352) | - | 317,873 |
| Accumulated depreciation | 40,627 | 15,580 | - | 56,207 |
| Net defined benefits | 94,581 | 12,351 | - | 106,932 |
| 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 | 420,179 | 167,111 | - | 587,290 |
| Tax credit carryforwards | 709,490 | (53,743) | - | 655,747 |
| Others | 76,607 | 14,295 | - | 90,902 |
| | 2,200,241 | 9,914 | - | 2,210,155 |
| Deferred income tax assets | 2,020,241 | 65,775 | (330) | 2,085,686 |
| Deferred income tax assets not recognized | (1,798,306) | 20,538 | - | (1,777,768) |
| Deferred income tax assets recognized | 221,935 | 86,313 | (330) | 307,918 |

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 Company recognized the entire deferred income tax assets for loss carryforwards which are deductible from future taxable income. However, as of December 31, 2012, the Company did not recognize deferred income tax assets amounting to ₩ 223,706 million for a loss carryforwards of ₩ 924,405 million.

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Also, the Company did not recognize deferred income tax assets of ₩ 658,205 million (2012: ₩ 899,837 million) in respect of deductible temporary differences amounting to ₩ 2,719,854 million (2012: ₩ 3,718,335 million) that can be carried forward against future taxable income.

During the year ended December 31, 2013, ₩ 108,433 million (2012: ₩ 140,711 million) of tax credit was earned and can be utilized in the future. However, the Company did not recognize deferred income tax assets of ₩ 561,851 million (2012: ₩ 655,747 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>Tax loss carryforwards</u> | <u>Tax credit carryforwards</u> |
|------------------------------------|--------------------------------------|--|
| 2014 | - | 54,017 |
| 2015 | - | 186,116 |
| 2016 | - | 144,287 |
| 2017 | - | 146,123 |
| Thereafter | 171,440 | 108,434 |
| | <u>171,440</u> | <u>638,977</u> |

27. Share Capital and Capital Surplus

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

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

| <u>Authorized shares</u> | <u>Outstanding shares¹</u> | <u>Par value per share</u> | <u>Paid in capital</u> |
|---------------------------------|--|-----------------------------------|-------------------------------|
| 9,000,000 | 713,729 | ₩ 5,000 | ₩ 3,568,645 million |

¹ 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.

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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> | Total owned shares | Share capital | Capital Surplus | | | Total |
|---|-----------------------------------|--------------------------|--------------------------|---|----------------|------------------|
| | | | Share premium | Conversion right consideration | Other | |
| At January 1, 2012 | 592,172 | 2,978,498 | 685,177 | 72,350 | 509,730 | 4,245,755 |
| 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 |
| At December 31, 2012 | 694,156 | 3,488,419 | 2,506,532 | 72,331 | 513,292 | 6,580,574 |
| At January 3, 2013 | 694,156 | 3,488,419 | 2,506,532 | 72,331 | 513,292 | 6,580,574 |
| Exercise of conversion rights | 16,045 | 80,226 | 381,612 | (29,404) | - | 432,434 |
| At December 31, 2013 | 710,201 | 3,568,645 | 2,888,144 | 42,927 | 513,292 | 7,013,008 |

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.

28.Retained Earnings

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|------------------------------------|------------------|------------------|
| Legal reserve ¹ | 8,854 | 8,854 |
| Discretionary reserve ² | 235,506 | 235,506 |
| Unappropriated retained earnings | 5,937,418 | 3,126,230 |
| | 6,181,779 | 3,370,590 |

¹ 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).

² Discretionary reserve is a reserve for technology development.

