

SK hynix Inc. and Subsidiaries

Interim Consolidated Financial Statements

June 30, 2013 and 2012

SK hynix Inc. and Subsidiaries
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June 30, 2013 and 2012

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Report on Review of Interim Financial Statements

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

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of SK hynix Inc. and its subsidiaries. These financial statements consist of consolidated statement of financial position of SK hynix Inc. and its subsidiaries (collectively the Group) as of June 30, 2013, and the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, and statements of changes in equity and cash flows for the six-month periods ended June 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 34, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 34, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and expressed an unqualified opinion on those financial statements in our audit report dated February 20, 2013. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2012, presented herein for comparative purposes, is consistent, in all material respects, with the above audited consolidated statement of financial position as of December 31, 2012.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review 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 review standards and their application in practice.

Seoul, Korea
August 7, 2013

This report is effective as of August 7, 2013, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Financial Position
June 30, 2013 and December 31, 2012

<i>(in millions of Korean won)</i>	Notes	June 30, 2013		December 31, 2012	
Assets					
Current assets					
Cash and cash equivalents	4, 6	₩	504,748	₩	658,387
Short-term financial instruments	4, 6, 9		1,929,923		1,126,229
Trade receivables	6, 10		2,439,582		1,719,521
Loans and other receivables	4, 6, 10		137,045		125,055
Inventories	11		1,441,596		1,509,331
Assets classified as held for sale	18		28,932		26,958
Current tax assets			4,834		12,719
Other financial assets	4, 6		9,850		-
Other current assets	12		147,349		135,373
			<u>6,643,859</u>		<u>5,313,573</u>
Non-current assets					
Investments in jointly controlled entity and associate	14		103,547		104,100
Available-for-sale financial assets	4, 6, 13		53,970		44,297
Property, plant and equipment	15		11,899,593		11,586,192
Intangible assets	17		1,051,617		983,630
Investment property	16		29,249		29,888
Loans and other receivables	4, 6, 10		43,295		19,127
Other financial assets	4, 6, 9, 33		2,090		525
Deferred income tax assets			302,011		378,366
Other non-current assets	12		146,164		188,995
			<u>13,631,536</u>		<u>13,335,120</u>
Total assets		₩	<u>20,275,395</u>	₩	<u>18,648,693</u>
Liabilities					
Current liabilities					
Trade payables	6	₩	672,755	₩	592,738
Other payables	4, 6		688,827		381,260
Other non-trade payables	4, 6, 19		480,931		361,076
Provisions	21		42,582		330,615
Other financial liabilities	4, 6, 22, 33		9,343		17,020
Borrowings	4, 6, 8, 20		2,001,239		2,719,197
Other current liabilities	23		50,008		25,906
Current tax liabilities			10,541		13,368
			<u>3,956,226</u>		<u>4,441,180</u>
Non-current liabilities					
Borrowings	4, 6, 20		4,251,727		3,752,779
Other non-trade payables	4, 6, 19		205,652		97,533
Defined benefit liabilities	24		619,313		575,096
Other financial liabilities	4, 6, 22, 33		41,897		1,615
Other non-current liabilities	23		42,890		41,048
			<u>5,161,479</u>		<u>4,468,071</u>
Total liabilities			<u>9,117,705</u>		<u>8,909,251</u>
Equity attributable to owners of the Parent Company					
Capital stock	25		3,491,225		3,488,419
Capital surplus	25		3,066,076		3,053,874
Accumulated other comprehensive income			162,184	-	115,402
Retained earnings			4,438,631		3,313,265
			<u>11,158,116</u>		<u>9,740,156</u>
Non-controlling interest			<u>-426</u>	<u>-</u>	<u>714</u>
Total equity			<u>11,157,690</u>		<u>9,739,442</u>
Total liabilities and equity		₩	<u>20,275,395</u>	₩	<u>18,648,693</u>

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2013 and 2012

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2013		2012	
		Three Months	Six Months	Three Months	Six Months
Net sales	5	₩ 3,932,647	₩ 6,713,794	₩ 2,631,953	₩ 5,020,341
Cost of sales	26	<u>(2,450,880)</u>	<u>(4,469,109)</u>	<u>(2,154,411)</u>	<u>(4,332,796)</u>
Gross profit		1,481,767	2,244,685	477,542	687,545
Selling and administrative expenses	26,27	<u>(368,164)</u>	<u>(814,131)</u>	<u>(472,295)</u>	<u>(945,843)</u>
Operating income (loss)		1,113,603	1,430,554	5,247	(258,298)
Financial income	28	156,841	299,834	162,135	284,260
Financial expenses	28	(252,180)	(510,394)	(229,231)	(358,324)
Income from jointly controlled entity and associate	14	4,090	7,703	417	6,959
Other non-operating income		6,208	23,770	25,518	36,604
Other non-operating expenses		<u>(15,760)</u>	<u>(30,449)</u>	<u>(7,961)</u>	<u>(26,104)</u>
Profit (loss) before income tax		1,012,802	1,221,018	(43,875)	(314,903)
Income tax expense	29	<u>66,041</u>	<u>95,545</u>	<u>9,432</u>	<u>9,627</u>
Profit(loss) for the period		<u>₩ 946,761</u>	<u>₩ 1,125,473</u>	<u>₩ (53,307)</u>	<u>₩ (324,530)</u>
Other comprehensive income (loss) after tax					
Line items will not be reclassified to profit or loss					
Actuarial loss on defined benefit liabilities	24	<u>(19)</u>	<u>(35)</u>	<u>(9)</u>	<u>(13)</u>
Line items will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale financial assets	13	183	6,758	(2,480)	3,410
Currency translation differences		149,366	264,268	13,310	(25,418)
Other comprehensive income from jointly controlled entity and associate	14	<u>3,095</u>	<u>6,776</u>	<u>1,619</u>	<u>2,663</u>
Total comprehensive income (loss) for the period		<u>₩ 1,099,386</u>	<u>₩ 1,403,240</u>	<u>₩ (40,867)</u>	<u>₩ (343,888)</u>
Income(loss) for the period attributable to:					
Equity holders of the Parent Company		₩ 946,807	₩ 1,125,401	₩ (53,158)	₩ (324,278)
Non-controlling interest		(46)	72	(149)	(252)
Total comprehensive income (loss) for the period attributable to:					
Equity holders of the Parent Company		₩ 1,099,329	₩ 1,402,952	₩ (40,759)	₩ (343,627)
Non-controlling interest		57	288	(108)	(261)
Earning (loss) per share attributable to the equity holders of the Parent Company for the period	30				
Basic earnings (loss) per share		₩ 1,363	₩ 1,620	₩ (77)	₩ (484)
Diluted earnings (loss) per share		1,342	1,606	(102)	(484)

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Six-Month Periods Ended June 30, 2013 and 2012

