SK hynix Inc.
(Formerly Hynix Semiconductor Inc.)
Separate Statements of Financial Position
December 31, 2012 and 2011

(in millions of Korean won)	**Notes**	**2012**	**2011**
Assets			
Current assets			
Cash and cash equivalents	5, 8	₩ 477,747	₩ 980,359
Short-term financial instruments	5, 9	1,074,661	588,528
Trade receivables	5, 6, 7, 10	1,622,659	1,417,886
Loans and other receivables	5, 6, 10	184,907	298,260
Inventories	11	1,199,485	928,891
Assets classified as held for sale	18	-	5
Current tax assets		11,014	9,493
Other current assets	12	125,434	83,772
		4,695,907	4,307,194
Non-current assets			
Investments in subsidiaries, jointly controlled entities and associates	14	3,259,185	2,989,863
Available-for-sale financial assets	5, 13	43,901	47,327
Property, plant and equipment	15	8,944,484	7,902,653
Intangible assets	17	713,688	705,807
Investment property	16	29,888	31,168
Loans and other receivables	5, 6, 10	20,065	30,208
Other financial assets	5, 9, 39	521	3,436
Deferred income tax assets	25	307,918	221,935
Other non-current assets	12	187,927	154,319
		13,507,577	12,086,716
Total assets		18,203,484	16,393,910
Liabilities			
Current liabilities			
Trade payables	5	737,207	840,146
Other payables	5	377,239	489,684
Other non-trade payables	5, 19	335,020	320,395
Provisions	21	335,752	449,696
Other financial liabilities	5, 22, 39	13,764	34,315
Borrowings	5, 20	2,427,207	2,343,892
Other current liabilities	23	14,490	18,855
		4,240,679	4,496,983
Non-current liabilities			
Borrowings	5, 20	3,317,533	3,130,094
Other non-trade payables	5, 19	79,614	70,617
Defined benefit liabilities	24	565,495	448,430
Other financial liabilities	5, 22, 39	1,615	7,796
Other non-current liabilities	23	38,905	36,929
		4,003,162	3,693,866
Total liabilities		8,243,841	8,190,849
Equity			
Capital stock	26	3,488,419	2,978,498
Capital surplus	26	3,092,155	1,267,257
Accumulated other comprehensive income	28	8,479	10,375
Other components of equity	29	-	5,762
Retained earnings	27	3,370,590	3,941,169
Total equity		9,959,643	8,203,061
Total liabilities and equity		₩ 18,203,484	₩ 16,393,910

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

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

(in millions of Korean won, except per share amounts)	**Notes**	**2012**	**2011**
Net sales		₩ 10,001,783	₩ 10,188,162
Cost of sales	31	(8,947,795)	(8,479,381)
Gross profit		1,053,988	1,708,781
Selling and administrative expenses	31, 32	(1,670,273)	(1,176,758)
Operating income (loss)		(616,285)	532,023
Financial income	34	627,348	521,195
Financial expenses	34	(606,002)	(786,628)
Other non-operating income	33	64,646	77,587
Other non-operating expenses	33	(46,584)	(107,864)
Profit (loss) before income tax (benefit)		(576,877)	236,313
Income tax expense (benefit)	35	(86,887)	107,171
.			
Profit (loss) for the year		₩ (489,990)	₩ 129,142
Other comprehensive income (loss)			
Available-for-sale financial assets	13, 28	(1,896)	7,906
Actuarial loss on defined benefit liability	24	(80,589)	(58,160)
Total comprehensive income (loss) for the year		₩ (572,475)	₩ 78,888
Earnings (loss) per share	36		
Basic earnings (loss) per share		₩ (719)	₩ 218
Diluted earnings (loss) per share		(719)	218

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

SK hynix Inc.

(Formerly Hynix Semiconductor Inc.)