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The appropriation of retained earnings for the years ended December 31, 2013 and 2012, is as follows:

| <i>(in millions of Korean won)</i> | 2013 (Date of appropriation : March 21, 2014) | 2012 (Date of appropriation : March 22, 2013) |
|---|--|--|
| At January 1 | | |
| Unappropriated retained earnings | | |
| Unappropriated retained earnings carried over from prior year | 3,126,230 | 3,696,809 |
| The remeasurements of the net defined benefit liability | 14,221 | (80,589) |
| Net income (loss) | 2,796,967 | (489,990) |
| | <u>5,937,418</u> | <u>3,126,230</u> |
| Appropriation of retained earnings | - | - |
| At December 31 | <u>5,937,418</u> | <u>3,126,230</u> |

29. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2013 and 2012, consists of the following:

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|---|---------------------|---------------------|
| Gains on valuation of available-for-sale financial Assets | 7,824 | 8,479 |
| | <u>7,824</u> | <u>8,479</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> | 2013 | | | |
|---|----------------------|--------------------------------|---|---------------------|
| | Beginning | Increase (Decrease) | Reclassification to profit or loss | Ending |
| Gains on valuation of available-for-sale financial assets | 8,479 | (655) | - | 7,824 |
| | <u>8,479</u> | <u>(655)</u> | <u>-</u> | <u>7,824</u> |
| | | | | |
| <i>(in millions of Korean won)</i> | 2012 | | | |
| | Beginning | Increase (Decrease) | Reclassification to profit or loss | Ending |
| Gains on valuation of available-for-sale financial assets | 10,375 | (1,896) | - | 8,479 |
| | <u>10,375</u> | <u>(1,896)</u> | <u>-</u> | <u>8,479</u> |

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30. Share-based Payments

The Company grants 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> | 2013 | 2012 |
|------------------------------------|-------------|-------------|
| At January 1 | - | 5,762 |
| Exercised | - | (2,200) |
| Expired | - | (3,562) |
| At December 31 | - | - |

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> | 2013 | | 2012 | | |
|---|--|----------------|--|----------------|-------|
| | Weighted average exercise price | Options | Weighted average exercise price | Options | |
| At January 1 | - | - | ₩ | 22,800 | 324 |
| Granted | - | - | | - | - |
| Exercised | - | - | ₩ | 22,800 | (124) |
| Expired | - | - | ₩ | 22,800 | (200) |
| At December 31 | - | - | | | - |

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.

31. 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.

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32. Expenses by Nature

Expenses 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> | 2013 | 2012 |
|------------------------------------|-------------------|-------------------|
| Changes in finished goods and WIP | 244,264 | (255,861) |
| Raw materials and consumables used | 3,531,673 | 4,334,936 |
| Employee benefit expenses | 1,703,518 | 1,364,402 |
| Depreciation and amortization | 2,291,930 | 2,238,301 |
| Royalty expense | 14,597 | 196,284 |
| Commission expense | 324,802 | 314,067 |
| Utilities expense | 433,487 | 379,958 |
| Repair expense | 799,228 | 674,174 |
| Outsourcing expense | 998,357 | 1,013,141 |
| Other | 339,337 | 358,666 |
| | 10,681,193 | 10,618,068 |

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

| <i>(in millions of Korean won)</i> | 2013 | 2012 |
|------------------------------------|------------------|------------------|
| Wages and salaries | 1,473,565 | 1,160,312 |
| Defined benefits | 120,359 | 103,145 |
| Other long-term employee benefits | 13,648 | 9,390 |
| Termination benefits | 4,815 | 425 |
| Social security costs and other | 91,131 | 91,130 |
| | 1,703,518 | 1,364,402 |

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33. 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 | 202,699 | 153,476 |
| Severance benefits | 18,383 | 15,765 |
| Employee benefits | 41,112 | 38,879 |
| Commission expense | 150,032 | 154,801 |
| Depreciation | 46,956 | 51,437 |
| Amortization | 152,311 | 144,132 |
| Research and development | 974,511 | 970,075 |
| Exporting expense | 18,978 | 20,325 |
| Legal cost | 10,681 | 33,356 |
| Rental expense | 7,243 | 6,702 |
| Taxes and dues | 7,311 | 6,302 |
| Training Expenses | 9,370 | 9,976 |
| Sales Promotional Expenses | 3,203 | 2,338 |
| Utility Expenses | 8,564 | 8,076 |
| Storage cost | 2,890 | 4,329 |
| Supplies Expenses | 23,594 | 14,863 |
| Repairs Expenses | 16,416 | 9,199 |
| Other | 39,616 | 26,242 |
| | <u>1,733,870</u> | <u>1,670,273</u> |