	Notes	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Capital stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Retained Earnings	Total			
<i>(in millions of Korean won)</i>										
Balance at January 1, 2012		₩ 2,978,498	₩ 1,229,052	₩ 107,107	₩ 5,762	₩ 3,555,323	₩ 7,875,742	₩ (471)	₩ 7,875,271	
Comprehensive income										
Loss for the period		-	-	-	-	(324,278)	(324,278)	(252)	(324,530)	
Gain on the valuation of available-for-sale financial assets	13	-	-	3,410	-	-	3,410	-	3,410	
Currency translation differences		-	-	(25,417)	-	-	(25,417)	(1)	(25,418)	
Other comprehensive income from jointly controlled entity and associate	14	-	-	2,663	-	-	2,663	-	2,663	
Actuarial loss on defined benefit liabilities	24	-	-	-	-	(5)	(5)	(8)	(13)	
Total comprehensive loss		-	-	(19,344)	-	(324,283)	(343,627)	(261)	(343,888)	
Transactions with equity holders of the Parent Company										
Issuance of common stock	25	509,250	1,816,726	-	-	-	2,325,976	-	2,325,976	
Exercise of conversion rights	25	36	147	-	-	-	183	-	183	
Exercise of stock options	25	468	3,322	-	(1,661)	-	2,129	-	2,129	
Others		-	1	-	-	(70)	(69)	-	(69)	
Total transactions with equity holders of the Parent Company		509,754	1,820,196	-	(1,661)	(70)	2,328,219	-	2,328,219	
Balance at June 30, 2012		₩ 3,488,252	₩ 3,049,248	₩ 87,763	₩ 4,101	₩ 3,230,970	₩ 9,860,334	₩ (732)	₩ 9,859,602	
Balance at January 1, 2013		₩ 3,488,419	₩ 3,053,874	₩ (115,402)	₩ -	₩ 3,313,265	₩ 9,740,156	₩ (714)	₩ 9,739,442	
Comprehensive income										
Profit for the period		-	-	-	-	1,125,401	1,125,401	72	1,125,473	
Gain on the valuation of available-for-sale financial assets	13	-	-	6,758	-	-	6,758	-	6,758	
Currency translation differences		-	-	264,052	-	-	264,052	216	264,268	
Other comprehensive income from jointly controlled entity and associate	14	-	-	6,776	-	-	6,776	-	6,776	
Actuarial loss on defined benefit liabilities	24	-	-	-	-	(35)	(35)	-	(35)	
Total comprehensive income		-	-	277,586	-	1,125,366	1,402,952	288	1,403,240	
Transactions with equity holders of the Parent Company										
Exercise of conversion rights	25	2,806	12,202	-	-	-	15,008	-	15,008	
Total transactions with equity holders of the Parent Company		2,806	12,202	-	-	-	15,008	-	15,008	
Balance at June 30, 2013		₩ 3,491,225	₩ 3,066,076	₩ 162,184	₩ -	₩ 4,438,631	₩ 11,158,116	₩ (426)	₩ 11,157,690	

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended June 30, 2013 and 2012

<i>(in millions of Korean won)</i>	Notes	2013	2012
Cash flows from operating activities			
Cash generated from operations	34	₩ 2,539,572	₩ 1,330,973
Interest received		27,068	44,769
Interest paid		(103,102)	(145,930)
Dividends received		16,450	12,098
Income tax paid		(11,119)	(12,139)
Net cash generated from operating activities		<u>2,468,869</u>	<u>1,229,771</u>
Cash flows from investing activities			
Decrease in short-term financial assets		1,170,233	1,001,358
Increase in short-term financial assets		(1,971,078)	(1,704,045)
Decrease in loans and other receivables		400	4,536
Increase in loans and other receivables		(2,552)	(5,582)
Proceeds from derivatives		473	1,450
Payments from derivatives		(5,653)	(38,708)
Proceeds from disposal of available-for-sale financial assets		331	9,318
Acquisition of available-for-sale financial assets		(1,091)	(424)
Proceeds from disposal of property, plant and equipment		10,954	25,919
Acquisition of property, plant and equipment		(1,265,973)	(1,919,626)
Proceeds from disposal of Intangible assets		200	4
Acquisition of intangible assets		(129,958)	(66,404)
Increase in other financial assets		(29,670)	-
Proceeds from disposal of other financial assets		19,845	-
Proceeds from disposal of assets classified as held for sale		-	23
Acquisition of investments in subsidiaries		-	3,019
Net cash used in investing activities		<u>(2,203,539)</u>	<u>(2,689,162)</u>
Cash flows from financing activities			
Proceeds from borrowings		2,032,139	3,492,459
Repayments of borrowings		(2,460,160)	(3,884,189)
Proceeds from issuance of common stock	25	-	2,328,102
Net cash provided by (used in) financing activities		<u>(428,021)</u>	<u>1,936,372</u>
Effect of foreign exchange rates on cash and cash equivalents		<u>9,052</u>	<u>(1,350)</u>
Net increase (decrease) in cash and cash equivalents		<u>(153,639)</u>	<u>475,631</u>
Cash and cash equivalents at the beginning of period		<u>658,387</u>	<u>1,243,788</u>
Cash and cash equivalents at the end of period		<u>₩ 504,748</u>	<u>₩ 1,719,419</u>

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

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
June 30, 2013 and 2012, and December 31, 2012

1. General Information

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

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

As of June 30, 2013, the shareholders of the Parent Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	21.03
Share Management Council ¹	22,312,623	3.21
Other investors ²	526,304,360	75.76
	694,716,983	100.00

¹ As of June 30, 2013, the number of shares held by each member of the Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	10,092,500	1.45
Korea Finance Corporation	5,499,705	0.79
Shinhan Bank	5,071,500	0.73
Other financial institutions	1,648,918	0.24
	22,312,623	3.21

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on the shares following SK Telecom Co., Ltd.’s decision in designating officers of the Parent Company or other matters unless these conflict 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 June 30, 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. In the agreement, if the Share Management Council held more than 10 million shares as of March 31, 2013, the exercise period of this right would be automatically renewed until its shareholding drops below 10 million shares. And as of March 31, 2013, the shareholding of the Share Management Council was more than 10 million shares, and accordingly, SK Telecom Co., Ltd.’s purchase offering right was automatically renewed.

² National Pension Service and individual investors.

SK hynix Inc. and Subsidiaries
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As of June 30, 2013, the Group's consolidated subsidiaries are as follows:

Names of subsidiaries	Number of Shares	Ownership (%)	Locations	Remarks
SK Hyeng Co., Ltd.	674,327	100	Korea	Domestic subsidiary
SK Hystec Co., Ltd.	277,203	100	Korea	Domestic subsidiary
Ami Power Co., Ltd.	526,721	100	Korea	Domestic subsidiary
SK hynix America Inc.(SKHYA)	6,285,587	97.7	U.S.A.	Overseas sales entity
Hynix Semiconductor Manufacturing America Inc.(HSMA)	200,000,100	100	U.S.A.	Discontinued entity
SK hynix Deutschland GmbH(SKHYD)	Certificate	100	Germany	Overseas sales entity
SK hynix Europe Holding Ltd.(SKHYE)	335,640,000	100	U.K.	Holding company
SK hynix U.K. Ltd.(SKHYU)	186,240,200	100	U.K.	Overseas sales entity
SK hynix Asia Pte. Ltd.(SKHYS)	196,303,500	100	Singapore	Overseas sales entity
SK hynix Semiconductor India Pvt. Ltd.(SKHYIS)	27,000	100	India	Overseas sales entity
SK hynix Semiconductor HongKong Ltd.(SKHYH)	170,693,661	100	HongKong	Overseas sales entity
SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS)	Certificate	100	China	Overseas sales entity
SK hynix Japan Inc.(SKHYJ)	20,000	100	Japan	Overseas sales entity
SK hynix Semiconductor Taiwan Inc.(SKHYT)	35,725,000	100	Taiwan	Overseas sales entity
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Certificate	100	China	Manufacturing entity
SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC)	Certificate	100	China	Manufacturing entity
SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW)	Certificate	100	China	Overseas sales entity
SK hynix Italy S.r.l.(SKHYIT)	Certificate	100	Italy	Overseas R&D center
SK hynix memory solutions Inc.(SKHMS, formerly, LAMD)	100	100	U.S.A.	Overseas R&D center