Separate Statements of Changes in Equity

Years Ended December 31, 2012 and 2011

(in millions of Korean won)	Notes	Paid-in Capital	Capital Surplus	Other Comprehensive Income (loss)	Other Components of Equity	Retained Earnings	Total Equity
Balance at January 1, 2011		₩ 2,969,023	₩ 1,231,064	₩ 2,469	₩ 5,762	₩ 3,958,728	₩ 8,167,046
Comprehensive income							
Profit for the year		-	-	-	-	129,142	129,142
Actuarial loss on defined benefit liabilities	24	-	-	-	-	(58,160)	(58,160)
Gain on the valuation of available-for-sale financial assets	13, 28	-	-	7,906	-	-	7,906
Total comprehensive income		-	-	7,906	-	70,982	78,888
Transactions with equity holders of the Company							
Dividends	30	-	-	-	-	(88,541)	(88,541)
Exercise of conversion rights	26	9,475	36,193	-	-	-	45,668
Total transactions with equity holders of the Company		9,475	36,193	-	-	(88,541)	(42,873)
Balance at December 31, 2011		₩ 2,978,498	₩ 1,267,257	₩ 10,375	₩ 5,762	₩ 3,941,169	₩ 8,203,061
Balance at January 1, 2012		₩ 2,978,498	₩ 1,267,257	₩ 10,375	₩ 5,762	₩ 3,941,169	₩ 8,203,061
Comprehensive income							
Loss for the year		-	-	-	-	(489,990)	(489,990)
Actuarial loss on defined benefit liabilities	24	-	-	-	-	(80,589)	(80,589)
Loss on the valuation of available-for-sale financial assets	13, 28	-	-	(1,896)	-	-	(1,896)
Total comprehensive loss		-	-	(1,896)	-	(570,579)	(572,475)
Transactions with equity holders of the Company							
Issuance of share capital	26	509,250	1,816,726	-	-	-	2,325,976
Exercise of stock options	26,29	619	4,400	-	(2,200)	-	2,819
Expiration of stock options	26,29	-	3,562	-	(3,562)	-	-
Exercise of conversion rights	26	52	210	-	-	-	262
Total transactions with equity holders of the Company		509,921	1,824,898	-	- 5,762	-	2,329,057
Balance at December 31, 2012		₩ 3,488,419	₩ 3,092,155	₩ 8,479	₩ -	₩ 3,370,590	₩ 9,959,643

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

SK hynix Inc.
(Formerly Hynix Semiconductor Inc.)
Separate 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	40	₩ 1,086,482	₩ 1,975,138
Interest received		76,376	65,503
Interest paid		(255,180)	(231,595)
Income tax paid		(948)	(672)
Dividends received		18,019	8,882
Net cash generated from operating activities		924,749	1,817,256
Cash flows from investing activities			
Decrease in short-term financial assets		2,354,352	1,983,348
Proceeds from derivatives		2,418	19,013
Decrease in loans and other receivables		40,674	11,661
Proceeds from disposal of non-current assets held for sale		23	6,931
Proceeds from disposal of available-for-sale financial assets		11,190	-
Proceeds from disposal of investments in subsidiaries, jointly controlled entities and associates		-	14,420
Proceeds from disposal of property, plant and equipment		36,139	9,207
Proceeds from disposal of investment property		-	12,151
Proceeds from disposal of intangible assets		1,226	10,107
Increase in short-term financial assets		(2,840,486)	(1,727,508)
Payments from derivatives		(44,506)	(51,381)
Acquisition of available-for-sale financial assets		(3,387)	(11,163)
Acquisition of investment in subsidiaries, jointly controlled entities and associates		(282,492)	(12,426)
Acquisition of property, plant and equipment		(3,001,628)	(2,613,485)
Acquisition of intangible assets		(158,879)	(175,242)
Increase in loans and other receivables		(14,339)	(320)
Payments from other investing activities		-	(1,464)
Net cash used in investing activities		(3,899,695)	(2,526,151)
Cash flows from financing activities			
Proceeds from borrowings		6,538,147	1,990,943
Repayments of borrowings		(6,394,604)	(1,171,438)
Proceeds from issuance of common stock		2,328,791	-
Dividends paid	30	-	(88,541)
Net cash provided by financing activities		2,472,334	730,964
Effect of foreign exchange rates on cash and cash equivalents		-	(1,756)
Net increase (decrease) in cash and cash equivalents		(502,612)	20,313
Cash and cash equivalents at the beginning of year		980,359	960,046
Cash and cash equivalents at the end of year		₩ 477,747	₩ 980,359

