

SK hynix Inc. (formerly Hynix Semiconductor Inc.) and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2012 and 2011

<i>(in millions of Korean won)</i>	Notes	2012	2011
Assets			
Current assets			
Cash and cash equivalents	6, 9	₩ 658,387	₩ 1,243,788
Short-term financial instruments	6, 10	1,126,229	632,139
Trade receivables	6, 7, 8, 11	1,719,521	1,540,925
Loans and other receivables	6, 7, 11	125,055	201,999
Inventories	12	1,509,331	1,183,608
Assets classified as held for sale	19	26,958	29,033
Current tax assets		12,719	10,642
Other financial assets	6, 10	-	1
Other current assets	13	135,373	94,715
		<u>5,313,573</u>	<u>4,936,850</u>
Non-current assets			
Investments in jointly controlled entities and associates	15	104,100	103,613
Available-for-sale financial assets	6, 14	44,297	47,492
Property, plant and equipment	16	11,586,192	10,899,308
Intangible assets	18	983,630	707,648
Investment property	17	29,888	31,168
Loans and other receivables	6, 7, 11	19,127	38,461
Other financial assets	4, 6, 10, 40	525	3,441
Deferred income tax assets	26	378,366	315,718
Other non-current assets	13	188,995	154,449
		<u>13,335,120</u>	<u>12,301,298</u>
Total assets		<u>₩ 18,648,693</u>	<u>₩ 17,238,148</u>
Liabilities			
Current liabilities			
Trade payables	6	₩ 592,738	₩ 678,408
Other payables	6	381,260	516,724
Other non-trade payables	6, 20	361,076	345,878
Provisions	22	330,615	353,467
Other financial liabilities	4, 6, 23, 40	17,020	38,678
Borrowings	4, 6, 21	2,719,197	2,830,426
Other current liabilities	24	25,906	42,535
Current tax liabilities		13,368	11,170
		<u>4,441,180</u>	<u>4,817,286</u>
Non-current liabilities			
Borrowings	4, 6, 21	3,752,779	3,946,039
Other non-trade payables	6, 20	97,533	94,326
Defined benefit liabilities	25	575,096	458,699
Other financial liabilities	4, 6, 23, 40	1,615	7,796
Other non-current liabilities	24	41,048	38,731
		<u>4,468,071</u>	<u>4,545,591</u>
Total liabilities		<u>8,909,251</u>	<u>9,362,877</u>
Equity attributable to owners of the Parent Company			
Capital stock	27	3,488,419	2,978,498
Capital surplus	27	3,053,874	1,229,052
Accumulated other comprehensive income	29	(115,402)	107,107
Other components of equity	30	-	5,762
Retained earnings	28	3,313,265	3,555,323
		<u>9,740,156</u>	<u>7,875,742</u>
Non-controlling interest		<u>(714)</u>	<u>(471)</u>
Total equity		<u>9,739,442</u>	<u>7,875,271</u>
Total liabilities and equity		<u>₩ 18,648,693</u>	<u>₩ 17,238,148</u>

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

SK hynix Inc. (formerly Hynix Semiconductor Inc.) and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2012	2011
Net sales	5 ₩	10,162,210 ₩	10,395,811
Cost of sales	32	<u>(8,550,989)</u>	<u>(8,704,921)</u>
Gross profit		1,611,221	1,690,890
Selling and administrative expenses	32,33	<u>(1,838,570)</u>	<u>(1,321,795)</u>
Operating income (loss)	5	(227,349)	369,095
Financial income	35	689,709	630,310
Financial expenses	35	(682,594)	(911,399)
Income from jointly controlled entities and associates	15	16,713	10,533
Other non-operating income	34	67,130	72,446
Other non-operating expenses	34	<u>(62,910)</u>	<u>(125,838)</u>
Profit (loss) before income tax (benefit)		(199,301)	45,147
Income tax expense (benefit)	36	<u>(40,506)</u>	<u>101,118</u>
Loss for the year		<u>₩ (158,795)</u>	<u>₩ (55,971)</u>
Other comprehensive income (loss)	29		
Change in value of available-for-sale financial assets	14	(1,896)	7,129
Currency translation differences		(216,490)	123,236
Other comprehensive income from jointly controlled entities and associates	15	(4,343)	(735)
Actuarial loss on defined benefit liabilities	25	<u>(82,872)</u>	<u>(60,780)</u>
Total comprehensive income (loss) for the year		<u>₩ (464,396)</u>	<u>₩ 12,879</u>
Loss for the year attributable to:			
Equity holders of the Parent Company	₩	(158,886) ₩	(56,641)
Non-controlling interest		91	670
Total comprehensive income (loss) for the year attributable to:			
Equity holders of the Parent Company	₩	(464,267) ₩	12,947
Non-controlling interest		(129)	(68)
Earning (loss) per share attributable to the equity holders of the Parent Company for the year	37		
Basic loss per share	₩	(233) ₩	(96)
Diluted loss per share		(233)	(96)

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

SK hynix Inc. (formerly Hynix Semiconductor Inc.) and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2012 and 2011

										Attributable to equity holders of the Parent Company									
										Accumulated		Other							
										Other		Other							
										Comprehensive		Components							
										Income (loss)		of Equity							

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

SK hynix Inc. (formerly Hynix Semiconductor Inc.) and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in millions of Korean won)

	Notes	2012	2011
Cash flows from operating activities			
Cash generated from operations	41 ₩	2,420,894 ₩	3,079,865
Interest received		81,931	68,107
Interest paid		(275,169)	(275,866)
Dividends received		12,098	8,883
Income tax paid		(28,103)	(25,029)
Net cash generated from operating activities		2,211,651	2,855,960
Cash flows from investing activities			
Decrease in short-term financial instruments		2,754,789	2,653,392
Increase in short-term financial instruments		(3,252,006)	(2,334,896)
Receipt of government grants		153	67
Decrease in loans and other receivables		11,487	10,182
Increase in loans and other receivables		(8,661)	(7,379)
Proceeds from derivatives		2,419	19,013
Payments from derivatives		(44,507)	(5,974)
Proceeds from disposal of assets classified as held for sale		23	6,931
Proceeds from disposal of available-for-sale financial assets		11,190	-
Acquisition of available-for-sale financial assets		(3,618)	(7,897)
Proceeds from disposal of property, plant and equipment		35,809	14,371
Acquisition of property, plant and equipment		(3,772,879)	(3,568,238)
Proceeds from disposal of Intangible assets		1,226	13,946
Acquisition of intangible assets		(159,072)	(176,111)
Proceeds from disposal of Investment property		-	12,153
Acquisition of investments in associates		-	(12,180)
Acquisition of investments in subsidiaries	43	(274,732)	-
Changes in a parent's ownership interest in subsidiaries		-	(661)
Increase in other financial assets		-	(5,983)
Net cash used in investing activities		(4,698,379)	(3,389,264)
Cash flows from financing activities			
Proceeds from borrowings		6,966,003	2,434,510
Repayments of borrowings		(7,377,491)	(1,826,595)
Proceeds from issuance of common stock		2,328,791	-
Changes in a parent's ownership interest in subsidiaries		(181)	(241)
Dividends paid	31	-	(88,541)
Net cash provided by financing activities		1,917,122	519,133
Effect of foreign exchange rates on cash and cash equivalents		(15,795)	4,733
Net decrease in cash and cash equivalents		(585,401)	(9,438)
Cash and cash equivalents at the beginning of year		1,243,788	1,253,226
Cash and cash equivalents at the end of year	₩	658,387 ₩	1,243,788 ₩

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

SK hynix Inc. (formerly Hynix Semiconductor Inc.) and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

1. General Information

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

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

As of December 31, 2012, 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	21.05
National Pension Service	66,862,226	9.63
Share Management Council ¹	31,245,418	4.50
Individual investors	449,948,123	64.82
	694,155,767	100.00

¹As of December 31, 2012, 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	1.45
Korea Finance Corporation	7,640,500	1.10
Shinhan Bank	7,481,500	1.08
Other financial institutions	6,030,918	0.87
	31,245,418	4.50

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 December 31, 2012.

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.

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As of December 31, 2012, 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
Link_A_Media Devices Corporation(LAMD)	100	100	U.S.A.	Overseas R&D center

The following subsidiaries were newly included in the scope of consolidation for the year ended December 31, 2012:

Name of subsidiary	Remark
SK hynix Italy S.r.l.(SKHYIT)	Obtained control over the entity through acquisition of shares
Link_A_Media Devices Corporation(LAMD)	Obtained control over the entity through acquisition of shares

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Major Subsidiaries' summarized statements of financial position as of December 31, 2012 and 2011, translated into Korean won using the exchange rate as of the reporting date, and summarized statements of comprehensive income for the years ended December 31, 2012 and 2011, translated into Korean won using the average exchange rate for the years are as follows:

Names of subsidiaries	2012					
	Assets	Liabilities	Equity	Sales	Profit(loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	867,351	836,418	30,933	3,848,368	10,498	10,498
SK hynix Asia Pte.Ltd.(SKHYS)	146,471	80,538	65,933	693,598	4,619	4,619
SK hynix Semiconductor HongKong Ltd.(SKHYH)	326,673	275,851	50,822	1,889,126	3,548	3,548
SK hynix Japan Inc.(SKHYJ)	194,730	141,766	52,964	736,702	13,410	13,416
SK hynix Semiconductor Taiwan Inc.(SKHYT)	276,666	238,930	37,736	1,428,484	3,815	3,815
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,234,346	848,071	2,386,275	2,400,043	244,995	244,995
SK hynix Deutschland GmbH (SKHYD)	82,039	50,918	31,121	415,572	2,534	2,534
SK hynix U.K. Ltd.(SKHYU)	81,677	71,264	10,413	399,810	3,260	3,260

Names of subsidiaries	2011					
	Assets	Liabilities	Equity	Sales	Profit(loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	764,593	742,030	22,563	3,386,257	7,185	7,185
SK hynix Asia Pte.Ltd.(SKHYS)	135,027	68,761	66,266	939,873	5,868	5,868
SK hynix Semiconductor HongKong Ltd.(SKHYH)	240,633	189,683	50,950	1,753,678	5,195	5,195
SK hynix Japan Inc.(SKHYJ)	264,567	215,613	48,954	882,676	983	625
SK hynix Semiconductor Taiwan Inc.(SKHYT)	321,079	285,903	35,176	1,706,275	6,749	6,749
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,732,468	1,448,999	2,283,469	2,220,674	(238,955)	(238,955)
SK hynix Deutschland GmbH(SKHYD)	132,495	102,278	30,217	625,274	1,816	1,816
SK hynix U.K. Ltd.(SKHYU)	91,146	83,270	7,876	480,469	1,313	1,313

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2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The Group's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

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

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements*.