Major subsidiaries' summarized statements of financial position as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2013			December 31, 2012		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	1,095,672	1,052,766	42,906	867,351	836,418	30,933
SK hynix Asia Pte.Ltd.(SKHYS)	232,587	160,404	72,183	146,471	80,538	65,933
SK hynix Semiconductor HongKong Ltd.(SKHYH)	425,805	369,550	56,255	326,673	275,851	50,822
SK hynix Japan Inc.(SKHYJ)	282,759	223,227	59,532	194,730	141,766	52,964
SK hynix Semiconductor Taiwan Inc.(SKHYT)	481,219	444,770	36,449	276,666	238,930	37,736
SK hynix Semiconductor (China)Ltd.(SKHYCL)	3,703,356	957,298	2,746,058	3,234,346	848,071	2,386,275
SK hynix Deutschland GmbH(SKHYD)	141,830	106,473	35,357	82,039	50,918	31,121
SK hynix U.K. Ltd.(SKHYU)	70,169	58,038	12,131	81,677	71,264	10,413

Major subsidiaries' summarized statements of comprehensive income for the six-month periods ended June 30, 2013 and 2012, are as follows:

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
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<i>(in millions of Korean won)</i>	2013		
	Sales	Profit (loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	2,377,927	9,311	9,311
SK hynix Asia Pte.Ltd.(SKHYS)	547,288	1,354	1,354
SK hynix Semiconductor HongKong Ltd.(SKHYH)	1,427,593	1,687	1,687
SK hynix Japan Inc.(SKHYJ)	362,306	9,887	9,887
SK hynix Semiconductor Taiwan Inc.(SKHYT)	977,846	(2,668)	(2,668)
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,092,719	143,289	143,289
SK hynix Deutschland GmbH(SKHYD)	286,596	2,354	2,354
SK hynix U.K. Ltd.(SKHYU)	242,959	916	916

<i>(in millions of Korean won)</i>	2012		
	Sales	Profit (loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	1,803,511	(7,456)	(7,456)
SK hynix Asia Pte.Ltd.(SKHYS)	365,838	578	578
SK hynix Semiconductor HongKong Ltd.(SKHYH)	861,804	(815)	(815)
SK hynix Japan Inc.(SKHYJ)	390,784	(1,288)	(1,288)
SK hynix Semiconductor Taiwan Inc.(SKHYT)	809,549	2,263	2,263
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,212,095	81,479	81,479
SK hynix Deutschland GmbH(SKHYD)	243,156	1,934	1,934
SK hynix U.K. Ltd.(SKHYU)	198,212	2,226	2,226

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
June 30, 2013 and 2012, and December 31, 2012

2. Significant Accounting Policies

2.1 Basis of Preparation

The interim consolidated financial statements for the six-month period ended June 30, 2013, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective or issued and early adopted at the end of reporting period as of June 30, 2013. The accompanying interim consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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

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

According to the amendment to Korean IFRS 1001, *Presentation of Financial Statements*, the amendment requires the entities to group items presented in other comprehensive income based on whether they are potentially reclassified to profit or loss subsequently. The Group applies the amendment retroactively. There is no material impact on its total comprehensive income due to the retrospective application of changes in these accounting policies.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities/assets and the amendment does not have a material impact to the Group.

- Korean IFRS 1110, *Consolidated Financial Statements*

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

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, reflects the essence 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 did not have a material impact on its interim consolidated financial statements.

SK hynix Inc. and Subsidiaries
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- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

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

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

Korean IFRS 1113, *Fair Value Measurement*, provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements. This enactment prospectively applied for annual periods beginning on or after January 1, 2013, and the enactment does not have a material impact on its financial statements.

2.2 Accounting Policy

The principal accounting policies applied in the preparation of these interim consolidated financial statements are consistent with the policies applied in the preparation of prior year consolidated financial statements, except for the changes due to the application of amendments and enactments of standards described in Note 2.1 and the one described below.

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of these interim consolidated financial statements are consistent with the estimates and assumptions applied in the preparation of prior year consolidated financial statements except for the estimates in determining income tax expense for the interim period.

4. Fair Value

There are no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities for the six-month period ended June 30, 2013.

4.1 Fair Value of Financial Instruments

The following table presents the Group's book and fair values of financial instruments by categories as of June 30, 2013 and December 31, 2012:

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<i>(in millions of Korean won)</i>	June 30, 2013		December 31, 2012	
	Book value	Fair value	Book value	Fair value
Financial assets¹				
Cash and cash equivalents	504,748	504,748	658,387	658,387
Short-term financial instruments	1,929,923	1,929,923	1,126,229	1,126,229
Loans and other receivable	180,340	180,340	144,182	144,182
Other financial assets	11,940	11,940	525	525
Available-for-sale financial assets ²	41,640	41,640	32,932	32,932
Total	2,668,591	2,668,591	1,962,255	1,962,255
Financial liabilities¹				
Other payables	688,827	688,827	381,260	381,260
Other non-trade payables	686,583	686,583	458,609	458,609
Borrowings	6,252,966	6,461,524	6,471,976	6,563,692
Other financial liabilities	51,240	51,240	18,635	18,635
Total	7,679,616	7,888,174	7,330,480	7,422,196

¹ Disclosures of fair value are not required when the carrying amount of short-term trade receivables and payables were reasonable approximations of fair value.

² Disclosures of fair value are not required when an investment in equity instruments that does not have a quoted price in an active market that is measured at cost in accordance with IAS 39 because its fair value cannot otherwise be measured reliably.

4.2 Financial Instruments Measured at Cost

The following table presents available-for-sale financial assets that are valued at historical cost as of June 30, 2013 and December 31, 2012:

<i>(in millions of Korean won)</i>	June 30, 2013	December 31, 2012
JNT Frontier Private Equity Unit	1,307	1,400
SV M&A No.1 Equity Unit	1,196	1,196
Seoul Investment Initial & Green	1,867	1,900
TS 2011-4 Technology Transfer & Business Buildup Fund	800	800
IMM investment	786	499
L&S Investment	565	565
Daishin Aju IB Investment Co., Ltd.	1,304	500
Intellectual Discovery, Ltd.	4,000	4,000
Equity investment in a construction guarantee association	396	396
Others	109	109
	12,330	11,365

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

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4.3 Fair Value Hierarchy

Financial instruments measured at fair value or for which the fair value are 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).