34. 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 | - | 22,240 |
| Gain on disposal of assets held-for-sale | - | 18 |
| Gain on disposal of property, plant and equipment | 11,708 | 3,711 |
| Gain on disposal of intangible assets | 191 | 298 |
| Other | 24,705 | 38,379 |
| | <u>36,604</u> | <u>64,646</u> |

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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 | 8,365 | 1,468 |
| Loss on disposal of intangible assets | 17,278 | 5,672 |
| Loss on disposal of trade receivables | 609 | - |
| Donation | 2,925 | 2,595 |
| Impairment of intangible assets | 183 | 265 |
| Amortization of suspended assets | 3,202 | 8,959 |
| Other | 14,678 | 27,625 |
| | <u>47,240</u> | <u>46,584</u> |

35. Financial Income and Expenses

Financial income and 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> |
|---|-------------------------|-----------------------|
| Finance income | | |
| Interest income | 63,573 | 77,411 |
| Dividend income | 17,414 | 18,019 |
| Gain on disposal of available for sale financial assets | 205 | 5,943 |
| Foreign exchange differences | 373,677 | 522,403 |
| Gain from derivative instruments | 4,832 | 3,572 |
| | <u>459,701</u> | <u>627,348</u> |
| Finance expense | | |
| Interest expenses | 243,042 | 288,531 |
| Foreign exchange differences | 326,214 | 275,101 |
| Loss from derivative instruments | 99,636 | 18,730 |
| Impairment loss on equity investments in associates | 347 | 13,170 |
| Loss on redemption of debentures | - | 10,470 |
| | <u>669,239</u> | <u>606,002</u> |
| Net finance income (expense) | <u>(209,538)</u> | <u>21,346</u> |

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36. 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 | - | - |
| Adjustments in respect of prior years | - | (574) |
| Total current tax | - | (574) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 197,975 | (86,313) |
| Total deferred tax | 197,975 | (86,313) |
| Income tax expense (benefit) | 197,975 | (86,887) |

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

| <i>(in millions of Korean won)</i> | <u>2013</u> | <u>2012</u> |
|--|----------------|-----------------|
| Profit(loss) before tax | 2,994,942 | (576,877) |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 725,240 | (139,142) |
| Tax effects of: | | |
| Income not subject to tax | (13) | (324) |
| Expenses not deductible for tax purposes | 11,119 | 1,482 |
| Changes in temporary differences not recognized | (540,944) | 33,205 |
| Others | 2,573 | 17,892 |
| Income tax expense (benefit) | 197,975 | (86,887) |

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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 on 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>December 31, 2013</u> | | | <u>December 31, 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> |
| Gains 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 | (180,515) | - | (180,515) | (194,767) | - | (194,767) |
| | (169,068) | (3,623) | (172,691) | (182,976) | (3,312) | (186,288) |

37. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company 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 shares | 2,796,967 | (489,990) |
| Weighted average number of ordinary shares outstanding ¹ | 710,200,891 | 681,854,577 |
| Basic earnings (loss) per share | 3,938 | (719) |

¹Weighted 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 ¹ | 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 | - | 89,605,738 |
| Adjusted weighted average number of ordinary shares outstanding | 710,200,891 | 681,854,577 |

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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 Company 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 less the tax effect.

| <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 shares | 2,796,967 | (489,990) |
| Add : Convertible bond related costs | - | - |
| Adjusted profit attributable to ordinary shares | 2,796,967 | (489,990) |
| Adjusted weighted average number of ordinary shares outstanding ¹ | 710,200,891 | 681,854,577 |
| Diluted earnings(loss) per share | <u>3,938</u> | <u>(719)</u> |

¹ Adjusted 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 | 710,200,891 | 681,854,577 |
| Dilutive potential ordinary shares | | |
| Convertible bond | - | - |
| Adjusted weighted average number of ordinary shares outstanding | <u>710,200,891</u> | <u>681,854,577</u> |

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38.Related Party Transactions