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of comprehensive income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses of ₩65,837 million and ₩44,394 million, respectively, for the year ended December 31, 2012 (2011: ₩70,825 million and ₩114,446 million, respectively), which include rental income, gain(loss) on disposal of property, plant and equipment, gain(loss) on disposal of intangible assets, impairment loss on property, plant and equipment and others, classified as operating income under the previous standard, were excluded from operating income. Consequently, operating loss for the year ended December 31, 2012, was higher by ₩21,443 million and operating income for the year ended December 31, 2011, was higher by ₩43,621 million, as compared to the amounts under the previous standard. However, there is no impact on net loss and loss per share for the years ended December 31, 2012 and 2011.

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(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a 'corridor' approach is no longer permitted, and therefore 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). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group is assessing the impact of application of the amended Korean IFRS 1019 on its consolidated financial statements.

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

Korean IFRS 1113, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, *Consolidated Financial Statements*, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

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

Korean IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1027, *Consolidated and Separate Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS 1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between the Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'Financial expense' in the statements of comprehensive income.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in profit or loss.

(e) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity

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method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of accumulated impairment loss. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as chief executive officer that makes strategic decisions.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the controlling entity'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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are reflected in current operations, except qualifying cash flow hedges which are recognized in other comprehensive income. Foreign exchange gains and losses are reported in 'financial income or expenses' in the statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

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(c) Translation to the presentation currency

The results and financial position of all Group companies whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as of the reporting date;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of borrowings designated for hedging the investment and other currency instruments are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the statements of comprehensive income. When the Parent Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statements of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.7 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.8 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. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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2.9 Financial Assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale, and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents', 'short-term financial instruments', 'other financial assets' and 'trade and other receivables' in the statements of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

(d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and are classified as 'other financial assets' in the statements of financial position. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

2.9.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are reflected in current operations in the consolidated statements of comprehensive income. Financial assets are derecognized when the rights to receive

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cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the consolidated statements of comprehensive income as 'financial income and expenses'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statements of comprehensive income as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the statements of comprehensive income as part of 'financial income' when the Group's right to receive payments is established.

2.9.3 Offsetting of financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.9.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do not meet the requirements for asset derecognition if risks and rewards do not substantially transfer in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as borrowings in the Group's statements of financial position.

2.10 Impairment of Financial Assets

(a) Assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statements of comprehensive income. Also, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is reflected in the statements of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statements of comprehensive income. Impairment losses recognized in the statements of comprehensive income on equity instruments are not reversed through the statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statements of comprehensive income.

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2.11 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. The resulting gain or loss is recognized as 'financial income and expenses' in the statements of comprehensive income.

2.12 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial year in which they are incurred.

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 - 30 years
Machinery	4 - 15 years
Vehicles	4 - 10 years
Other	3 - 15 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income and expenses' in the statements of comprehensive income.

2.13 Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during an extended period in which it prepares an asset for its intended use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. When a particular borrowing is specifically associated with expenditure on the qualifying asset, the amount of borrowing costs capitalized is limited to the actual borrowing costs less any investment income on the temporary investment of those borrowings. The Group recognizes other borrowing costs as an expense in the period in which they are incurred.

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2.14 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to assets are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Government grants relating to income are deferred and recognized in the statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.15 Intangible Assets

(a) Goodwill

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

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

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

(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;

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

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

(d) Membership rights

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

2.16 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income and expenses' in the statements of comprehensive income.

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2.17 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.

2.18 Non-current Assets Held for Sale

Non-current assets are classified as assets held for sale 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.

2.19 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Financial Liabilities

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

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally for the purpose of repurchasing it in the near term. Derivatives or embedded derivatives are also categorized as this category unless they are designated as hedges.

(b) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade payables', 'other payables', 'borrowings', and 'other financial liabilities' in the consolidated statement of financial position. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

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2.21 Financial Guarantee Contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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

- 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*.

2.22 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method. The Group recognizes borrowings as current liabilities unless it has an unconditional right to delay the settlement of the borrowing more than 12 month after the end of the reporting period.

2.23 Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

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 at 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.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

At the point of issuing convertible bonds, if the amount of share premium (capital surplus) is defined, the conversion component is classified as equity, if not, the conversion component is classified as financial liability. The Group classifies the instrument as derivative if the conversion component is classified as financial liability and an embedded derivative can be separated from the host contract.

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2.24 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.25 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of comprehensive 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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 can be utilized.

Deferred income tax liability is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax asset is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates only when it is probable that the timing of the reversal of temporary difference is expected to be foreseeable future and future taxable profit will be available.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity

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or different taxable entities where there is an intention to settle the balances on a net basis.

2.26 Employee Benefits

(a) Defined benefit liability

The Group operates defined benefit 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 years of service and compensation.

The liability recognized in the consolidated 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, together with adjustments for unrecognized past-service costs. 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 are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized over the vesting period.

(b) Share-based payments

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted with considerations to market performance conditions and non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statements of comprehensive income, with a corresponding adjustment to equity.

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

(c) Long-term employee benefits

A number of companies within the Group provide 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.

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Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statements of comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal and in the case of an offer made to encourage voluntary redundancy.

2.27 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Group purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Group's equity holders.

2.28 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes, after elimination of intra-company transactions.

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

(a) Sales of goods

The Group manufactures and sells semiconductor products. Sales of goods are recognized when the Group has transferred to the customers the significant risks and rewards of ownership of the goods.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns.

The Group recognizes provisions for sales returns based on reasonable expectation reflecting sales return rates incurred historically.

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(b) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired 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.

2.29 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in 'borrowings'. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

2.30 Dividend Distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.31 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 consolidated financial statements of the Group was approved by the Board of Directors on January 29, 2013.

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3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Fair value of financial instruments

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

(c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.17. The recoverable amounts of cash-generating units has been determined the higher of its fair value less costs to sell and its value in use. These calculations require the use of estimates (Note 18).

(d) Provisions

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

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

(e) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount

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rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 25.

4. Financial Risk Management

4.1 Financial Risk Factors

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

Risk management is carried out by a central treasury department under policies approved by the board of directors. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

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

At December 31, 2012, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, loss before income tax for the year would have been ₩ 218,037 million (2011: ₩ 244,119 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, 2012, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, loss before income tax for the year would have been ₩ 23,887 million (2011: ₩ 37,004 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.

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At December 31, 2012, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, loss before income tax for the year would have been ₩ 8,006 million (2011: ₩ 10,820 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.

ii) Price risk

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

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

The table below summarizes the impact of increases/decreases in the Group's equity as a result of the changes in the price per share on the securities held by the Group.

(in millions of Korean won)	2012		2011	
	20% increase	20% decrease	20% increase	20% decrease
KOSDAQ	1,822	(1,822)	2,001	(2,001)
TWSE	3,529	(3,529)	3,457	(3,457)
Non-listed investments	2,273	(2,273)	2,599	(2,599)

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

iii) interest rate risk

The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As of December 31, 2012, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing borrowings with variable interest-bearing financial deposits.

At December 31, 2012, 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 ₩16,220 million

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(2011: ₩16,810 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

i) Trade and other receivables

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

ii) Other assets

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

(b) Liquidity risk

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

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. The Group treasury 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, 2012, the Group held cash equivalents and short-term financial instruments of approximately ₩ 658,338 million (2011: ₩ 992,678 million) and ₩ 1,050,006 million (2011: ₩ 581,448 million), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

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The analyses of the Group's liquidity risk as of December 31, 2012 and 2011, are as follows:

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

<i>(in millions of Korean won)</i>	2011				Total
	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	
Borrowings (other than finance lease)	2,957,575	1,263,407	2,064,694	576,920	6,862,596
Finance lease liabilities	134,877	118,199	331,613	186,034	770,723
Trade payables	678,408	-	-	-	678,408
Other payables	527,989	-	-	-	527,989
Other non-trade payables	345,878	54,469	40,833	17,014	458,194
Derivatives	40,003	-	-	-	40,003
Financial guarantee contract	35	-	-	-	35
	4,684,765	1,436,075	2,437,140	779,968	9,337,948

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group's trading portfolio derivative instruments have been included at their fair value of ₩ 4,871 million (2011: ₩ 40,003 million) within the less than one-year time bucket as of December 31, 2012. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate profile.

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4.2 Capital Management

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

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

The debt/equity ratio and net borrowing ratio as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Total liabilities (A)	8,909,251	9,362,877
Total equity (B)	9,739,442	7,875,271
Cash and cash equivalents and others(C) ¹	1,784,616	1,875,927
Total borrowings (D)	6,471,976	6,776,465
Debt ratio (A/B)	91%	119%
Net borrowing ratio (D-C)/B	48%	62%

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

4.3 Fair Value Measurement

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined 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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The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2012 and 2011 :

<i>(in millions of Korean won)</i>	2012			
	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
<i>(in millions of Korean won)</i>	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	3,114	-	3,114
Available-for-sale financial assets				
Equity securities (at fair value)	34,498	-	-	34,498
	34,498	3,114	-	37,612
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	46,474	-	46,474
	-	46,474	-	46,474

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSDAQ and TWSE equity investments classified as trading securities or available for sale.

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The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents available for sale financial assets that are valued at historical cost as of December 31, 2012 and 2011 :

<i>(in millions of Korean won)</i>	2012	2011
JNT Frontier Private Equity Unit	1,400	700
SV M&A No.1 Equity Unit	1,196	715
Seoul Investment Initial & Green	1,900	950
TS 2011-4 Technology Transfer & Business Buildup Fund	800	800
IMM investment	499	240
L&S Investment	565	-
Intellectual Discovery, Ltd.	4,000	4,000
Equity investment in a construction guarantee association	396	165
Novelis Korea Ltd.	-	1,699
Anobit Technologies Ltd.	-	3,123
Others	609	602
	11,365	12,994

The range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, and therefore, above instruments are measured at cost.

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5. Segment Information

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

The segment information for revenue and operating profit(loss) for the years ended December 31, 2012 and 2011, are as follows:

	2012			2011		
	Semi-conductor	Other	Total	Semi-conductor	Other	Total
<i>(in millions of Korean won)</i>						
Total segment revenue	10,119,390	274,293	10,393,683	10,349,487	262,988	10,612,475
Inter-segment revenue	-	(231,473)	(231,473)	-	(216,664)	(216,664)
Revenue from external customers	10,119,390	42,820	10,162,210	10,349,487	46,324	10,395,811
Operating Profit(Loss)¹	(231,993)	4,644	(227,349)	358,631	10,464	369,095

¹ The management of the Group assesses segment performance based on segment operating profit(loss). In addition, the Group restated operating profit for the year 2011, which is disclosed for comparative purposes, due to retrospective application requirements of amendment to Korean-IFRS 1001 (Note 2).