The following table presents the Group's assets and liabilities that are measured at fair value as of June 30, 2013 and December 31, 2012:

<i>(in millions of Korean won)</i>	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	300	-	300
Available-for-sale financial assets				
Equity securities (at fair value)	41,640	-	-	41,640
	41,640	300	-	41,940
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	51,240	-	51,240
	-	51,240	-	51,240
	December 31, 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	-	18,635	-	18,635
	-	18,635	-	18,635

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4.4 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>
Derivative assets :			
Interest rates swap	300	2	Present value technique
Derivative liabilities :			
Foreign currency forward contract	6,592	2	Present value technique
Interest rates swap	3,776	2	Present value technique
Conversion option	40,872	2	Option pricing model

5. Segment Information

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

The segment information for revenue and operating profit(loss) for the three-month and six-month periods ended June 30, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	2013					
	Three months			Six months		
	<u>Semiconductor</u>	<u>Other</u>	<u>Total</u>	<u>Semiconductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	3,921,194	66,650	3,987,844	6,692,149	139,453	6,831,602
Inter-segment revenue	-	(55,197)	(55,197)	-	(117,808)	(117,808)
Revenue from external customers	3,921,194	11,453	3,932,647	6,692,149	21,645	6,713,794
Operating Profit	1,111,574	2,029	1,113,603	1,423,972	6,582	1,430,554
<i>(in millions of Korean won)</i>	2012					
	Three months			Six months		
	<u>Semiconductor</u>	<u>Other</u>	<u>Total</u>	<u>Semiconductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	2,621,484	64,519	2,686,003	4,999,605	140,289	5,139,894
Inter-segment revenue	-	(54,050)	(54,050)	-	(119,553)	(119,553)
Revenue from external customers	2,621,484	10,469	2,631,953	4,999,605	20,736	5,020,341
Operating Profit(Loss)	5,498	(251)	5,247	(259,319)	1,021	(258,298)

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the six-month period ended June 30, 2013, the share of each type of products among the total revenue is approximately 72% and 24% (2012: 73% and 24%), respectively.

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The Group's revenue information by geographical segments (location of selling entity) for the three-month and six-month periods ended June 30, 2013 and 2012, follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Six months	Three months	Six months
Domestic	243,547	475,888	188,847	356,725
China	929,815	1,440,436	497,932	865,725
Asia	1,130,689	1,882,132	854,831	1,562,818
United States	1,349,695	2,390,830	881,670	1,796,723
Europe	278,901	524,508	208,673	438,350
	3,932,647	6,713,794	2,631,953	5,020,341

The Group's non-current assets (excluding financial assets, investments in jointly controlled entity and associate and deferred income tax assets) information by geographical segments as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2013	December 31, 2012
Domestic	9,807,120	9,853,629
China	3,001,244	2,638,507
Asia	1,399	1,614
United States	315,040	293,181
Europe	1,820	1,774
	13,126,623	12,788,705

Details of the Group's revenue for the three-month and six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Six months	Three months	Six months
Sales of goods	3,914,628	6,681,577	2,624,674	5,004,270
Sales of services	18,019	32,217	7,279	14,494
Royalty income	-	-	-	1,577
	3,932,647	6,713,794	2,631,953	5,020,341

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6. Financial Instruments by Categories

Details of financial assets by category as of June 30, 2013, and December 31, 2012, are as follows:

	June 30, 2013				
<i>(in millions of Korean won)</i>	Assets at fair value through the profit and loss	Available-for- sale financial assets	Held-to- maturity financial assets	Loans and receivables	Total
Cash and cash equivalents	-	-	-	504,748	504,748
Short-term financial instruments	-	-	-	1,929,923	1,929,923
Trade receivables	-	-	-	2,439,582	2,439,582
Other receivables	-	-	-	180,340	180,340
Other financial assets	300	-	9,850	1,790	11,940
Available-for-sale financial assets	-	53,970	-	-	53,970
	300	53,970	9,850	5,056,383	5,120,503

	December 31, 2012				
<i>(in millions of Korean won)</i>	Assets at fair value through the profit and loss	Available-for- sale financial assets	Held-to- maturity financial assets	Loans and receivables	Total
Cash and cash equivalents	-	-	-	658,387	658,387
Short-term financial instruments	-	-	-	1,126,229	1,126,229
Trade receivables	-	-	-	1,719,521	1,719,521
Other receivables	-	-	-	144,182	144,182
Other financial assets	198	-	-	327	525
Available-for-sale financial assets	-	44,297	-	-	44,297
	198	44,297	-	3,648,646	3,693,141

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Details of financial liabilities by category as of June 30, 2013 and December 31, 2012, are as follows:

June 30, 2013				
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
Trade payables	-	672,755	-	672,755
Other payables	-	688,827	-	688,827
Other non-trade payables	-	686,583	-	686,583
Borrowings	-	6,252,966	-	6,252,966
Other financial liabilities	51,240	-	-	51,240
	51,240	8,301,131	-	8,352,371
December 31, 2012				
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
Trade payables	-	592,738	-	592,738
Other payables	-	381,260	-	381,260
Other non-trade payables	-	458,609	-	458,609
Borrowings	-	6,130,542	341,434	6,471,976
Other financial liabilities	18,635	-	-	18,635
	18,635	7,563,149	341,434	7,923,218

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7. Credit Risk of Financial Instruments

The aging analyses of trade receivables and loans and other receivables as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2013					Total
	Not Past due	Overdue			Impaired	
		Less than 3 months	Over 3 months and less than 6 months	Over 6 months		
Trade receivables	2,440,181	1,243	103	123	1,107	2,442,757
Current loans and other receivables	137,127	-	-	-	4,715	141,842
Non-current loans and other receivables	43,614	-	-	-	12,860	56,474
	2,620,922	1,243	103	123	18,682	2,641,073

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

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

The Group has an export sales insurance contract with Korea Trade Insurance Corporation and holds the counterparty's collateral as security.

As of June 30, 2013, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 28 million (December 31, 2012: ₩ 31 million) which will be paid upon request of the warrantee as mentioned in Note 32.

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8. Derecognition of Financial Assets

The Group has entered into trade receivables discounting agreements with several financial institutions. There is no outstanding trade receivables discounted but not yet matured as of June 30, 2013. Outstanding trade receivables discounted but not yet matured amounted to ₩ 341,434 million as of December 31, 2012. The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

9. Restricted Financial Instruments

As of June 30, 2013, short-term financial instruments amounted to ₩ 77,591 million (December 31, 2012: ₩ 76,223 million) and other financial assets amounted to ₩ 326 million (December 31, 2012: ₩ 326 million) are pledged as collaterals for certain borrowings, supporting small business and other purposes.