Details of subsidiaries as of December 31, 2013, are as follows:

| Type | Names of subsidiaries | Percentage of Ownership (%) ¹ |
|-------------------------------|--|--|
| Domestic subsidiary | SK Hyeng Co., Ltd. | 100.00 |
| | SK Hystech Co., Ltd. | 100.00 |
| | Ami Power Co., Ltd. ² | - |
| Overseas sales entity | SK hynix America Inc.(SKHYA) | 97.74 |
| | SK hynix Deutschland GmbH(SKHYD) | 100.00 |
| | SK hynix U.K. Ltd.(SKHYU) | 100.00 |
| | SK hynix Asia Pte. Ltd.(SKHYS) | 100.00 |
| | SK hynix Semiconductor India Private Ltd.(SKHYIS) | 100.00 |
| | SK hynix Semiconductor HongKong Ltd.(SKHYH) | 100.00 |
| | SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS) | 100.00 |
| | SK hynix Japan Inc.(SKHYJ) | 100.00 |
| | SK hynix Semiconductor Taiwan Inc.(SKHYT) | 100.00 |
| | SK hynix(Wuxi) Semiconductor Sales Ltd.(SKHYCW) | 100.00 |
| Overseas Manufacturing entity | SK hynix Semiconductor (China) Ltd.(SKHYCL) | 100.00 |
| | SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC) | 100.00 |
| | SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL) ³ | 100.00 |
| | Hynix Semiconductor Manufacturing America Inc. (HSMA) ⁴ | 100.00 |
| Overseas R&D entity | SK hynix Italy S.r.l(SKHYIT) | 100.00 |
| | SK hynix memory solutions Inc.(SKHMS)(formerly LAMD) | 100.00 |
| | SK hynix Flash Solution Taiwan(SKHYFST) ³ | 100.00 |
| Holding company | SK APTECH Ltd.(SKAPTECH) ³ | 100.00 |
| | SK hynix Europe Holding Ltd.(SKHYE) ⁴ | 100.00 |

¹ Aggregate of subsidiaries ownership.

² Excluded from subsidiaries due to the liquidation in 2013.

³ Newly acquired subsidiaries for the year ended December 31, 2013

⁴ As of December 31, 2013, HSMA and SKHYE are undergoing liquidation process.

Associate, jointly controlled entity and other related parties with transactions for the years ended December 31, 2013 and 2012, or the balances of significant transactions as of December 31, 2013 and 2012, are as follows:

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

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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 |
| Subsidiaries | Overseas sales entities | 12,832,857 | 50,354 | 346,674 |
| | Overseas Manufacturing entities | 30,939 | 1,770,029 | 43,003 |
| | Overseas R&D entities | 142 | 70,045 | - |
| | Domestic subsidiaries | 14,628 | 236,883 | 18,262 |
| Associate | Siliconfile Technologies Inc. | 60,639 | 1,585 | - |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd. | 1,137 | 581,374 | - |
| | SK Telecom | 954 | 2,785 | 230 |
| Other related parties | SK Holdings Co., Ltd. ¹ | - | 20,229 | - |
| | SK C&C Co., Ltd. | 47 | 14,247 | 30,522 |
| | SK Engineering & Construction co., Ltd | 90 | 12,056 | 166,423 |
| | SK Energy Co., Ltd. | 9,838 | 28,258 | - |
| | SK Networks Co., Ltd. ² | - | 423 | 112,360 |
| | SKC solmics Co., Ltd. | - | 16,777 | 183 |
| | Chungcheong energy service Co., Ltd. | - | 28,231 | - |
| | HAPPYNARAE Co., Ltd. | 10 | 44,195 | 7,457 |
| | Others | - | 9,527 | 332 |
| | | 12,951,281 | 2,886,998 | 725,446 |

¹ The Company entered into a contract with SK Holdings Co., Ltd., wherein it pays royalty for the use of the SK brand in proportion to sales from March 2012 to December 2014. For the year ended December 31, 2013, royalty on the SK brand amounted to ₩17,897 million.

² The Company acquired 5,745 shares of Sky Property Management Ltd. at ₩ 112,360 million from SK Networks Co., Ltd., in 2013 and recognized them as available-for-sale securities as of December 31, 2013 (Note 14).