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

1. General Information

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

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

As of December 31, 2012, the shareholders of the Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	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**

[1]As 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 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.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

The Company 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 Company applies the accounting policy retroactively in accordance with the amended standards and the comparative separate 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 ₩63,353 million and ₩28,069 million, respectively, for the year ended December 31, 2012 (2011: ₩75,965 million and ₩96,471 million, respectively), which include gain(loss) on disposal of property, plant and equipment, gain(loss) on disposal of intangible assets , rental income, impairment loss of 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 ₩35,284 million and operating income for the year ended December 31, 2011, was higher by ₩20,506 million, as compared to the amounts under the previous standard. However, there is no impact on net income(loss) and earnings(loss) per share for the years ended December 31, 2012 and 2011.

(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 Company 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 Company expects that the application of this amendment would not have a material impact on its separate 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 Company is assessing the impact of application of the amended Korean IFRS 1019 on its separate 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 Company expects that the application of this enactment would not have a material impact on its separate financial statements.

- 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 Company is reviewing the impact of this standard.

2.3 Subsidiaries, associates, and joint ventures

The financial statements of the Company are separate financial statements based on Korean IFRS 1027, Separate and non-separate financial statements. Investments in subsidiaries, jointly controlled entities, and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of first adoption of the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, jointly controlled entities or associates in profit or loss when its right to receive dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The separate financial statements are presented in Korean won, which is the 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 the end of each reporting period 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 and 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 equity.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are reflected in current operations 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.

2.5 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.

2.6 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.

2.7 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.

2.8 Financial Assets

2.8.1 Classification

The Company 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 Company'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.

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.

2.8.2 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 separate

statements of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company 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 separate 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 Company’s right to receive payments is established.

2.8.3 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.

2.8.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company 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 Company’s statements of financial position.

2.9 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event 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 Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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 Company 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 Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company 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.

2.10 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.

2.11 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 Company 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 separate 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 - 20 years
Machinery	5 - 15 years
Vehicles	5 years
Other	5 - 10 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.

2.12 Borrowing Costs

The Company 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 Company recognizes other borrowing costs as an expense in the period in which they are incurred.

2.13 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 Company 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.

2.14 Intangible Assets

(a) Goodwill

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

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

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

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

(d) Membership rights

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

2.15 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 Company 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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 Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of 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 separate statement of financial position. In case when a transfer of a financial asset does not qualify for derecognition, the transferred asset is continuously recognized as asset and the consideration received is recognized as financial liabilities. 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.

2.20 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 Company'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*.

2.21 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 separate statements of comprehensive income over the period of the borrowings using the effective interest method. The Company 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.

2.22 Compound Financial Instruments

Compound financial instruments issued by the Company 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 Company 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. `

2.23 Provisions

Provisions are recognized when: the Company 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.

2.24 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 Company 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 separate 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 Company 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's 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 where there is an intention to settle the balances on a net basis.

2.25 Employee Benefits

(a) Defined benefit liability

The Company 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 separate statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, 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 Company operates equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. 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 Company 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 Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(c) Long-term employee benefits

A number of companies within the Company 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.

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

2.26 Share Capital

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

Where the Company purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company'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 Company's equity holders.

2.27 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.

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

(a) Sales of goods

The Company manufactures and sells semiconductor products. Sales of goods are recognized when the Company 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 Company recognizes provisions for sales returns based on reasonable expectation reflecting sales return rates incurred historically.

(b) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Company 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.

2.28 Leases

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

Leases of property, plant and equipment where the Company 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.

2.29 Dividend Distribution

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

2.30 Approval of Issuance of the Financial Statements

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

3. Critical Accounting Estimates and Judgments

The Company 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 Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recorded, based on its best estimate, current taxes and deferred taxes that the Company 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 Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

(d) Provisions

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

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

(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 Company determines the appropriate discount 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 Company 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 24.