10. Trade and Other Receivables

Details of current and non-current loans and other receivables as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current		
Other receivables	124,239	111,986
Accrued income	7,594	8,569
Short-term loans	2,623	1,823
Short-term guarantee deposits	291	320
Deposits	2,298	2,357
	<u>137,045</u>	<u>125,055</u>
Non-current		
Long-term other receivables	23,115	80
Long-term loans	6,824	6,630
Guarantee deposits	12,465	11,540
Other Long-term deposits	891	877
	<u>43,295</u>	<u>19,127</u>
	<u>180,340</u>	<u>144,182</u>

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Trade receivables and loans and other receivables, net of provision for impairment, as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Trade receivables	2,442,757	1,722,778
Less : provision for impairment	<u>(3,175)</u>	<u>(3,257)</u>
Trade receivables - net	<u>2,439,582</u>	<u>1,719,521</u>
Current loans and other receivables	141,842	130,090
Less : provision for impairment	<u>(4,797)</u>	<u>(5,035)</u>
Current loans and other receivables - net	<u>137,045</u>	<u>125,055</u>
Non-current loans and other receivables	56,474	31,966
Less : provision for impairment	<u>(13,179)</u>	<u>(12,839)</u>
Non-current loans and other receivables - net	<u>43,295</u>	<u>19,127</u>
	<u>2,619,922</u>	<u>1,863,703</u>

Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	3,257	3,855
Provision for receivables impairment	-	162
Unused amounts reversed	(105)	(27)
Effect of foreign exchange rates	<u>23</u>	<u>(37)</u>
At June 30	<u>3,175</u>	<u>3,953</u>

Movements in the provision for impairment of current loans and other receivables for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	5,035	4,925
Provision for receivables impairment	-	249
Unused amounts reversed	(238)	-
Effect of foreign exchange rates	<u>-</u>	<u>(34)</u>
At June 30	<u>4,797</u>	<u>5,140</u>

Movements in the provision for impairment of non-current loans and other receivables for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	12,839	12,984
Provision for receivables impairment	245	11
Unused amounts reversed	-	(234)
Effect of foreign exchange rates	<u>95</u>	<u>126</u>
At June 30	<u>13,179</u>	<u>12,887</u>

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11. Inventories

Details of inventories as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Finished goods	636,165	645,889
Less : valuation allowance	<u>(68,740)</u>	<u>(82,638)</u>
Finished goods - net	567,425	563,251
Work in progress	675,448	721,707
Less : valuation allowance	<u>(24,190)</u>	<u>(38,355)</u>
Work in progress - net	651,258	683,352
Raw materials	127,109	179,689
Less : valuation allowance	<u>(1,824)</u>	<u>(3,704)</u>
Raw materials - net	125,285	175,985
Supplies	46,483	42,227
Less : valuation allowance	<u>(70)</u>	<u>(61)</u>
Supplies - net	46,413	42,166
Goods in transit	51,215	44,709
Less : valuation allowance	<u>-</u>	<u>(132)</u>
Goods in transit - net	51,215	44,577
	<u>1,441,596</u>	<u>1,509,331</u>

12. Other Current and Non-current Assets

Details of other current and non-current assets as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current Assets		
Advance payments	5,505	4,255
Prepaid expenses	136,760	123,197
Others	<u>5,084</u>	<u>7,921</u>
	147,349	135,373
Non-current Assets		
Long-term advance payments	44	62
Long-term prepaid expenses	127,082	167,356
Others	<u>19,038</u>	<u>21,577</u>
	146,164	188,995
	<u>293,513</u>	<u>324,368</u>

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13. Available-for-sale Financial Assets

Changes in the book value of available-for-sale financial assets for the six-month periods ended June, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	44,297	47,492
Acquisition	1,091	424
Disposal	(126)	(3,443)
Other comprehensive income transferred to equity ¹	8,708	5,408
At June 30	<u>53,970</u>	<u>49,881</u>

¹ Net of income tax effect of ₩ 1,950 million (2012: ₩ 1,998 million).

14. Investments in Jointly Controlled Entity and Associate

Details of investments in jointly controlled entity and associate as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>		<u>June 30, 2013</u>				<u>December 31, 2012</u>	
Type	Investee	Number of Stock	Owner-ship (%)	Acquisition cost	Net asset value	Book value	Book value
Associate	Siliconfile Technologies Inc. ¹	2,358,832	27.93	22,835	8,962	9,928	8,909
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH)	Certificate	45.00	90,149	93,619	93,619	95,191
				<u>112,984</u>	<u>102,581</u>	<u>103,547</u>	<u>104,100</u>

¹ As of June 30, 2013, the fair value on the active market amounts to ₩ 16,677 million (December 31, 2012: ₩ 16,677 million).

Changes in investments in jointly controlled entity and associate for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		
	<u>Siliconfile Technologies Inc.</u>	<u>HITECH</u>	<u>Total</u>
At January 1	8,909	95,191	104,100
Dividend	-	(15,032)	(15,032)
Share of profit	1,124	6,579	7,703
Other ¹	(105)	6,881	6,776
At June 30	<u>9,928</u>	<u>93,619</u>	<u>103,547</u>

¹ Share of other comprehensive income of jointly controlled entity and associate.

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	2012		
	Siliconfile Technologies Inc.	HITECH	Total
<i>(in millions of Korean won)</i>			
At January 1	8,138	95,475	103,613
Dividend	-	(11,883)	(11,883)
Share of profit	378	6,581	6,959
Other ¹	(75)	2,738	2,663
At June 30	8,441	92,911	101,352

¹ Share of other comprehensive income of the jointly controlled entity and associate.

The summary of the investees' assets and liabilities as of June 30, 2013 and December 31, 2012, is as follows:

		June 30, 2013			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non- Current Assets	Current liabilities	Non- current liabilities
Siliconfile Technologies Inc.	Korea	41,731	19,063	25,677	3,028
HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	China	209,430	405,825	168,885	238,328
		251,161	424,888	194,562	241,356

		December 31, 2012			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non- Current Assets	Current liabilities	Non- current liabilities
Siliconfile Technologies Inc.	Korea	49,481	12,933	31,567	2,407
HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	China	256,127	458,845	294,459	208,977
		305,608	471,778	326,026	211,384

The summary of sales and net income of the investees for the six-month periods ended June 30, 2013 and 2012, is as follows:

	2013		2012	
	Sales	Net Income	Sales	Net Income
<i>(in millions of Korean won)</i>				
Siliconfile Technologies Inc.	63,550	4,027	44,917	1,353
HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	303,747	14,621	291,532	14,624
	367,297	18,648	336,449	15,977

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15. Property, Plant and Equipment

Details of changes in property, plant and equipment for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	11,586,192	10,899,308
Acquisition	1,537,507	2,702,491
Disposal	(9,099)	(25,212)
Depreciation charge	(1,453,684)	(1,550,331)
Foreign exchange differences and others	238,677	(17,275)
At June 30	<u>11,899,593</u>	<u>12,008,981</u>

Certain property, plant and equipment are pledged as collateral for certain borrowings of the Group as of June 30, 2013 (Note 32).

Finance lease

As of June 30, 2013, the Group leases certain buildings, machinery and others from GE Capital under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 312,763 million (December 31, 2012: ₩ 355,365 million) as of June 30, 2013. The plant and equipment are pledged as collateral for the finance lease liabilities.