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the year ended December 31, 2012, the share of each type of products among the total revenue is approximately 71.2% and 24.9% (2011: 71.1% and 26.6%), respectively.

The customer, which contributed to more than 10% of the Group's sales revenue for the year ended December 31, 2012, is related to the semi-conductor segment, and the total sales earned from the customer amounted to ₩ 2,154,986 million (2011 : ₩ 1,309,905 million).

The Group's revenue information by geographical segments (location of subsidiaries) for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012	2011
Domestic	771,396	709,569
China	1,901,742	1,770,690
Asia	2,852,579	3,480,037
United States	3,827,725	3,346,611
Europe	808,768	1,088,904
	10,162,210	10,395,811

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The Group's non-current assets (excluding financial assets, investments in jointly controlled entities and associates and deferred income tax assets) information by geographical segments as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Domestic	9,853,629	8,777,412
China	2,638,507	2,987,296
Asia	1,614	1,880
United States	293,181	25,645
Europe	1,775	340
	12,788,706	11,792,573

Details of the Groups' revenue for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Sale of goods	10,129,725	10,365,545
Sale of services	30,908	27,074
Royalty income	1,577	3,192
	10,162,210	10,395,811

6. Financial Instruments by Categories

Details of financial assets by category as of December 31, 2012 and 2011, are as follows:

	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
Cash and cash equivalents	-	-	-	658,387
Short-term financial instruments	-	-	-	1,126,229
Trade receivables	-	-	-	1,719,521
Other receivables	-	-	-	144,182
Other financial assets	198	-	-	327
Available-for-sale financial assets	-	44,297	-	-
	198	44,297	-	3,648,646
				3,693,141

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	2011				
	Assets at fair value through the profit and loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Total
<i>(in millions of Korean won)</i>					
Cash and cash equivalents	-	-	-	1,243,788	1,243,788
Short-term financial instruments	-	-	-	632,139	632,139
Trade receivables	-	-	-	1,540,925	1,540,925
Other receivables	-	-	-	240,460	240,460
Other financial assets	3,114	-	1	327	3,442
Available-for-sale financial assets	-	47,492	-	-	47,492
	3,114	47,492	1	3,657,639	3,708,246

Details of financial liabilities by category of December 31, 2012 and 2011, are as follows:

	2012			
	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
<i>(in millions of Korean won)</i>				
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

	2011			
	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
<i>(in millions of Korean won)</i>				
Trade payables	-	678,408	-	678,408
Other payables	-	516,724	-	516,724
Other non-trade payables	-	440,204	-	440,204
Borrowings	-	6,256,504	519,961	6,776,465
Other financial liabilities	46,474	-	-	46,474
	46,474	7,891,840	519,961	8,458,275

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Details of gain and loss of financial assets and liabilities by category for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Loans and receivables		
Interest income	80,154	55,685
Foreign exchange difference	(127,274)	(2,370)
Impairment reversal	460	(578)
	<u>(46,660)</u>	<u>52,737</u>
Available-for-sale		
Other comprehensive income(loss)	(1,566)	7,535
Gain or loss on disposal	5,943	-
Interest income	-	785
Dividend income	216	45
Impairment	-	(21,847)
	<u>4,593</u>	<u>(13,482)</u>
Assets at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	198	(4,581)
Gain on derivative transactions	-	-
	<u>198</u>	<u>(4,581)</u>
Liabilities measured at amortized cost		
Interest expense	(317,926)	(310,397)
Loss on redemption of debenture	(10,470)	-
Foreign exchange difference	381,687	(20,034)
	<u>53,291</u>	<u>(330,431)</u>
Liabilities at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	(6,757)	12,710
Gain on derivative transactions	(7,762)	13,268
	<u>(14,519)</u>	<u>25,978</u>
	<u>(3,097)</u>	<u>(269,779)</u>

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7. Credit Risk of Financial Instruments

The aging analyses of trade receivables, loans and other receivables as of December 31, 2012 and 2011, are as follows:

		2012				
		Over due			Impaired	Total
		Less than 3 months	Over 3 months and less than 6 months	Over 6 months		
(in millions of Korean won)	Not Past due					
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
		2011				
		Over due			Impaired	Total
		Less than 3 months	Over 3 months and less than 6 months	Over 6 months		
(in millions of Korean won)	Not Past due					
Trade receivables	1,538,979	3,974	170	132	1,525	1,544,780
Current loans and other receivables	202,426	-	-	-	4,498	206,924
Non-current loans and other receivables	38,819	-	-	-	12,626	51,445
	1,780,224	3,974	170	132	18,649	1,803,149

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, 2012, the Group has an export sales insurance contract with Korea Trade Insurance Corporation amounting to ₩ 917,848 million and holds the counterparty's collateral as security amounting to ₩ 25,701 million.

As of December 31, 2012, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 31 million (2011: ₩ 35 million) which will be paid upon request of warrantee as mentioned in Note 39.

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8. Derecognition of financial assets

The Group has entered into trade receivables discounting agreements with several financial institutions. Outstanding trade receivables discounted but not yet matured amount to ₩ 341,434 million (2011: ₩ 519,961 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. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Cash on hand	49	69
Checking account	94,879	63,948
Ordinary deposits	7,816	9,742
Time deposits	104,724	909,616
Specified money trust	280,008	60,000
RP	20,000	10,000
CD	27	-
CMA	6,395	9,977
MMDA	130,626	162,729
MMW	10,501	14,569
MMT	3,362	3,138
	658,387	1,243,788

Restricted deposits as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011	Description
Time deposits	-	251,041	Pledge for guarantee relating to Rambus litigation

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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, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Short-term financial instruments		
Time deposits	704,645	528,973
Specified money trust	260,000	40,000
RP	160,000	60,000
MMDA	61	1,528
Other	1,523	1,638
	<u>1,126,229</u>	<u>632,139</u>
Other financial assets		
Current assets		
Held-to-maturity financial assets	-	1
Non-current Assets		
Time deposits	313	313
Bank overdraft guarantee deposits	14	14
Derivative assets	198	3,114
	<u>525</u>	<u>3,441</u>
	<u>1,126,754</u>	<u>635,581</u>

Restricted short-term financial instruments and other financial assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011	Description
	61	1,528	Restricted for government grants
	35,320	24,353	Pledged for borrowings
Short-term financial	6,238	7,426	Pledged for consumption tax
instruments	4	384	Pledged for letters of credit
	<u>34,600</u>	<u>17,000</u>	Restricted for support small business
	<u>76,223</u>	<u>50,691</u>	
	308	308	Pledged for borrowings
Other financial	14	14	Bank overdraft guarantee deposit
assets	4	4	Value added tax deposit
	<u>326</u>	<u>326</u>	
	<u>76,549</u>	<u>51,017</u>	

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11. Trade and Other Receivables

Details of current and non-current loans and other receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Other receivables	111,986	104,402
Accrued income	8,569	7,565
Short-term loans	1,823	6,237
Shor-term guarantee deposits	320	283
Deposits	2,357	83,512
	<u>125,055</u>	<u>201,999</u>
Non-current		
Long-term other receivables	80	23,209
Long-term loans	6,630	4,541
Guarantee deposits	11,540	9,649
Long-term deposits	877	1,062
	<u>19,127</u>	<u>38,461</u>
	<u>144,182</u>	<u>240,460</u>

Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Trade receivables	1,722,778	1,544,780
Less : provision for impairment	<u>(3,257)</u>	<u>(3,855)</u>
Trade receivables - net	<u>1,719,521</u>	<u>1,540,925</u>
Current loans and other receivables	130,090	206,924
Less : provision for impairment	<u>(5,035)</u>	<u>(4,925)</u>
Current loans and other receivables - net	<u>125,055</u>	<u>201,999</u>
Non-current loans and other receivables	31,966	51,445
Less : provision for impairment	<u>(12,839)</u>	<u>(12,984)</u>
Non-current loans and other receivables - net	<u>19,127</u>	<u>38,461</u>
	<u>1,863,703</u>	<u>1,781,385</u>

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Movements in the provision for impairment of trade receivables for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	3,855	4,066
Provision for receivables impairment	-	847
Receivables written off during the year as uncollectible	-	(324)
Unused amounts reversed	(390)	(84)
Effect of exchange rates	(208)	(650)
Ending	3,257	3,855

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	4,925	4,788
Provision for receivables impairment	297	137
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	(153)	(514)
Effect of exchange rates	(34)	514
Ending	5,035	4,925

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	12,984	12,713
Provision for receivables impairment	25	248
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	(239)	(56)
Effect of exchange rates	69	79
Ending	12,839	12,984

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12. Inventories

Details of inventories as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Finished goods	645,889	455,123
Less : valuation allowance	(82,638)	(70,893)
Finished goods - net	563,251	384,230
Work in progress	721,707	662,693
Less : valuation allowance	(38,355)	(132,570)
Work in progress - net	683,352	530,123
Raw materials	179,689	138,362
Less : valuation allowance	(3,704)	(620)
Raw materials - net	175,985	137,742
Supplies	42,227	48,765
Less : valuation allowance	(61)	(4,004)
Supplies - net	42,166	44,761
Goods in transit	44,709	87,354
Less : valuation allowance	(132)	(602)
Goods in transit - net	44,577	86,752
	1,509,331	1,183,608

The Group charged above valuation losses as current expenses in 'cost of sales'.

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 8,630,501 million (2011: ₩ 8,607,011 million) for the year ended December 31, 2012.

13. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current Assets		
Advance payments	4,255	5,740
Prepaid expenses	123,197	74,116
Others	7,921	14,859
	135,373	94,715
Non-current Assets		
Long-term advance payments	62	113
Long-term prepaid expenses	167,356	132,907
Others	21,577	21,429
	188,995	154,449
	324,368	249,164

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14. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012				2011
	Number of Stock	Owner-ship (%)	Acquisition cost	Book value	Book value
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	3,481	2,251	2,593
Hyundai Logiem 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	990	1,604
Hyundai IBT Co., Ltd.	2,528	0.03	63	5	3
Fidelix Co., Ltd.	1,605,854	8.79	3,560	3,019	3,099
Futures Corp Technology Co., Ltd.	60,000	10.44	300	-	-
C&S Technology Co., Ltd.	1,031,590	3.91	4,508	3,389	4,395
ZMOS Technology	2,000,000	5.11	995	-	-
Phison Electronics Corp.	3,277,054	1.83	11,661	23,277	22,804
ProMos ¹	201,600,000	7.93	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	-	1,400	1,400	700
SV M&A No.1 Equity Unit	Certificate	-	1,196	1,196	715
Daishin Aju IB Investment Co., Ltd.	Certificate	-	500	500	172
Seoul Investment Early & Green Venture Fund	Certificate	-	1,900	1,900	950
TS 2011-4 Technology Transfer & Business Buildup Fund	Certificate	-	800	800	800
IMM Investment	Certificate	-	499	499	240
L&S venture capital	Certificate	-	565	565	-
Intellectual Discovery, Ltd.	800,000	8.94	4,000	4,000	4,000
Equity Investment in a construction guarantee association	132	0.01	396	396	165
Novelis Korea Ltd.	-	-	-	-	1,699
Anobit Technologies Ltd.	-	-	-	-	3,123
SL investment	-	-	-	-	320
Others	-	-	5,839	2	2
			64,762	44,297	47,492

¹ The Group recognized impairment loss for the difference between carrying amount and fair value of the investment for the year 2011.

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Changes in the book value of available-for-sale financial assets for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	47,492	57,044
Acquisition	3,618	7,897
Disposal	(5,247)	-
Impairment loss ¹	-	(13,565)
Net losses transferred to equity ²	(1,566)	(748)
Others	-	(3,136)
At December 31	44,297	47,492

¹ The Group transferred ₩ 8,282 million of losses on available-for-sale financial assets from other comprehensive income to the current operations due to impairment for the year 2011.

² Net of income tax effect of ₩ 330 million (2011: ₩ 371 million).

15. Investments in Jointly Controlled Entity and Associate

Details of investments in jointly controlled entity and associate as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012					2011
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	7,944	8,909	8,138
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH)	Certificate	45.00	90,149	95,191	95,191	95,475
				112,984	103,135	104,100	103,613

¹ As of December 31, 2012, fair value on the active market amounting to ₩ 16,677 million (2011: ₩ 8,138 million).

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Changes in investments in jointly controlled entity and associate for the years ended December 31, 2012 and 2011, are as follows:

	2012	
	Siliconfile Technologies Inc.	HITECH
<i>(in millions of Korean won)</i>		
At January 1	8,138	95,475
Acquisition	-	-
Dividend	-	(11,883)
Share of profit(loss)	826	15,887
Other equity movement: available-for-sale investments reserve	(55)	(4,288)
At December 31	8,909	95,191

	2011	
	Siliconfile Technologies Inc.	HITECH
<i>(in millions of Korean won)</i>		
At January 1	15,858	82,305
Acquisition	-	12,181
Dividend	-	(8,838)
Share of profit(loss)	(35)	10,568
Impairment loss	(7,691)	-
Other equity movement: available-for-sale investments reserve	6	(741)
At December 31	8,138	95,475

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The summary of the investees' assets and liabilities as of December 31, 2012 and 2011, follows:

		2012			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
Siliconfile Technologies Inc. HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	Korea	49,481	12,933	31,567	2,407
	China	256,127	458,845	294,459	208,977
		305,608	471,778	326,026	211,384
		2011			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
Siliconfile Technologies Inc. HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	Korea	27,402	11,218	10,730	3,769
	China	217,026	374,765	189,212	190,413
		244,428	385,983	199,942	194,182

The summary of sales, cost of sales and net income (loss) of the investees for the years ended December 31, 2012 and 2011, follows:

		2012			2011		
<i>(in millions of Korean won)</i>		Sales	Cost of sales	Net Income	Sales	Cost of sales	Net Income (loss)
Siliconfile Technologies Inc. HITECH Semiconductor (Wuxi)Co., Ltd.(HITECH)		131,126	112,342	3,083	77,527	62,477	(118)
		597,091	546,671	37,892	403,096	350,342	23,485
		728,217	659,013	40,975	480,623	412,819	23,367

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16. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

2012

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Others	CIP	Total
At January 1								
Acquisition cost	462,586	1,670,585	487,426	26,297,598	2,906	618,529	444,974	29,984,604
Accumulated depreciation	-	(422,188)	(270,826)	(17,522,850)	(2,454)	(460,559)	-	(18,678,877)
Accumulated impairment	-	(23,877)	(30,639)	(340,580)	-	(2,867)	-	(397,963)
Government grants	-	-	-	(8,456)	-	-	-	(8,456)
Net book amount	462,586	1,224,520	185,961	8,425,712	452	155,103	444,974	10,899,308
Changes during 2012								
Additions	338	654	101	30,549	107	3,689	3,909,085	3,944,523
Acquisition of subsidiaries	-	-	-	2,095	-	811	-	2,906
Disposals	-	(16)	(620)	(25,105)	(40)	(382)	(7,784)	(33,947)
Depreciation charge	-	(49,783)	(19,505)	(2,925,699)	(183)	(61,406)	-	(3,056,576)
Transfers	-	139,905	21,654	3,671,679	25	92,299	(3,925,578)	(16)
Exchange differences	(857)	(13,950)	(5,976)	(145,665)	(21)	(2,093)	(1,444)	(170,006)
Closing net book amount	462,067	1,301,330	181,615	9,033,566	340	188,021	419,253	11,586,192
At December 31								
Acquisition cost	462,067	1,792,237	486,984	29,149,281	2,537	677,361	419,253	32,989,720
Accumulated depreciation	-	(467,030)	(285,441)	(19,817,741)	(2,197)	(486,508)	-	(21,058,917)
Accumulated impairment	-	(23,877)	(19,928)	(289,951)	-	(2,832)	-	(336,588)
Government grants	-	-	-	(8,023)	-	-	-	(8,023)
Net book amount	462,067	1,301,330	181,615	9,033,566	340	188,021	419,253	11,586,192

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2011

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Others	CIP	Total
At January 1								
Acquisition cost	463,515	1,619,522	438,070	22,381,802	2,973	570,115	514,274	25,990,271
Accumulated depreciation	-	(372,423)	(244,835)	(14,025,954)	(2,251)	(419,287)	-	(15,064,750)
Accumulated impairment	-	(23,877)	(19,931)	(279,223)	-	(2,886)	-	(325,917)
Government grants	-	-	-	(9,024)	-	-	-	(9,024)
Net book amount	463,515	1,223,222	173,304	8,067,601	722	147,942	514,274	10,590,580
Changes during 2011								
Additions	-	117	16	22,476	9	3,019	3,574,176	3,599,813
Disposals	-	(197)	-	(9,815)	(1)	(202)	(7,057)	(17,272)
Depreciation charge	-	(45,989)	(24,393)	(3,265,027)	(285)	(64,216)	-	(3,399,910)
Transfers	-	35,526	42,087	3,508,545	(1)	67,878	(3,636,962)	17,073
Impairment losses	-	-	(10,660)	(40,116)	-	(2)	-	(50,778)
Exchange differences	(929)	11,841	5,607	142,048	8	684	543	159,802
Closing net book amount	462,586	1,224,520	185,961	8,425,712	452	155,103	444,974	10,899,308
At December 31								
Acquisition cost	462,586	1,670,585	487,426	26,297,598	2,906	618,529	444,974	29,984,604
Accumulated depreciation	-	(422,188)	(270,826)	(17,522,850)	(2,454)	(460,559)	-	(18,678,877)
Accumulated impairment	-	(23,877)	(30,639)	(340,580)	-	(2,867)	-	(397,963)
Government grants	-	-	-	(8,456)	-	-	-	(8,456)
Net book amount	462,586	1,224,520	185,961	8,425,712	452	155,103	444,974	10,899,308

Depreciation expense of ₩ 2,859,445 million (2011: ₩ 3,174,146 million) has been charged to 'cost of sales', ₩ 179,425 million (2011: ₩ 195,112 million) to 'selling and administrative expenses' and ₩ 17,706 million (2011: ₩ 30,652 million) has been capitalized as development costs for the year ended December 31, 2012.

Certain amount of the property, plant and equipment are pledged as collateral for borrowings of the Group as of December 31, 2012 (Note 39).

During the year, the Group has capitalized borrowing costs amounting to ₩ 5,859 million (2011: ₩ 31,575 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 2.96% (2011: 6.50%) for the year ended December 31, 2012.

The Group leases certain machinery and others from GE Capital and others under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 355,365 million (2011: ₩ 560,251 million) as of December 31, 2012. The machinery are pledged as collateral for the finance lease liabilities.

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The Group leases certain machinery and others from GE Capital, Macquarie Capital and Itest Co., Ltd. under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2012, is as follows:

<i>(in millions of Korean won)</i>	Minimum lease payments
No later than 1 year	28,198
Later than 1 year	1,730
	29,928

As of December 31, 2012, certain inventories, property, plant and equipment, and investment properties are insured and details of insured assets are as follows:

<i>(in millions of Korean won)</i>	Insured assets	Insured amount	Insurance company
Package insurance	Property, plant and equipment Inventories and others	30,609,615	Hyundai Marine & Fire Insurance Co., Ltd. and others
Fire Insurance	Property, plant and equipment, investment property	3,288	
		30,612,903	

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17. Investment Property

Details of changes in investment property during the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012			
	Buildings			
At January 1				
Acquisition Cost			48,390	
Accumulated depreciation			(17,222)	
Accumulated impairment			-	
Net book amount			31,168	
Changes during 2012				
Depreciation charge			(1,280)	
Closing net book amount			29,888	
At December 31				
Acquisition cost			48,390	
Accumulated depreciation			(18,502)	
Accumulated impairment			-	
Net book amount			29,888	

<i>(in millions of Korean won)</i>	2011			
	Land	Buildings	Structures	Total
At January 1				
Acquisition Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(17,700)	(1,793)	(19,493)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	3,439	33,747	-	37,186
Changes during 2011				
Disposal	(3,439)	(1,266)	-	(4,705)
Depreciation charge	-	(1,313)	-	(1,313)
Closing net book amount	-	31,168	-	31,168
At December 31				
Acquisition cost	-	48,390	-	48,390
Accumulated depreciation	-	(17,222)	-	(17,222)
Accumulated impairment	-	-	-	-
Net book amount	-	31,168	-	31,168

The depreciation expense of ₩ 1,280 million (2011: ₩ 1,313 million) has been charged to 'selling and administrative expenses' for the year ended December 31, 2012.

Rental income from investment property during the year ended December 31, 2012, is ₩ 4,666 million (2011: ₩ 4,859 million).