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| <i>(in millions of Korean won)</i> | Company | 2012 | | |
|------------------------------------|---------------------------------------|------------------|------------------|--------------------------|
| | | Sales | Purchases | Asset acquisition |
| | Overseas sales entities | 9,262,506 | 62,355 | 486,958 |
| Subsidiaries | Overseas Manufacturing entities | 4,336 | 2,406,264 | 37,122 |
| | Overseas R&D entities | 28 | 13,125 | - |
| | Domestic subsidiaries | 17,521 | 230,619 | - |
| Associate | Siliconfile Technologies Inc. | 50,412 | 931 | - |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd. | 1,419 | 625,657 | 17,168 |
| | SK Telecom | 1,196 | 809 | - |
| | SK Holdings Co., Ltd. ² | - | 7,800 | - |
| | SK C&C Co., Ltd. | - | 2,796 | 13,374 |
| Other related parties ¹ | SKC solmics Co., Ltd. | - | 8,967 | 387 |
| | Chungcheong energy service Co., Ltd. | - | 18,380 | - |
| | HAPPYNARAE Co., Ltd. | 1 | 22,164 | 550 |
| | Others | 22 | 5,425 | 2,831 |
| | | 9,337,441 | 3,405,292 | 558,390 |

¹ Transactions that occurred after February 14, 2012, the date of obtaining significant influence over the Company.

² The Company entered into a contract with SK Holdings Co., Ltd. under which the Company 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 ₩ 7,800 million.

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

2013

| <i>(in millions of Korean won)</i> | Company | Trade receivables and others | Loan | Other payables | Borrowings |
|------------------------------------|--|---|---------------|-----------------------|-------------------|
| | Overseas sales entity | 1,562,724 | 47,489 | 103,479 | - |
| Subsidiaries | Overseas Manufacturing entity | 132,006 | - | 175,481 | - |
| | Overseas R&D entity | 257 | 10,553 | 1,826 | - |
| | Domestic subsidiary | 431 | - | 26,894 | - |
| Associate | Siliconfile Technologies Inc. | 10,166 | - | - | - |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd. | 18 | - | 2,828 | 101,093 |
| | SK Telecom | - | - | 419 | - |
| | SK Holdings Co., Ltd. | - | - | 2,332 | - |
| | SK C&C Co., Ltd. | 3 | - | 24,775 | - |
| | SK Engineering & Construction co., Ltd | 20 | - | 82,238 | - |
| Other related parties | SK Energy Co., Ltd. | 76 | - | 5,802 | - |
| | SK Networks Co., Ltd. | - | - | 32 | - |
| | SKC solmics Co., Ltd. | - | - | 2,719 | - |
| | Chungcheong energy service Co., Ltd. | - | - | 3,102 | - |
| | HAPPYNARAE Co., Ltd. | 1 | - | 10,721 | - |
| | Others | 1 | - | 845 | - |
| | | 1,705,703 | 58,042 | 443,493 | 101,093 |

2012

| <i>(in millions of Korean won)</i> | Company | Trade receivables and others | Loan | Other payables | Borrowings |
|------------------------------------|---------------------------------------|---|---------------|-----------------------|-------------------|
| | Overseas sales entity | 1,451,842 | 48,200 | 83,812 | - |
| Subsidiaries | Overseas Manufacturing entity | 39,221 | - | 252,988 | - |
| | Overseas R&D entity | 1,884 | 10,711 | 1,275 | - |
| | Domestic subsidiary | 904 | 14,465 | 24,784 | - |
| Associate | Siliconfile Technologies Inc. | 6,612 | - | 1 | - |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd. | 202 | - | 46,670 | 179,204 |
| | SK Telecom | 887 | - | 287 | - |
| | SK Holdings Co., Ltd. | - | - | - | - |
| | SK C&C Co., Ltd. | - | - | 7,231 | - |
| Other related parties | SKC solmics Co., Ltd. | - | - | 2,353 | - |
| | Chungcheong energy service Co., Ltd. | - | - | 2,927 | - |
| | HAPPYNARAE Co., Ltd. | 1 | - | 7,505 | - |
| | Others | - | - | 1,845 | - |
| | | 1,501,553 | 73,376 | 431,678 | 179,204 |