4. Financial Risk Management

4.1 Financial Risk Factors

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

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

(a) Market risk

i) Foreign exchange risk

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

At December 31, 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 ₩ 187,934 million (2011: ₩ 277,161 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 ₩ 19,396 million (2011: ₩ 29,776 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated trade receivables and foreign exchange losses/gains on translation of Japanese Yen-denominated trade payables.

At December 31, 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 ₩ 7,989 million (2011: ₩ 10,873 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 Company is exposed to equity securities price risk because of investments held by the Company and classified on the separate 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 Company diversifies its portfolio.

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

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

	2012		2011	
(in millions of Korean won)	**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	2,194	(2,194)	2,566	(2,566)

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

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

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

As of 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 ₩ 10,186 million (2011: ₩ 8,540 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

i) Trade and other Receivables

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

ii) Other assets

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures from short-term and long-term loans. For banks and financial institutions, only independently rated parties with a high credit rating are accepted, and accordingly managements do not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

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

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company treasury. The Company 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 Company held cash equivalents and short-term financial instruments of approximately ₩ 477,739 million (2011: ₩ 729,310 million) and ₩ 1,040,000 million (2011: ₩ 570,000 million), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

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

	2012				
(in millions of Korean won)	**Less than 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Over 5 years**	**Total**
Borrowings (other than finance lease)	2,546,834	562,483	2,242,830	594,138	5,946,285
Finance lease liabilities	138,339	127,631	218,301	-	484,271
Trade payables	737,207	-	-	-	737,207
Other payables	386,442	-	-	-	386,442
Other non-trade payables	333,089	27,073	66,243	5,520	431,925
Derivatives	1,615	-	-	-	1,615
Financial guarantee contract	13,034	-	-	-	13,034
	4,156,560	**717,187**	**2,527,374**	**599,658**	**8,000,779**

	2011				
(in millions of Korean won)	**Less than 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Over 5 years**	**Total**
Borrowings (other than finance lease)	2,465,082	1,034,609	1,683,164	576,920	5,759,775
Finance lease liabilities	84,726	114,380	169,647	-	368,753
Trade payables	840,146	-	-	-	840,146
Other payables	500,950	-	-	-	500,950
Other non-trade payables	320,395	30,760	40,833	17,014	409,002
Derivatives	35,640	-	-	-	35,640
Financial guarantee contract	15,807	-	-	-	15,807
	4,262,746	**1,179,749**	**1,893,644**	**593,934**	**7,930,073**

The table above analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity companyings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Company's trading portfolio derivative instruments have been included at their fair value of ₩ 1,615 million (2011: ₩ 35,640 million) within the less than one year time bucket as of December 31, 2012. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile.

4.2 Capital Risk Management

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

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

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

(in millions of Korean won)	**2012**	**2011**
Total liabilities (A)	8,243,841	8,190,849
Total equity (B)	9,959,643	8,203,061
Cash and cash equivalents and others (C)[1]	1,552,408	1,568,887
Total borrowings (D)	5,744,740	5,473,986
Debt ratio (A/B)	83%	100%
Net borrowing ratio (D-C)/B	42%	48%

[1] Cash and cash equivalents includes 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).

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2012 and 2011:

	2012			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	198	-	198
Available-for-sale financial assets				
Equity securities (at fair value)	32,932	-	-	32,932
	32,932	**198**	**-**	**33,130**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	15,379	-	15,379
	-	**15,379**	**-**	**15,379**

	2011			
(in millions of Korean won)	**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	-	42,111	-	42,111
	-	**42,111**	**-**	**42,111**

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 Company 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.

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.

(in millions of Korean won)	**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
Novelis Korea Ltd.	-	1,699
Anobit Technologies Ltd.	-	3,123
Others	609	602
	10,969	**12,829**

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.