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18.Intangible Assets

Intangible assets as of December 31, 2012 and 2011, are as follows:

	2012				
	Goodwill	Industrial property rights	Development costs	Others	Total
<i>(in millions of Korean won)</i>					
At January 1					
Acquisition cost	386,450	187,607	275,095	25,371	874,523
Accumulated amortization and impairment	-	(103,206)	(53,185)	(10,484)	(166,875)
Net book amount	386,450	84,401	221,910	14,887	707,648
Changes during 2012					
Additions	-	28,302	130,576	194	159,072
Acquisition of subsidiaries	261,047	-	-	24,105	285,152
Disposals	-	(5,680)	-	(920)	(6,600)
Impairment charge	-	-	-	(265)	(265)
Amortization charge	-	(14,834)	(129,298)	(1,566)	(145,698)
Other	(14,327)	(1)	-	(1,351)	(15,679)
Closing net book amount	633,170	92,188	223,188	35,084	983,630
At December 31					
Acquisition cost	633,170	199,820	405,671	46,510	1,285,171
Accumulated amortization and impairment	-	(107,632)	(182,483)	(11,426)	(301,541)
Net book amount	633,170	92,188	223,188	35,084	983,630
	2011				
	Goodwill	Industrial property rights	Development costs	Others	Total
<i>(in millions of Korean won)</i>					
At January 1					
Acquisition cost	386,450	185,581	120,503	28,331	720,865
Accumulated amortization and impairment	-	(100,800)	(3,514)	(12,898)	(117,212)
Net book amount	386,450	84,781	116,989	15,433	603,653
Changes during 2011					
Additions	-	20,647	154,592	872	176,111
Disposals	-	(5,738)	-	(3,841)	(9,579)
Impairment charge	-	-	-	(726)	(726)
Amortization charge	-	(15,289)	(49,671)	(732)	(65,692)
Other	-	-	-	3,881	3,881
Closing net book amount	386,450	84,401	221,910	14,887	707,648
At December 31					
Acquisition cost	386,450	187,607	275,095	25,371	874,523
Accumulated amortization and impairment	-	(103,206)	(53,185)	(10,484)	(166,875)
Net book amount	386,450	84,401	221,910	14,887	707,648

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Amortization of ₩ 54 million (2011: ₩ 162 million) is included in the 'cost of sales' ₩ 490 million (2011: ₩ 512 million) in the 'ordinary development expenses', and ₩ 145,154 million (2011: ₩ 65,018 million) in 'selling and administrative expenses' in the statements of comprehensive income.

Among costs associated with development activities, ₩ 130,576 million (2011: ₩ 154,592 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the year ended December 31, 2012. However, costs associated with research activities and other development expenditures that did not meet the criteria amounted to ₩ 975,057 million (2011: ₩ 609,729 million) and were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2012.

The Group allocates goodwill into the semiconductor operating segment. The Group used the same goodwill allocation method for both years ended December 31, 2012 and 2011. 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, which exceeds the value in use. However, the value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period.

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19. Non-current assets held for sale

Details of changes in non-current assets held for sale during the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	29,033	53,204
Transfer ¹	-	(17,068)
Disposal	(5)	(7,463)
Other	(2,070)	360
At December 31	26,958	29,033

¹Non-current assets held for sale were transferred to the property, plant and equipment as these assets were no longer held for sale.

20. Other Non-trade Payables

Details of other non-trade payables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Accrued expenses	361,076	345,878
Non-current		
Long-term other payables	75,492	64,470
Long-term accrued expense	3,531	6,073
Rent deposit payables	18,510	23,783
	97,533	94,326
	458,609	440,204

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21. Borrowings

Details of borrowings as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Short-term borrowings	1,020,609	1,416,158
Current maturities of debentures	299,697	299,844
Current maturities of convertible bonds	980,316	40,418
Current maturities of long-term borrowings	418,575	1,074,006
	<u>2,719,197</u>	<u>2,830,426</u>
Non-current		
Long-term borrowings	2,301,807	1,482,824
Debentures	1,450,972	1,489,999
Convertible bonds	-	973,216
	<u>3,752,779</u>	<u>3,946,039</u>
	<u>6,471,976</u>	<u>6,776,465</u>

Details of short-term borrowings as of December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	Financial Institutions	Annual Interest Rate(%) at 2012	2012	2011
Usance borrowings	Korea Development Bank and other	0.67 ~ 2.10	527,926	873,131
Borrowings on import financing	Export Import Korea Bank	-	-	23,066
	Shinhan Bank	3M Libor +		
Borrowings on Trade receivables collateral	and other	1.20~3.30	341,434	422,213
	Agricultural Bank of China and other	-	-	97,748
Refinancing	China Construction Bank and other	1.21~1.42	151,249	-
			<u>1,020,609</u>	<u>1,416,158</u>

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Details of long-term borrowings as of December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	Financial Institutions	Annual Interest Rate(%) at 2012	2012	2011
Local currency loans				
Borrowing for housing	Kookmin Bank	5.20	28	38
Borrowings for childcare facilities	NH Bank	2.00	308	308
Funds for equipment	Kookmin Bank	-	-	12,857
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures(1year) +1.6	25,000	150,000
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures(4year) + 0.93	250,000	
Funds for equipment	Korea Exchange Bank	CD (91days) + 1.31	50,000	
Commercial paper	Hanyang Securities and other	3.63 ~ 3.9	370,000	
Finance lease liabilities	ME Semiconductor Rental First LLC.	5.00	266,731	140,086
Finance lease liabilities	HP Financial Services Co. , Ltd.	-	-	1,390
			<u>962,067</u>	<u>304,679</u>
Foreign currency loans				
General borrowings	Export Import Korea Bank	3M Libor + 3.15	107,110	-
General borrowings ¹	SC Bank ¹	3M Libor + 3.00	151,025	168,382
General borrowings	Hana Bank	3M Libor + 3.10	48,200	51,899
General borrowings	Korea Development Bank	3M Libor + 3.06~3.36	321,330	115,330
General borrowings	Comerica Bank	6.48	34,282	37,756
General borrowings	NK Bank and other	3M Libor + 3.19~3.79	267,775	38,412
General borrowings	Agricultural Bank of China and other	3M Libor + 2.65	118,839	-
Syndicated loans	Korea Exchange Bank and other	-	-	345,990
Syndicated loans	Development Bank of China and other	3M Libor + 2.95	425,659	772,785
Mortgage loans	HITECH	7.16	177,954	316,260
Finance lease liabilities	Good memory and other	4.7~7.16	122,919	73,418
Finance lease liabilities	Lian Xian	-	-	399,710
			<u>1,775,093</u>	<u>2,319,942</u>
			<u>2,737,160</u>	<u>2,624,621</u>
Less: Discount on present value			(16,778)	(67,791)
Current maturities			<u>(418,575)</u>	<u>(1,074,006)</u>
			<u>2,301,807</u>	<u>1,482,824</u>

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

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Details of debentures as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	Maturity Date	Annual Interest Rate (%) at 2012	2012	2011
Unsecured notes in local currency:				
202nd ¹	May 25, 2012	-	-	150,000
203rd	Sep. 5, 2012	-	-	150,000
209th	Sep. 9, 2013	6.35	300,000	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	-
213th	Sep. 4, 2017	3.72	200,000	-
Unsecured notes in foreign currency				
Foreign 5th ¹	Jun. 27, 2017	-	-	576,650
Secured notes in foreign currency				
Foreign 8th ²	Jun. 20, 2017	3M Libor+2.85	107,110	-
			1,757,110	1,776,650
Add: Adjust embedded derivatives			-	20,426
Less: Discount on debentures			(6,441)	(7,233)
Current maturities			(299,697)	(299,844)
			1,450,972	1,489,999

¹ The Group redeemed USD 500 million (equivalent to ₩ 576,650 million) of unsecured bonds in advance, and recognized ₩ 10,470 million of loss on early redemption as finance expenses for the year ended December 31, 2012.

²The Group is provided with USD 100 million of bank guarantee payment from Shinhan Bank as of December 31, 2012.

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Details of convertible bonds as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	Maturity Date	Annual Interest Rate(%) at 2012	2012	2011
Convertible bond in local currency				
207th	Sep. 5, 2013	3.00	440,499	440,741
Convertible bond in foreign currency				
Foreign 6th	Dec. 14, 2012	-	-	41,173
Foreign 7th ¹	May 14, 2015	2.65	535,550	576,650
			976,049	1,058,564
Add: Call premium on bonds			70,952	70,991
Less: Conversion rights adjustment			(61,752)	(107,473)
Discount on bonds			(4,933)	(8,448)
Current maturities			(980,316)	(40,418)
			-	973,216

¹ The holders of convertible bond have a right to exercise put option for one year period from May 14, 2013.

Details of terms and conditions of conversion rights of convertible bonds as of December 31, 2012, are as follows:

	Details	
	Local 207th	Foreign 7th
Face value of convertible bond	KRW 440,499 million	USD 500,000,000
Convertible rate at face value	100%	100%
Conversion term (per share)	Par value of ₩23,328	Par value of ₩ 34,394 (KRW 1,133.8/USD 1)
Number of convertible shares	18,883,000 shares	16,483,000 shares
Convertible periods	Oct.5,2008~Aug.5,2013	May 15,2011~Apr.28,2015
Deemed exercise date	The first date of year of conversion	The first date of year of conversion

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Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Details of minimum lease payments to the lessor as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Total minimum lease payment		
No later than 1 year	112,585	134,877
Between 1 and 5 years	320,794	449,812
Later than 5 years	-	186,034
	<u>433,379</u>	<u>770,723</u>
Unearned finance income	(43,729)	(156,119)
Net minimum lease payment		
No later than 1 year	94,372	100,420
Between 1 and 5 years	295,278	339,518
Later than 5 years	-	174,666
	<u>389,650</u>	<u>614,604</u>

Details of book value and fair value of non-current borrowings as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Book value	Fair value	Book value	Fair value
Long-term borrowings	2,301,806	2,339,963	1,482,824	1,482,824
Debentures	1,450,973	1,504,532	1,489,999	1,534,502
Convertible bond	-	-	973,216	1,054,442
	<u>3,752,779</u>	<u>3,844,495</u>	<u>3,946,039</u>	<u>4,071,768</u>

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22.Provisions

Details of changes in provisions during the years ended December 31, 2012 and 2011, are as follows:

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

	2011		
<i>(in millions of Korean won)</i>	Sales returns	Legal claims	Total
At January 1	14,276	517,847	532,123
Addition	-	52,584	52,584
Reversal and utilization	(10,470)	(293,743)	(304,213)
Foreign exchange difference and other	-	72,973	72,973
At December 31	3,806	349,661	353,467

Provisions for sales returns

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

Provisions for warranty

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

Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 39).