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Key management compensation

Key management includes the chief executive officer, 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> | Details | 2013 | 2012 |
|------------------------------------|----------------------------------|---------------|---------------|
| Short-term employee benefits | Wages, salaries, bonus and other | 23,159 | 16,830 |
| Post-employment benefits | Retirement payment and other | 2,959 | 2,700 |
| Other long-term benefits | Long-term employment allowance | 6 | 1 |
| | | 26,124 | 19,531 |

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> | Amount | Remark |
|------------------------------------|---------------|---|
| Employees | 28 | Guarantees for employees' borrowings relating to employee stock ownership |
| SKHYA | 10,696 | Guarantees for the mortgage loan of SKHYA |
| | 10,724 | |

39. Commitments and Contingencies

Significant pending litigations and claims of the Company as of December 31, 2012, are as follows:

(a) Litigation filed by Rambus

The Company was a defendant in lawsuits claimed by Rambus Inc. ("Rambus"), a developer of High-bandwidth chip connection technology, alleging that the Company's certain DRAM products are infringing Rambus' patents ("Patent Litigation"), and that the Company 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 Company entered into a settlement and patent license agreement with Rambus, and pursuant to the agreement the Company and Rambus withdrew all outstanding disputes, including Patent Litigation and Antitrust Litigation, and the Company 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 Company sold 13 million shares of Hanwha 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 Company and Hyundai Securities Co.,

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Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Company, in turn, received a similar letter from HSC. Upon CIBC's exercise of its put option, HHI repurchased the shares in July 2000 and requested approximately US\$ 220 million of compensation for damage which is equivalent to the repurchase price to the Company and HSC.

However, the Company rejected the request by asserting that the Company 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 Company, 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 Company paid ₩ 171,950 million and related interest to HHI recognizing the obligation based on the comfort letter provided by the Company. Therefore, the lawsuit has been finalized and concluded.

In addition, HHI initiated a separate lawsuit seeking the Company, 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's repurchase of shares. As a result of the litigation described above, the Supreme Court of Korea rendered a ruling that the Company and HSC should pay ₩ 48,770 million and related interest. Therefore, this lawsuit has been finalized and concluded.

(C) Other litigation and patent-related claims

Apart from the above litigation, the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of December 31, 2013, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's separate financial statements. The accompanying separate financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

The Company 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 Company and Veolia Water Industrial Development Co., Ltd. ("VWID", formerly Vivendi Water Industrial Development Co., Ltd.) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. 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 Company is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the

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amount of water used.

Post- process service contract with HITECH

The 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 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 Company exclusively for the five years from its establishment. In 2011, the Company entered into an additional contract for the purpose of module service and HITECH purchased corresponding machinery from the Company. According to the agreements, the Company is liable to guarantee a certain level of margin to HITECH.

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> | Book value | Pledged amount | Remark |
|------------------------------------|-------------------|-----------------------|---------------------------------------|
| Land | 25,030 | | Borrowings and others ¹ |
| Buildings | 76,949 | 928,256 | |
| Machinery | 739,413 | | |
| | 841,391 | 928,256 | |

Other than the above assets provided as collaterals, the finance lease assets of the Company are pledged as collateral for the finance lease liabilities in accordance with finance lease contract (Note 16).

Financing agreements

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

| <i>(in millions of US Dollars and Korean Won)</i> | Financial Institution | Commitment | Limit | |
|---|------------------------------|--|-----------------|---------------|
| | | | Currency | Amount |
| | | Import finance like usance | USD | 440 |
| | Korea Exchange Bank | Export finance like bills bought | USD | 375 |
| | and other | Comprehensive limit | USD | 1,200 |
| | | contract for Import & Export | | |
| | | Export trade receivables discount agreement ¹ | USD | 90 |
| | | Trade receivables discount agreement | KRW | 100,000 |

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

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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> | <u>Amount</u> | <u>Remark</u> |
|------------------------------------|----------------------|---|
| Employees | 28 | Guarantees for employees' borrowings relating to employee stock ownership |
| SKHYA | 10,696 | Guarantees for financial institution's borrowing relating to mortgage loan of SKHYA |
| | <u>10,724</u> | |

Capital commitments

As of December 31, 2013, the Company has ₩ 128,573 million (2012: ₩ 96,965 million) of commitments in relation to the capital expenditures on tangible assets.