Operating lease

The Group leases certain machinery and others from GE Capital, Macquarie Capital and iTEST Co., Ltd. under operating lease agreements.

16. Investment Property

Details of changes in investment property for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	29,888	31,168
Acquisition	-	-
Disposal	-	-
Depreciation charge	(639)	(640)
At June 30	<u>29,249</u>	<u>30,528</u>

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17. Intangible Assets

Details of changes in intangible assets for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	983,630	707,648
Acquisition	129,958	66,404
Disposal	(7,024)	(3,954)
Amortization charge	(75,636)	(58,066)
Foreign exchange differences and others	20,689	(4)
At June 30	<u>1,051,617</u>	<u>712,028</u>

Among costs associated with development activities, ₩ 99,648 million (2012: ₩ 55,081 million), that was directly attributable and met capitalization criteria, was capitalized as development cost for the six-month period ended June 30, 2013. However, research and other development expenditures that did not meet the criteria amounted to ₩ 351,827 million (2012: ₩ 520,491 million) were recognized as an expense as incurred in the statement of comprehensive income for the six-month period ended June 30, 2013.

18. Assets classified as held for sale

Details of changes in assets classified as held for sale for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	26,958	29,033
Disposal	(4)	(5)
Other	1,978	12
At June 30	<u>28,932</u>	<u>29,040</u>

19. Other Non-trade Payables

Details of other non-trade payables as of June 30, 2013, and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current		
Accrued expenses	480,931	361,076
Non-current		
Long-term other payables	187,647	75,492
Rent deposit payables	15,993	18,510
Long-term accrued expenses	2,012	3,531
	<u>205,652</u>	<u>97,533</u>
	<u>686,583</u>	<u>458,609</u>

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20. Borrowings

Details of borrowings as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current		
Short-term borrowings	621,186	1,020,609
Current maturities of debentures	299,924	299,697
Current maturities of convertible bonds	491,644	980,316
Current maturities of long-term borrowings	588,485	418,575
	<u>2,001,239</u>	<u>2,719,197</u>
Non-current		
Long-term borrowings	2,259,482	2,301,807
Debentures	1,459,534	1,450,972
Convertible bonds	532,711	-
	<u>4,251,727</u>	<u>3,752,779</u>
	<u>6,252,966</u>	<u>6,471,976</u>

Details of changes in borrowings for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	6,471,976	6,776,465
Borrowings	2,032,139	3,709,141
Repayment	(2,460,160)	(3,884,187)
Conversion of convertible instruments	(15,040)	(187)
Others ¹	224,051	26,914
At June 30	<u>6,252,966</u>	<u>6,628,146</u>

¹ Effects of changes in foreign exchange rates and unwinding of discount.

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21. Provisions

Details of changes in provisions for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013			
	Sales returns	Legal claims	Warranty	Total
At January 1	5,305	322,361	2,949	330,615
Addition	8,438	4,340	-	12,778
Reversal and utilization	-	(173,014)	(1,221)	(174,235)
Other ¹	-	(126,576)	-	(126,576)
At June 30	13,743	27,111	1,728	42,582

<i>(in millions of Korean won)</i>	2012			
	Sales returns	Legal claims	Warranty	Total
At January 1	3,807	349,660	-	353,467
Addition	594	64,727	2,690	68,011
Reversal and utilization	-	(7,971)	-	(7,971)
Other ¹	-	677	-	677
At June 30	4,401	407,093	2,690	414,184

¹ Effects of changes in foreign exchange rates and transfers to/from other accounts.

Provisions for sales returns

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

Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 32).

Provisions for warranty

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

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22. Other Financial Liabilities

Details of other financial liabilities as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current		
Derivative liabilities (Note 33)	9,343	17,020
Non-current		
Derivative liabilities (Note 33)	41,897	1,615
	<u>51,240</u>	<u>18,635</u>

23. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Current		
Unearned income	3,215	1,431
Withholdings	40,510	19,915
Deposits received	465	841
Advance receipts	5,758	3,684
Other	60	35
	<u>50,008</u>	<u>25,906</u>
Non-current		
Long-term withholdings	640	666
Other long-term employee benefit liabilities	42,250	40,335
Other	-	47
	<u>42,890</u>	<u>41,048</u>
	<u>92,898</u>	<u>66,954</u>

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24. Defined Benefit Liabilities

Defined benefit liabilities as of June 30, 2013 and December 31, 2012, are determined as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Present value of obligations	635,818	592,171
Fair value of plan assets ¹	(16,505)	(17,075)
	<u>619,313</u>	<u>575,096</u>

¹ Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 1,878 million (December 31, 2012: ₩ 1,952 million).

The amounts recognized in the statements of comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Three months</u>	<u>Six months</u>	<u>Three months</u>	<u>Six months</u>
Current service cost	24,531	49,059	20,257	40,513
Interest expenses	7,020	14,040	6,788	13,576
Expected return on plan assets	(175)	(349)	(114)	(228)
	<u>31,376</u>	<u>62,750</u>	<u>26,931</u>	<u>53,861</u>

The line items in which severance benefits are included for the three-month and six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Three months</u>	<u>Six months</u>	<u>Three months</u>	<u>Six months</u>
Cost of sales (manufacturing costs)	18,706	37,177	15,713	31,753
Selling and administrative expenses	12,670	25,573	11,218	22,108
	<u>31,376</u>	<u>62,750</u>	<u>26,931</u>	<u>53,861</u>

Changes in the carrying amount of defined benefit obligations for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	592,171	471,290
Current service cost	49,059	40,513
Interest expenses	14,040	13,576
Benefits paid	(19,808)	(46,797)
Transferred from a related party	430	-
Other	(74)	495
At June 30	<u>635,818</u>	<u>479,077</u>

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The movements in the fair value of plan assets for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	17,075	12,591
Expected return on plan assets	349	228
Benefits paid	(884)	(1,246)
Actuarial losses	(35)	(13)
At June 30	16,505	11,560

25. Share Capital and Capital Surplus

Details of share capital and capital surplus as of June 30, 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	698,245	₩ 5,000	₩ 3,491,225 million

¹As of June 30, 2013, the actual number of shares which the shareholders own is 694,717 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	<u>Total owned shares</u>	<u>Paid in Capital</u>	<u>Capital Surplus</u>			<u>Total</u>
		<u>Share capital</u>	<u>Share premium</u>	<u>Conversion right consideration</u>	<u>Other</u>	
At January 1, 2012	592,172	2,978,498	685,177	72,350	471,525	4,207,550
Issuance of common stock	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	7	36	160	(13)	-	183
Exercise of stock options	93	468	3,322	-	-	3,790
others	-	-	-	-	1	1
At June 30, 2012	694,122	3,488,252	2,505,385	72,337	471,526	6,537,500
At January 1, 2013	694,156	3,488,419	2,506,532	72,331	475,011	6,542,293
Exercise of conversion rights	561	2,806	13,230	(1,028)	-	15,008
At June 30, 2013	694,717	3,491,225	2,519,762	71,303	475,011	6,557,301

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 June 30, 2013, is 3,528 thousand shares.