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23. Other Financial Liabilities

Details of other financial liabilities as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Derivative liabilities (Note 40)	17,020	38,678
Non-current		
Derivative liabilities (Note 40)	1,615	7,796
	18,635	46,474

24. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Unearned income	1,431	2,509
Withholdings	19,915	22,707
Deposits received	841	901
Advance receipts	3,684	16,384
Other	35	34
	25,906	42,535
Non-current		
Long-term withholdings	666	4,133
Other long-term employee benefit liabilities	40,335	34,569
Other	47	29
	41,048	38,731
	66,954	81,266

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25. Defined Benefit Liabilities

Defined benefit liabilities recognized in the statements of financial position as of December 31, 2012 and 2011, are determined as follows:

<i>(in millions of Korean won)</i>	2012	2011
Present value of obligations	592,171	471,290
Fair value of plan assets ¹	(17,075)	(12,591)
	575,096	458,699

¹ Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 1,952 million (2011: ₩ 2,151 million) as of December 31, 2012.

The amounts recognized in the statements of comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current service cost	81,034	65,253
Interest expenses	27,152	24,884
Expected return on plan assets	(456)	(543)
	107,730	89,594

The line items in which severance benefits are included for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Cost of Sales (manufacturing costs)	68,462	54,683
Selling and administrative expenses	39,268	34,911
	107,730	89,594

The actuarial losses recognized as other comprehensive income for the year ended December 31, 2012, amount to ₩ 82,872 million (2011: ₩ 60,780 million), and cumulative actuarial losses recognized as other comprehensive income as of December 31, 2012, amount to ₩ 202,090 million.

As of December 31, 2012, the Group funded at approximately 2.55% (2011: 2.22%) of the total retirement benefit obligations through insurance plans with Hanwha Life Insurance Co., Ltd. and Samsung Insurance Co., Ltd.

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Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	471,290	372,296
Current service cost	81,034	65,253
Interest expense	27,152	24,884
Transferred from associates	444	-
Benefits paid	(70,945)	(51,892)
Actuarial gain	82,690	60,593
Other	506	156
At December 31	592,171	471,290

The movements in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	12,591	13,234
Expected return on plan assets	456	543
Employer contribution	5,994	397
Benefits paid	(1,784)	(1,396)
Actuarial losses	(182)	(187)
At December 31	17,075	12,591

The actual return of plan assets for the year ended December 31, 2012, was ₩ 274 million (2011: ₩ 356 million).

The principal actuarial assumptions as of December 31, 2012 and 2011, were as follows:

	2012	2011
Future salary increase rate	5.04% ~ 5.58%	4.25% ~ 5.92%
Discount rate	1.65% ~ 5.03%	1.81% ~ 6.36%
Expected rate of return on plan assets ¹	4.18% ~ 4.97%	2.48% ~ 6.67%

¹Expected rate of return on plan assets is calculated by weighted average of actual rate of return.

Plan assets as of December 31, 2012 and 2011, consist of the following:

<i>(in millions of Korean won)</i>	2012	2011
Deposits	15,123	10,440
Other	1,952	2,151
	17,075	12,591

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Adjustments for the differences between initial assumptions and actual figures are as follows:

<i>(in millions of Korean won)</i>	2012	2011	2010
Defined benefit liability adjustments	20,417	26,339	30,241
Defined benefit asset adjustments	182	187	50

26. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	317,109	98,659
Deferred tax asset to be recovered within 12 months	187,904	400,652
	<u>505,013</u>	<u>499,311</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(118,431)	(104,909)
Deferred tax liability to be recovered within 12 months	(8,216)	(78,684)
	<u>(126,647)</u>	<u>(183,593)</u>
Deferred tax assets, net	<u>378,366</u>	<u>315,718</u>

The gross movements on the deferred income tax account for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	315,718	388,773
Income statement charge	69,404	(76,948)
Tax charge (credit) relating to components of other comprehensive income	(330)	372
Exchange differences	<u>(6,426)</u>	<u>3,521</u>
At December 31	<u>378,366</u>	<u>315,718</u>

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The movements in deferred income tax assets and liabilities for the years ended December 31, 2012 and 2011, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

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

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(in millions of Korean won)	2011				
	January 1, 2011	Income statement	Other comprehe- nsive income	Currency translation differences	December 31, 2011
Deferred tax liabilities					
Advanced depreciation provision	(55,666)	-	-	-	(55,666)
Valuation of derivatives	(12,945)	(2,871)	-	-	(15,816)
Gains on foreign currency translation	(67,034)	4,671	-	-	(62,363)
Conversion rights adjustment	(18,264)	(7,659)	-	-	(25,923)
Others	(23,385)	915	372	(16)	(22,114)
	(177,294)	(4,944)	372	(16)	(181,882)
Deferred tax assets					
Loss on valuation of inventories	14,331	25,005	-	35	39,371
Valuation of equity-method investments	341,924	80,528	-	-	422,452
Accumulated depreciation	169,203	(17,722)	-	7,376	158,857
Allowance for retirement liability	70,375	24,575	-	18	94,968
Deemed interest of suspense payment and other	147,507	14,806	-	-	162,313
Provisions and others	244,654	(121,672)	-	-	122,982
Impairment of available-for-sale financial assets	13,996	22,191	-	-	36,187
Losses on foreign currency translation	117,370	(16,853)	-	-	100,517
Property, plant and equipment	22,409	2,280	-	-	24,689
Losses on valuation of derivative	31,643	(4,799)	-	-	26,844
Tax loss carryforwards	438,844	26,438	-	1,765	467,047
Tax credit carryforwards	781,165	(68,715)	-	35	712,485
Others	68,365	50,435	-	1,828	120,628
	2,461,786	16,497	-	11,057	2,489,340
Deferred income tax assets	2,284,492	11,553	372	11,041	2,307,458
Deferred income tax assets not recognized	(1,895,719)	(88,501)	-	(7,520)	(1,991,740)
Deferred income tax assets recognized	388,773	(76,948)	372	3,521	315,718

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.

The Group did not recognize deferred income tax assets of ₩ 225,155 million (2011: ₩ 157,976 million) in respect of tax losses amounting to ₩ 928,469 million (2011: ₩ 632,370 million) that can be carried forward against future taxable income.

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Also, the Group did not recognize deferred income tax assets of ₩ 1,038,435 million (2011: ₩ 1,122,200 million) in respect of deductible temporary differences amounting to ₩ 4,133,301 million (2011: ₩ 4,943,772 million) that can be carried forward against future taxable income.

For the year ended December 31, 2012, ₩ 140,711 million (2011: ₩ 137,091 million) of tax credit occurred which can be utilized in the future period. However, the Group did not recognize deferred income tax assets of ₩ 658,899 million (2011: ₩ 712,485 million) in respect of unused tax credit and others accumulated as of December 31, 2012.

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

<i>(in millions of Korean won)</i>	Tax loss carryforwards	Tax credit carryforwards
2013	-	132,986
2014	-	56,489
2015	-	186,948
2016	-	137,091
2017~2019	1,416,423	143,863
Thereafter	1,073,224	-
	2,489,647	657,377

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27. Share capital and Capital Surplus

Details of share capital and capital surplus as of December 31, 2012, are as follows:

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

Authorized shares	Outstanding shares¹	Par value (per share)	Paid in capital
9,000,000	697,684	₩ 5,000	₩ 3,488,419 million

¹As of December 31, 2012, the actual number of shares which the shareholders own is 694,156 thousand shares and the difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus during the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>			Capital Surplus			
	Total owned shares	Share capital	Share premium	Conversion right consideration	Other	Total
At January 1, 2011	590,277	2,969,023	645,513	75,821	471,766	4,162,123
Exercise of conversion rights	1,895	9,475	39,664	(3,471)	-	45,668
Others	-	-	-	-	(241)	(241)
At December 31, 2011	592,172	2,978,498	685,177	72,350	471,525	4,207,550
At January 1, 2012	592,172	2,978,498	685,177	72,350	471,525	4,207,550
Issuance of common stock	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	10	52	229	(19)	-	262
Exercise of stock options	124	619	4,400	-	-	5,019
Expiration of stock options	-	-	-	-	3,562	3,562
Others ¹	-	-	-	-	(76)	(76)
At December 31, 2012	694,156	3,488,419	2,506,532	72,331	475,011	6,542,293

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

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of December 31, 2012, is 3,528 thousand shares.

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28. Retained Earnings

Retained earnings as of December 31, 2012 and 2011, consist of :

<i>(in millions of Korean won)</i>	2012	2011
Legal reserve ¹	8,854	8,854
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	3,068,905	3,310,963
	3,313,265	3,555,323

¹The Commercial Code of the Republic of Korea requires the Parent Company to appropriate, 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 the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Parent Company's majority shareholders.

²Discretionary reserve is a reserve for technology development.

29. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2012 and 2011, consist of the following :

<i>(in millions of Korean won)</i>	2012	2011
Gain on valuation of available-for-sale financial assets	8,479	10,375
Changes of equity from equity-method investments	(7,111)	(2,768)
Cumulative effect of foreign currency translation adjustments	(116,770)	99,500
	(115,402)	107,107

Details of changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

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

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<i>(in millions of Korean won)</i>	2011			
	<u>Beginning</u>	<u>Increase (Decrease)</u>	<u>Reclassification to profit or loss</u>	<u>Ending</u>
Gain on valuation of available-for-sale financial assets	2,470	(377)	8,282	10,375
Changes of equity from equity-method investments	(2,033)	(735)	-	(2,768)
Cumulative effect of foreign currency translation adjustments	(23,698)	123,198	-	99,500
	<u>(23,261)</u>	<u>122,086</u>	<u>8,282</u>	<u>107,107</u>

30. Share-based Payments

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

Changes in details of share-based payments during the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
At January 1	5,762	5,762
Exercised	(2,200)	-
Expired	(3,562)	-
At December 31	<u>-</u>	<u>5,762</u>

Changes in details of options and weighted-average exercisable prices during the years ended December 31, 2012 and 2011, are as follows:

<i>(in thousands of shares, except for price)</i>	2012		2011	
	<u>Weighted average exercise price</u>	<u>Options</u>	<u>Weighted average exercise price</u>	<u>Options</u>
At January 1	₩ 22,800	324	₩ 22,800	324
Granted	-	-	-	-
Exercised	₩ 22,800	(124)	-	-
Expired	₩ 22,800	(200)	-	-
At December 31	<u>-</u>	<u>-</u>	<u>₩ 22,800</u>	<u>324</u>

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, 2012, there is no expense recognized in the statement of comprehensive income for share options granted to directors and employees.