40. Derivative Financial Instruments

The Company 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 Company bifurcated the convertible options and separately accounted for these as derivative instruments which were embedded in the foreign convertible bond. The Company 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> | <u>2013</u> | | <u>2012</u> | |
|------------------------------------|-------------------|-----------------------|-------------------|----------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Current | | | | |
| Interest rates swap | - | 267 | - | - |
| Embedded derivatives | - | - | - | 13,764 |
| | - | 267 | - | 13,764 |
| Non-current | | | | |
| Interest rates swap | 272 | 245 | 198 | 1,615 |
| Embedded derivative instruments | - | 106,849 | - | - |
| | 272 | 107,094 | 198 | 1,615 |
| | <u>272</u> | <u>107,361</u> | <u>198</u> | <u>15,379</u> |

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

| | 2013 | | | |
|------------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| <i>(in millions of Korean won)</i> | Gain on valuation | Loss on valuation | Gain on transaction | Loss on transaction |
| Foreign currency forward contract | - | - | 3,630 | 5,308 |
| Interest rates swap | 1,176 | - | 26 | 1,242 |
| Embedded derivative instruments | - | 93,085 | - | - |
| | 1,176 | 93,085 | 3,656 | 6,550 |

| | 2012 | | | |
|------------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| <i>(in millions of Korean won)</i> | 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 | 522 | 613 | 675 | 1,858 |
| Embedded derivative instruments | - | 7,305 | 12 | - |
| | 522 | 7,918 | 3,050 | 10,812 |

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41. 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> | 2013 | 2012 |
|---|------------------|------------------|
| Profit(loss) for the period before income tax(benefit) | 2,994,942 | (576,877) |
| Adjustments | | |
| Defined benefits | 120,359 | 103,145 |
| Interest expenses | 243,042 | 288,531 |
| Interest income | (63,573) | (77,411) |
| Depreciation | 2,141,541 | 2,101,848 |
| Depreciation of investment properties | 1,279 | 1,280 |
| Amortization | 152,311 | 144,132 |
| Loss on redemption of debenture | - | 10,470 |
| Loss on foreign currency translation | 11,182 | 23,505 |
| Loss on derivative instruments | 94,803 | 15,158 |
| Dividends income | (17,414) | (18,019) |
| Gain on foreign currency translation | (55,844) | (202,121) |
| Others | 11,618 | 10,887 |
| Changes in operating assets and liabilities | | |
| Increase in trade receivables | (186,126) | (220,007) |
| Decrease(Increase) in inventories | 278,895 | (270,594) |
| Decrease(Increase) in other receivables | (50,050) | 88,318 |
| Decrease in trade payables | (64,290) | (85,472) |
| Increase(Decrease) in other payables | 16,056 | (58,268) |
| Decrease in provision | (131,770) | (89,046) |
| Payment of defined benefit liability | (45,070) | (67,111) |
| Increase in other non-trade payables | 267,028 | 18,688 |
| Others | (189,089) | (54,554) |
| Cash Generated from operations | 5,529,830 | 1,086,482 |

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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 | 462,281 | 285 |
| 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 agreement | - | 216,682 |

42. Events After the Reporting Period

The Company entered into a comprehensive share exchange and transfer agreement to acquire Silicon File Technologies Inc. on January 28, 2014. The Company 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 Company.

Report on Review of Internal Accounting Control System

To the President of
SK hynix Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of SK hynix Inc. (the "Company") as of December 31, 2013. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2013, the Company's IACS has been designed and is operating effectively as of December 31, 2013, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2013, and we did not review management's assessment of its IACS subsequent to December 31, 2013. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
February 25, 2014

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
SK hynix Inc.

I, as the Internal Accounting Control Officer (“IACO”) of SK hynix Inc. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2013.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS standards.

January 17, 2014

Myung yung Lee, Internal Accounting Control Officer

Oh Chul Kwon, Chief Executive Officer