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26. Expenses by Nature

Expenses that are recorded as cost of sales, selling, administration, ordinary development expenses and other operating expenses in the statements of comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Six months	Three months	Six months
Changes in inventories	133,625	27,921	(29,544)	(125,696)
Raw materials and consumables used	620,672	1,184,148	717,722	1,353,069
Employee benefit expenses	481,049	869,905	384,004	814,480
Depreciation and amortization	756,900	1,528,808	772,460	1,609,037
Royalty expense	34,150	72,668	61,381	124,618
Commission expense	117,397	223,212	93,338	183,756
Utilities expense	123,337	280,607	106,115	232,629
Repair expense	260,862	491,135	224,357	430,358
Outsourcing expense	265,120	501,004	250,781	501,828
Other	25,932	103,832	46,092	154,560
	2,819,044	5,283,240	2,626,706	5,278,639

27. Selling and Administration expenses

Selling, administration and ordinary development expenses for the three-month and six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Six months	Three months	Six months
Salaries	78,355	129,179	52,408	110,209
Severance benefits	4,772	9,351	4,178	8,385
Employee benefits	17,827	31,305	14,676	27,399
Commission expense	40,195	72,746	40,126	77,229
Depreciation	12,837	25,662	15,247	28,234
Amortization	30,396	75,152	27,212	57,769
Research and development	117,510	351,827	256,669	520,491
Exporting expense	6,024	11,549	6,356	12,486
Legal cost	2,283	7,183	14,028	20,781
Rental expense	3,732	7,625	3,780	7,352
Taxes and dues	6,335	9,455	2,646	5,142
Other	47,898	83,097	34,969	70,366
	368,164	814,131	472,295	945,843

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28. Financial Income and Expense

Financial income and expenses for the three-month and six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Six months	Three months	Six months
Finance income				
Interest income	13,010	25,538	26,104	48,061
Dividend income	55	1,417	215	216
Foreign exchange differences	142,902	270,794	106,381	227,404
Gain from derivative instruments	756	1,880	29,432	2,704
Gain on disposal of available-for-sale financial assets	118	205	3	5,875
Total Finance income	156,841	299,834	162,135	284,260
Finance expense				
Interest expenses	69,014	136,894	80,887	162,415
Foreign exchange differences	172,068	334,147	133,305	178,437
Loss from derivative instruments	11,098	39,353	4,569	7,002
Loss on redemption of borrowings	-	-	10,470	10,470
Total Finance expense	252,180	510,394	229,231	358,324
Net finance income (expense)	(95,339)	(210,560)	(67,096)	(74,064)

29. Income Tax

Interim period income tax expense was recognized in the interim consolidated statements of comprehensive income based on the best estimate of the weighted average annual tax rate expected for the full financial year. The estimated average annual effective income tax rate is 8% for the year ending December 31, 2013. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences, tax loss carryforwards and others can be utilized. By December 31, 2013, tax loss carryforwards are expected to decrease due to the increase in future taxable profit. This leads to the increase in effective income tax rate compared to the preceding period.

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30. Earnings per Share

Basic earnings(loss) per share is calculated by dividing the profit(loss) attributable to equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the period.

Basic earnings (loss) per ordinary share for the three-month and six-month periods ended June 30, 2013 and 2012, is as follows:

	2013		2012	
	Three months	Six months	Three months	Six months
<i>(in millions of Korean won, except for shares and per share amounts)</i>				
Profit(loss) attributable to ordinary shares	946,807	1,125,401	(53,158)	(324,278)
Weighted average number of ordinary shares outstanding ¹	694,716,983	694,716,983	694,088,523	669,435,650
Basic earnings(loss) per share	1,363	1,620	(77)	(484)

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

	2013		2012	
	Three months	Six months	Three months	Six months
<i>(in shares)</i>				
Beginning balance	694,165,294	694,155,767	694,025,502	592,171,582
Exercise of conversion rights	551,689	561,216	3,428	7,348
Exercise of stock options	-	-	59,593	29,797
Issuance of common stock	-	-	-	77,226,923
Weighted average number of ordinary shares outstanding	694,716,983	694,716,983	694,088,523	669,435,650

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Diluted earnings(loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has convertible bond as dilutive potential ordinary shares. The convertible bond is assumed to have been converted into ordinary shares, and the net profit(loss) is adjusted to eliminate the interest expense less the tax effect.

	2013		2012	
	Three months	Six months	Three months	Six months
<i>(in millions of Korean won, except for shares and per share amounts)</i>				
Profit(loss) attributable to ordinary shares	946,807	1,125,401	(53,158)	(324,278)
Add : Convertible bond related costs	9,810	19,506	(19,520)	-
Adjusted profit attributable to ordinary shares	956,617	1,144,907	(72,678)	(324,278)
Adjusted weighted average number of ordinary shares outstanding ¹	713,038,570	713,038,570	710,571,049	669,435,650
Diluted earnings(loss) per share	1,342	1,606	(102)	(484)

¹ Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

	2013		2012	
	Three months	Six months	Three months	Six months
<i>(in shares)</i>				
Weighted average number of ordinary shares outstanding	694,716,983	694,716,983	694,088,523	669,435,650
Dilutive potential ordinary shares				
Convertible bond	18,321,587	18,321,587	16,482,526	-
Adjusted weighted average number of ordinary shares outstanding	713,038,570	713,038,570	710,571,049	669,435,650

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31. Related Party Transactions

Details of associate and jointly controlled entity as of June 30, 2013, are as follows:

<u>Type</u>	<u>Investee</u>	<u>Locations</u>
Associate	Siliconfile Technologies Inc.	Korea
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	China

Summary of transactions between the Group and related parties for the six-month periods ended June 30, 2013 and 2012, follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
Associate	48,120	733	35,827	422
Jointly controlled entity	33,187	309,517	31,910	311,261
SK Telecom Co., Ltd. ^{1,3}	17	1,469	5	144
Other related parties ^{2,3,4}	10,873	191,066	-	48,617
	92,197	502,785	67,742	360,444

¹ Related party with significant influence over the Group.

² Transactions with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and its subsidiaries, which have control over SK Telecom Co., Ltd., and SK C&C Company Ltd. and its subsidiaries, which are controlled by the same key management personnel of the Group.

³ Transactions that occurred after February 14, 2012, the date of obtaining significant influence over the Group.

⁴ The Group entered into a contract with SK Holdings Co., Ltd., wherein it pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the six-month period ended June 30, 2013, royalty on the SK brand amounted to ₩ 7,738 million.

The balances of transactions as of June 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2013</u>		<u>December 31, 2012</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
Associate	19,631	10	26,299	1
Jointly controlled entity	12,239	207,010	9,515	225,873
SK Telecom Co., Ltd. ¹	-	224	887	287
Other related parties ²	463	107,903	61	23,756
	32,333	315,147	36,762	249,917

¹ Related party with significant influence over the Group.

² Balances with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and its subsidiaries, which have control over SK Telecom Co., Ltd., and SK C&C Company Ltd. and its subsidiaries, which are controlled by the same key management personnel of the Group.