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31. Dividends

Dividend distribution to the Parent Company's shareholders amounted to ₩ 88,541 million for the year ended December 31, 2010, as approved by the shareholders in April 2011.

32. Expenses by Nature

Expense that are recorded as cost of sales, selling and administrative expenses in the statements of comprehensive income for the years ended December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012	2011
Changes in inventories	(332,250)	97,911
Raw materials and consumables used	2,677,328	2,409,091
Employee benefit expenses	1,551,700	1,248,790
Depreciation, amortization and impairment charge	3,193,513	3,450,316
Royalty expense	167,352	178,072
Commission expense	371,975	340,476
Utilities expense	496,753	423,589
Repair expense	911,792	848,089
Outsourcing expense	1,015,512	856,491
Other	335,884	173,891
	10,389,559	10,026,716

Employee benefit expenses for the years ended December 31, 2012 and 2011, consist of

<i>(in millions of Korean won)</i>	2012	2011
Wages and salaries	1,336,814	1,058,245
Defined benefits	107,730	89,594
Termination benefits	1,447	2,657
Other long-term employee benefits	9,911	10,231
Social security costs and other	95,798	88,063
	1,551,700	1,248,790

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33. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Salaries	211,210	178,193
Severance benefits	16,702	14,117
Employee benefits	57,502	52,360
Commission expense	161,783	141,249
Depreciation	55,602	55,528
Amortization	145,154	65,018
Research and development	975,057	609,729
Exporting expense	23,100	25,083
Legal cost	34,204	41,875
Rental expense	15,257	14,638
Taxes and dues	10,231	11,595
Training Expenses	15,660	15,280
Sales Promotional Expenses	22,788	13,902
Utility Expenses	10,924	9,458
Storage cost	13,812	11,048
Supplies Expenses	15,398	10,872
Repairs Expenses	11,649	10,570
Other	42,537	41,280
	1,838,570	1,321,795

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34. Other Non-operating Income and Expense

Other non-operating income for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012	2011
Rental income	17,425	17,361
Gain on disposal of assets held-for-sale	18	6,440
Gain on disposal of property, plant and equipment	3,231	1,206
Gain on disposal of intangible assets	298	9,352
Other	46,158	38,087
	67,130	72,446

Other non-operating expenses for the years ended December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012	2011
Loss on disposal of property, plant and equipment	1,369	3,386
Loss on disposal of intangible assets	5,672	4,984
Donation	2,614	1,587
Loss on disposal of trade receivables	1,031	1,456
Impairment losses of intangible assets	265	726
Amortization of suspended assets	10,041	16,599
Loss on disposal of assets held-for-sale	-	6,972
Impairment losses of property, plant and equipment	-	50,778
Other	41,918	39,350
	62,910	125,838

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35. Financial Income and Expense

Financial income and expense for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Finance income		
Interest income	80,154	56,470
Dividend income	216	45
Foreign exchange differences	598,986	532,684
Gain from derivative instruments	4,409	41,111
Other	5,944	-
	<u>689,709</u>	<u>630,310</u>
Finance expense		
Interest expenses	317,926	310,397
Foreign exchange differences	335,468	551,750
Loss from derivative instruments	18,730	19,714
Impairment of Available-for-sale financial assets	-	21,847
Impairment loss on equity investments in associates	-	7,691
Loss on redemption of debentures	10,470	-
	<u>682,594</u>	<u>911,399</u>
Net finance income (expense)	<u>7,115</u>	<u>(281,089)</u>

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36. Income Tax

Income tax expense(benefit) for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012	2011
Current tax:		
Current tax on profits for the year	29,555	24,738
Adjustments in respect of prior years	(657)	(568)
Total current tax	28,898	24,170
Deferred tax:		
Origination and reversal of temporary differences	(69,404)	76,948
Total deferred tax	(69,404)	76,948
Income tax expense(benefit)	(40,506)	101,118

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

<i>(in millions of Korean won)</i>	2012	2011
Profit (loss) before tax	(199,301)	45,147
Tax calculated at domestic tax rates applicable to profits in the respective countries	(89,590)	27,619
Tax effects of:		
Income not subject to tax	(469)	(335)
Expenses not deductible for tax purposes	1,949	2,480
Changes in temporary differences not recognized	(17,188)	164,701
Re-measurement of deferred tax - change in the Korean tax rate	-	(74,524)
Others	64,792	(18,823)
Income tax expense(benefit)	(40,506)	101,118

The income taxes (charged)/credited directly to equity as of December 31, 2012 and 2011 are as follows:

	2012			2011		
<i>(in millions of Korean won)</i>	Before Tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Gain on valuation of available-for-sale financial assets	11,791	(3,312)	8,479	13,357	(2,982)	10,375
Actuarial loss on retirement benefit obligations	(202,090)	-	(202,090)	(118,200)	-	(118,200)
	(190,299)	(3,312)	(193,611)	(104,843)	(2,982)	(107,825)

During the year 2011, as a result of the change in the Korean corporate tax rate from 22% to 24.2% that was substantively enacted on December 31, 2011, and that is effective from January 1, 2012, the relevant deferred tax balances were re-measured.

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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 excluding ordinary shares purchased by the Company and held as treasury shares.

Basic earnings (loss) per share for the years ended December 31, 2012 and 2011, is as follows:

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

	2012	2011
Loss attributable to ordinary shareholders	(158,886)	(56,641)
Weighted average number of ordinary shares outstanding ¹	681,854,577	592,171,582
Basic loss per share	(233)	(96)

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

(in shares)

	2012	2011
Weighted average number of ordinary shares outstanding ¹	592,171,582	590,276,554
Exercise of conversion rights	10,385	1,895,028
Exercise of stock options	66,872	-
Issuance of share capital	89,605,738	-
Adjusted number of ordinary shares outstanding	681,854,577	592,171,582

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.

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

	2012	2011
Loss attributable to ordinary shares	(158,886)	(56,641)
Add : Convertible bond related costs	(438)	-
Adjusted profit attributable to ordinary shares	(159,324)	(56,641)
Adjusted weighted average number of ordinary shares outstanding ¹	682,727,787	592,171,582
Basic loss per share	(233)	(96)

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

<i>(in shares)</i>	2012	2011
Weighted average number of ordinary shares outstanding	681,854,577	592,171,582
Dilutive potential ordinary shares		
Convertible bond	873,210	-
Share options	-	-
Adjusted weighted average number of ordinary shares outstanding	682,727,787	592,171,582

38. Related Party Transactions

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

Type	Investee
Associate	Siliconfile Technologies Inc.
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)

Significant transactions for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Sales	Purchases	Sales	Purchases
Associates	107,132	931	54,556	618
Jointly controlled entities	67,662	642,825	48,031	444,463
SK Telecom ^{1,3}	1,196	812	-	-
Other related parties ^{2,3,4}	214	120,739	-	-
	176,204	765,307	102,587	445,081

¹ A 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.

³ Significant transactions accrued 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. under which the Group pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2012, royalty on use of SK brand amounted to ₩ 7,860 million.

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The balances of significant transactions as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Receivables	Payables	Receivables	Payables
Associates	26,299	1	9,100	-
Jointly controlled entities	9,515	225,873	14,478	325,934
SK Telecom ¹	887	287	-	-
Other related parties ²	61	23,756	-	-
	36,762	249,917	23,578	325,934

¹ A 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.

In addition to the above commercial transactions and outstanding balances with related parties, the Group had financial transactions with SK Securities Co., Ltd., which was a subsidiary of SK Holdings Co., Ltd., to manage short-term financial instruments (MMDA). The Group deposited ₩ 210,000 million in MMDA accounts during the period when SK Securities Co., Ltd. was still a related party of the Group. However, SK Securities Co., Ltd. was excluded from the related parties of the Group when it ceased to be a subsidiary of SK Holdings Co., Ltd. on December 28, 2012.

Key management compensation

Key management includes the chief executive officer, subsidiary's executives, directors and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	Details	2012	2011
Short-term employee benefits	Wages, salaries, bonus and other	23,157	21,184
Post-employment benefits	Retirement payment and other	2,859	2,391
Other long-term benefits	Long-term employment allowance	1	1
		26,017	23,576

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39. Commitments and contingencies

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

(a) Anti-Trust Act

In June 2002, the United States Department of Justice (“DOJ”) notified the Company that the DOJ had commenced an investigation whether certain Dynamic Random Access Memory (“DRAM”) manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Company entered into a plea agreement with the DOJ. In relation to the lawsuits, the Company reached settlements through separate negotiations with the direct purchaser classes and individual companies. Also, in November 2010, the Company reached settlements with the indirect purchaser classes to pay US\$ 50 million. Meanwhile, the flash product related civil suits were finalized, therefore, all litigations related to flash product in United States were closed.

Meanwhile, civil suits filed by the direct and indirect purchaser classes in three provinces (British Columbia, Ontario, Quebec) in Canada in connection with DRAM and SRAM are pending. The flash product related civil suits hold in British Columbia and Ontario, Quebec, Canada, were dropped by the plaintiffs; therefore, no antitrust lawsuits related to the flash memory remain in Canada.

As of December 31, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Company’s consolidated financial statements. The accompanying consolidated financial statements do not include any additional adjustments in excess of managements’ current expectation in relation to such uncertainty.

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(b) Litigation filed by Rambus

The Company is a defendant in litigations brought by Rambus Inc. ("Rambus"), a developer of highbandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Company's manufacture, sales, offer for sales, use or otherwise disposal of Single Data Rate ("SDR") Synchronous Dynamic Random Access Memory ("SDRAM") and Double Data Rate ("DDR") SDRAM products. The litigations have been brought in Germany, France, the United Kingdom and the United States. In 2004, the European Patent Office revoked Rambus' certain key patents subject to such litigation against the Company in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United Kingdom was dismissed, the litigation in France ceased further proceedings, and the litigation in Germany has been deferred without any progress.

Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the judgment that ordered the Company to pay for damages for the infringement of Rambus' patents and to pay royalties of 1% for SDR SDRAM products and 4.25% for DDR SDRAM products manufactured or sold in the United States from February 1, 2009 to April 17, 2010 ("on-going royalties"). The Company appealed the court's final judgment to the United States Court of Appeals for the Federal Circuit on April 6, 2009.

The United States District Court for the Northern District of California accepted the Company's motion to stay the execution of the final judgment and ruled that such execution should be stayed on the condition that the Company post a bond and provide part of its Cheong-ju plant in Korea as a collateral while the Company pursues the filing of the appeal at the United States Court of Appeals for the Federal Circuit. This ruling prevents Rambus from seeking to collect its damages while the appeal is pending. However, considering the improvement in the Company's financial condition, the United States District Court for the Northern District of California ordered to provide additional payment guarantee instead of providing part of its Cheong-ju plant in Korea as a collateral. In connection with this ruling, the Korea Development Bank and other banks provided payment guarantee in the amount of US\$ 400 million for the Company.

On May 13, 2011, the United States Court of Appeals for the Federal Circuit vacated the original judgment issued by the United States District Court for the Northern District of California concluding the court used the wrong legal standard in deciding Rambus's unlawful destruction of document at a time litigation was reasonably foreseeable ("spoliation") and remanded the case for further proceedings to the court. In light of the fact that the court's judgment has been vacated, the bond and on-going royalties, which have been posted and maintained by the Company, were released to the Company.

On September 21, 2012, the court to which the case was remanded issued its decision on Rambus's spoliation issue finding that Rambus has engaged in spoliation and concluded that the appropriate sanction was to strike from the evidence the documents supporting royalty payments in excess of a reasonable and non-discriminatory terms("RAND terms"). Accordingly, the parties submitted each brief on what the RAND terms would be for the patents in suit by November, 2012 based on the court's decision.

Separately, Rambus also brought another lawsuit against the Company and its US subsidiary by

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alleging that the Company and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. In addition, Rambus filed a lawsuit in the San Francisco Superior Court against the Company together with its US subsidiary, and other major memory chip manufacturers alleging that the defendants conspired to prevent Rambus's proprietary DRAM technology from becoming the standard computer memory technology. However on February 15, 2012, the court issued the final judgment rejecting Rambus's claims and Rambus appealed the court's final judgment to the Court of Appeal of the State of California on April 2, 2012.

As of December 31, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's consolidated financial statements. The accompanying consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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

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

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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 December 31, 2012 the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

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(d) Lawsuit against Hyundai Securities Co., Ltd. ("HSC")

On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against the Group at the Seoul Central District Court with respect to the lawsuit described above, seeking the Group to pay ₩ 99,172 million and interest to HSC on the grounds that the Group has the ultimate expense reimbursement obligation.

As a result of the lawsuit, on December 17, 2010, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HHI. The Group made a provisional payment amounting to ₩ 160,724 million to HSC and appealed to the Seoul High Court on January 7, 2011. On September 28, 2011, the Seoul High Court rejected the Group's appeal by stating that the Group was liable to HSC as ruled by the Seoul Central District Court. The Group filed an appeal to the Supreme Court of Korea on October 19, 2011.

On October 11, 2012, Supreme Court of Korea dismissed the appeal for the same reason as judged in the Seoul High Court ruling. Therefore, this lawsuit has been finalized and concluded.

Separately, the Group filed a lawsuit against HSC on September 21, 2009, at Seoul Central District Court in connection with the agreed payment claim of ₩ 211,829 million and interest on the grounds that HSC provided the Group with a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that the Group would not suffer any legal or economic losses in connection with the transactions described above, and the agreement for loss compensation. As a result of the lawsuit, the Seoul Central District Court ruled against the Group on the grounds that the comfort letter is restricted to a loss incurred by the sanctions from the government and therefore, the comfort letter was not an agreement for compensation for all legal or economic losses. However, the Group appealed to the Seoul High Court on January 7, 2011.

On September 22, 2011, the Seoul High Court rejected the Group's appeal stating the same reason as judged in the first ruling. After considering any benefit from an appeal to a higher court, the Group decided not to appeal any more. Therefore, this lawsuit has been finalized.

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Group seeking the Group to pay ₩ 27,917 million and delay interest on the grounds that the Group is finally liable to HSC's payment to HHI in relation to the taxes levied on HHI and any related losses incurred by HHI in connection with HHI's repurchase of shares of HSI. The Group filed a counter-suit against this claim at the Seoul Central District Court and made a provisional payment amounting to ₩ 30,235 million to HSC to avoid any delay interest in case of unfavourable ruling against the Group.

As the result of the lawsuit, on February 17, 2012, the Seoul Central District Court ruled against the Group on the grounds that HSC's payment were on behalf of the Group as an agency and therefore, the Group had the responsibility to repay the amounts that HSC had paid. Upon the decision of claim for the reduction in payment for damages, HSC made the refund to the Group amounting to ₩ 949 million. On March 8, 2012, the Group appealed to the Seoul High Court. However, the Group withdrew the appeal on October 31, 2012. Therefore, this lawsuit has been finalized.

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(e) 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 December 31, 2012, 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 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 collaterals as of December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	Book value	Pledged amount	Remark
Land	36,210		
Buildings	89,917	2,269,254	Borrowings
Machinery	2,316,456		
	2,442,583	2,269,254	

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

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Financing agreements

Details of credit lines with financial institutions as of December 31, 2012, are as follows:

<i>(in millions of US dollars and Chinese Renminbi)</i>	Financial Institution	Commitment	Cur.	Amount
The Parent Company	Korea Exchange	Import finance like usance	USD	830
	Bank and other	Export finance like bills bought	USD	425
		Comprehensive limit contract about Import & Export	USD	745
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China and other		RMB	1,230
		Import finance like usance	USD	312
SK hynix America Inc. (SKHYA) and other sales entities ¹	Citibank and other	Accounts receivable factoring contracts which have no right to recourse	USD	307

¹ Certain sales entities have accounts receivable factoring contracts without finance limit for receivables due from specific customers.

Guarantees provided to others

Details of guarantees provided to others as of December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	Amount	Remark
Employees	31	Guarantees for employees' borrowings relating to employee stock ownership

Capital commitment

As of December 31, 2012, the Group has ₩ 114,610 million (2011: ₩ 205,070 million) of commitment in relation to the capital expenditures on tangible assets.

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40. Derivative Financial Instruments

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

Details of derivative financial assets and liabilities as of December 31, 2012 and 2011, are as follows:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
<i>(in millions of Korean won)</i>				
Current				
Interest and principal swap	-	-	-	33,696
Interest rates swap	-	3,256	-	4,982
Embedded derivatives	-	13,764	-	-
	-	17,020	-	38,678
Non-current				
Interest rates swap	198	1,615	-	1,325
Embedded derivative instruments	-	-	3,114	6,471
	198	1,615	3,114	7,796
	198	18,635	3,114	46,474

Details of gains and losses from derivative instruments during the years ended December 31, 2012 and 2011, are as follows:

	2012			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
<i>(in millions of Korean won)</i>				
Foreign currency forward contract	-	-	913	4,924
Interest and principal swap	-	-	1,450	4,030
Interest rates swap	1,359	613	675	1,858
Embedded derivative instruments	-	7,305	12	-
	1,359	7,918	3,050	10,812
	2011			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
<i>(in millions of Korean won)</i>				
Interest and principal swap	-	7,834	6,295	-
Interest rates swap	1,040	1,325	-	1,241
Foreign currency forward contract	-	-	9,082	2,290
Foreign currency option contract	-	-	3,865	2,443
Embedded derivative instruments	20,829	4,581	-	-
	21,869	13,740	19,242	5,974

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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, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Profit for the period before income tax	(199,301)	45,147
Adjustments		
Defined benefits	107,730	89,594
Depreciation	3,057,856	3,401,222
Amortization	145,698	65,692
Loss on foreign currency translation	24,597	75,810
Interest expenses	317,926	310,397
Gain on foreign currency translation	(211,345)	(46,380)
Interest income	(80,154)	(56,470)
Gain (loss) on derivative instruments	14,321	(21,397)
Gain on equity method investments	(16,713)	(10,568)
Others	22,050	39,276
Changes in operating assets and liabilities		
Decrease in trade receivables	(322,127)	137,565
Decrease(Increase) inventories	(335,580)	99,702
Increase(Decrease) in trade payables	(374)	(230,393)
Increase(Decrease) in non-trade and other payables	(30,145)	(358,411)
Increase(Decrease) in provision	1,446	(260,524)
Payment of defined benefit liability	(69,161)	(50,496)
Others	(5,830)	(149,901)
Cash Generated from Operations	2,420,894	3,079,865

During the year ended December 31, 2012, the Group purchased ₩ 216,682 million of property, plant and equipment through finance lease obligations.

42. Transactions with Non-controlling Interests

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

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43. Business Combinations

The Group acquired 100% of the share capital of Link_A_Media Devices Corporation("LAMD"), which is a Nand Flash controller developer, located in United States for ₩ 282,293 million and obtained control over LAMD in August 2012.

The goodwill amounting to ₩ 261,047 million arising from the acquisition is attributable to the synergy benefits based on decrease in R&D expenses and expected increase in sales as a result of acquisition of LAMD.

The following table summarizes the consideration paid for LAMD, the fair value of assets acquired and liabilities assumed at the acquisition date:

<i>(in millions of Korean won)</i>	Amount
Consideration	282,293
Recognized amounts of identifiable assets acquired and liabilities assumed ¹	
Current assets	
Cash and cash equivalents	4,542
Trade receivables ²	650
Inventories	14
Other current assets	822
Non-current assets	
Property, plant and equipment	1,621
Intangible assets	24,105
Other non-current assets	83
Current liabilities	
Trade payables	6,574
Other current liabilities	3,627
Non-current liabilities	390
Fair value of net identifiable assets	21,246
Goodwill	261,047

¹ Assets acquired and liabilities assumed were measured at their fair values in accordance with Korean IFRS 1103, 'Business Combination'.

² The gross contractual amount for trade accounts receivable due is ₩ 651 million and none of these is expected to be uncollectible.

The acquisition-related costs amounting to ₩ 5,669 million were all expensed for the year ended December 31, 2012.

The sales revenue of LAMD included in the consolidated statement of comprehensive income after acquisition date was ₩ 4,289 million. LAMD also contributed a net loss of ₩ 5,802 million over the same period.

Had LAMD been consolidated from January 1, 2012, the sales of ₩ 13,490 million and net loss of ₩ 27,240 million would have been included in the consolidated statement of comprehensive income.

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SK hynix Italy S.r.l.(SKHYIT)

In May 2012, the Group acquired all the common shares of SK hynix Italy S.r.l.(‘SKHYIT’) (formerly, Ideaflash S.r.l.), which was a NAND flash development company in Italy for ₩ 18 million. As of the date of acquisition, the identifiable assets acquired were ₩ 3,608 million and the liabilities assumed were ₩ 3,470 million. The difference between consideration and net assets acquired was recognized as a gain for the year ended December 31, 2012.