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Key management compensation

Key management includes chief executive officer, executives from subsidiaries, directors, internal auditors and others. The compensation paid to key management for the six-month periods ended June 30, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	Details	2013	2012
Short-term employee benefits	Wages, salaries, bonus and other	12,267	12,529
Post-employment benefits	Retirement payment and other	2,615	1,510
Other long-term benefits	Long-term employment allowance	3	1
		14,885	14,040

32. Commitments and Contingencies

Significant pending litigations and claims of the Group as of June 30, 2013, are as follows:

(a) Litigation filed by Rambus

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

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

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

On July 24, 1997, the Group sold 13 million shares of 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 Group and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Group, in turn, received a similar letter from HSC. Upon CIBC's 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 Group and HSC.

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

In January 2002, the court rendered a ruling that the Group, HSC and the former CEO of HSC jointly and severally pay 70% of the claim amount (₩ 171,822 million) and interest thereon to HHI. The

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Group paid HHI ₩ 123,677 million, which represented the estimated portion of its share of compensation pursuant to the ruling and interest thereon. However, the Group made an appeal to the Seoul High Court on February 15, 2002, and on June 14, 2006, the court rendered a ruling that the Group and HSC should pay approximately 80% of the claim amount (₩ 192,942 million).

With respect to the revised ruling, the Group paid HHI an additional amount of ₩ 1,926 million for the estimated portion of its share of compensation, including interest. The Group further contested this case by making an appeal to the Supreme Court of Korea on June 30, 2006, and in a third ruling, the Supreme Court upheld the second ruling in part for HSC and the former CEO of HSC. The Supreme Court, however, reversed and remanded the second ruling for the Group on the grounds that the Group has the expense reimbursement obligation to HHI. On August 21, 2009, the Seoul High Court rendered a ruling that the Group should pay ₩ 167,219 million and related interest after deducting payments previously made by HSC, recognizing the obligation based on the comfort letter provided by the Group. Subsequently, the Group paid ₩ 86,226 million, in addition to the payments the Group already made to HHI pursuant to the first and second rulings.

HHI, however, made another appeal to the Supreme Court of Korea on September 10, 2009. The Supreme Court of Korea, on February 2, 2012, reversed and remanded the above Seoul High Court ruling to the extent it excluded ₩ 4,284 million and related interest, on the grounds that Seoul High Court erred in deducting the market value of the shares from the compensation.

The Group, in order to minimize the possibility of interest payment on the potential amount of claimed damages, made a conditional/provisional payment of ₩ 7,971 million in principal and interest to HHI while the litigation mentioned above was in progress in Seoul High Court. In July 13, 2012, Seoul High Court rendered a ruling partially in favor of the plaintiff for the same reason as judged in the Supreme Court of Korea ruling. The Group, therefore, on August 2, 2012, made an additional payment of ₩ 944 million to HHI. After considering potential benefits from appealing to a higher court, each of the Group and HHI decided not to appeal. Therefore, this lawsuit has been finalized and concluded.

In addition, HHI initiated a separate lawsuit in December 2004 seeking the Group, HSC and the former CEO of HSC to compensate for the taxes levied on HHI and any related losses incurred by HHI amounting to ₩ 50,303 million in connection with HHI's repurchase of shares. As a result of the litigation described above, the Seoul Central District Court rendered its ruling on October 22, 2009, that the Group, HSC and the former CEO of HSC jointly and severally shall pay the total amount of compensation and related interest. Subsequently, the Group and HSC paid ₩ 73,692 million pursuant to the first ruling.

However, the Group appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Group and HSC should only pay ₩ 48,770 million and related interest. The Group, HSC and HHI appealed to the Supreme Court of Korea on November 25, 2011. As of June 30, 2013, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

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(c) Other litigation and patent-related claims

Apart from the above litigation, the Group is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of June 30, 2013, the Group 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 Group's consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

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

Contract for supply of industrial water

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ("VWID") entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended due to the establishment of additional plants. According to the amended contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

Post- process service contract with HITECH

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

Assets provided as collaterals

Details of assets provided as collaterals¹ as of June 30, 2013, are as follows:

<i>(in millions of Korean won)</i>	<u>Book value</u>	<u>Pledged amount</u>	<u>Remark</u>
Land	37,030		
Buildings	88,851	1,545,970	Borrowings
Machinery	1,662,041		
	<u>1,787,922</u>	<u>1,545,970</u>	

¹ Other than the above assets provided as collaterals, the finance lease assets of the Group are pledged as collaterals for the finance lease liabilities in accordance with finance lease contract (Note 15).

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Financing agreements

Details of credit lines with financial institutions as of June 30, 2013, are as follows:

<i>(in millions of US dollars and in millions of Chinese Renminbi)</i>	Financial Institution	Commitment	Cur.	Amount
		Import finance like usance	USD	830
The Parent Company	Korea Exchange Bank and other	Export finance like bills bought	USD	425
		Comprehensive limit contract about Import & Export	USD	760
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China and other	Import finance like usance	RMB	1,530
			USD	1,062
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and other	Accounts receivable factoring contracts which have no right to recourse	USD	410

Guarantees provided to others

Details of guarantees provided to others as of June 30, 2013, are as follows:

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

Capital commitment

As of June 30, 2013, the Group has ₩ 539,501 million (2012: ₩ 114,610 million) of commitment in relation to the capital expenditures on tangible assets.

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33. Derivative Financial Instruments

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

As of June 30, 2013, the carrying amount of derivative financial assets is ₩ 300 million (December 31, 2012: ₩ 198 million) and the carrying amount of derivative financial liabilities is ₩ 51,240 million (December 31, 2012: ₩ 18,635 million).

Gains and loss relating to the derivative instruments for the six-month period ended June 30, 2013, amounted to ₩ 1,880 million (2012: ₩ 2,704 million) and ₩ 39,353 million (2012: ₩ 7,002 million), respectively.

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34. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the six-month periods ended June 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Profit(loss) for the period before income tax	1,221,018	(314,903)
Adjustments		
Defined benefits	62,750	53,861
Depreciation ¹	1,453,684	1,550,331
Depreciation of investment properties	639	640
Amortization	75,636	58,066
Loss on foreign currency translation	184,342	30,532
Interest expense	136,894	162,415
Gain on foreign currency translation	(72,575)	(34,742)
Interest income	(25,538)	(48,061)
Loss on derivative instruments	37,473	4,298
Income from jointly controlled entities and associates	(7,703)	(6,959)
Others	5,288	8,428
Changes in operating assets and liabilities		
Increase in trade receivables	(640,827)	(161,901)
Decrease(Increase) inventories	90,195	(155,568)
Decrease(Increase) in loans and other receivables	(33,806)	14,518
Increase in trade payables	63,724	104,925
Increase in other payables	11,224	93,659
Increase(Decrease) in provision	(144,827)	58,008
Payment of defined benefit liability	(18,924)	(45,551)
Increase(Decrease) in other non-trade payables	100,030	(25,170)
Others	40,875	(15,853)
Cash Generated from Operations	<u>2,539,572</u>	<u>1,330,973</u>

¹Including depreciation of temporarily idle property, plant and equipment.