5. Financial Instruments by Categories

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

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

	2011				
(in millions of Korean won)	**Assets at fair value through the profit and loss**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Loans and receivables**	**Total**
Cash and cash equivalents	-	-	-	980,359	980,359
Short-term financial instruments	-	-	-	588,528	588,528
Trade receivables	-	-	-	1,417,886	1,417,886
Other receivables	-	-	-	328,468	328,468
Other financial assets	3,114	-	-	322	3,436
Available-for-sale financial assets	-	47,327	-		- 47,327
	3,114	**47,327**	**-**	**3,315,563**	**3,366,004**

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

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

	2011			
(in millions of Korean won)	**Liabilities at fair value through the profit and loss**	**Liabilities measured at amortized cost**	**Other**	**Total**
Trade payables	-	840,146	-	840,146
Other payables	-	489,684	-	489,684
Other non-trade payables	-	391,012	-	391,012
Borrowings	-	5,051,773	422,213	5,473,986
Other financial liabilities	42,111	-	-	42,111
	42,111	**6,772,615**	**422,213**	**7,236,939**

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

(in millions of Korean won)	**2012**	**2011**
Loans and receivables		
Interest income	77,411	55,617
Foreign exchange difference	(126,383)	10,128
Impairment loss	(283)	(948)
	(49,255)	**64,797**
Available-for-sale		
Other comprehensive income(Loss)	(1,566)	7,535
Gain or loss on disposal	5,943	-
Interest income	-	785
Dividend income	215	44
Impairment	-	(21,847)
	4,592	**(13,483)**
Assets at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	198	(4,581)
Gain on derivative transactions	-	-
	198	**(4,581)**
Liabilities measured at amortized cost		
Interest expense	(288,531)	(271,753)
Loss on redemption of debenture	(10,470)	-
Foreign exchange difference	346,123	(59,305)
	47,122	**(331,058)**
Liabilities at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	(7,595)	12,451
Gain on derivative transactions	(7,761)	10,057
	(15,356)	**22,508**
	(12,699)	**(261,817)**

6. 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		
(in millions of Korean won)	**Not past due**	**Impaired**	**Total**
Trade receivables	1,624,264	885	1,625,149
Current loans and other receivables	185,194	4,747	189,941
Non-current loans and other receivables	20,140	11,133	31,273
	1,829,598	**16,765**	**1,846,363**

	2011		
(in millions of Korean won)	**Not past due**	**Impaired**	**Total**
Trade receivables	1,419,234	885	1,420,119
Current loans and other receivables	298,687	4,497	303,184
Non-current loans and other receivables	30,491	11,009	41,500
	1,748,412	**16,391**	**1,764,803**

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 Company has an export sales insurance contract with Korea Trade Insurance Corporation amounting to ₩ 847,721 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 Company is ₩ 13,034 million (2011: ₩ 15,807 million) which will be paid upon request of warrantee as mentioned in Note 38.

7. Derecognition of financial assets

The Company 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: ₩ 422,213 million) as of December 31, 2012. The Company is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collaterized borrowings.

8. Cash and cash equivalents

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

(in millions of Korean won)	**2012**	**2011**
Cash on hand	8	8
Ordinary deposits	718	6
Time deposits	40,000	740,639
Specified money trust	280,000	60,000
RP	20,000	10,000
CMA	6,395	9,977
MMDA	130,626	159,729
Total	**477,747**	**980,359**

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

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

9. 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:

(in millions of Korean won)	**2012**	**2011**
Short-term financial instruments		
Time deposits	654,600	487,000
Specified money trust	260,000	40,000
RP	160,000	60,000
MMDA	61	1,528
	1,074,661	588,528
Other financial assets		
Non-current Assets		
Time deposits	308	308
Bank overdraft guarantee deposits	15	14
Derivative assets	198	3,114
	521	3,436
	1,075,182	**591,964**

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

(in millions of Korean won)	**2012**	**2011**	**Description**
Short-term financial instruments	61	1,528	Restricted for government grants
	34,600	17,000	Restricted for support small business
	34,661	18,528	
Other financial assets	308	308	Pledged for borrowings
	15	14	Bank overdraft guarantee deposit
	323	322	
	34,984	**18,850**	

10.Trade and Other receivables

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

(in millions of Korean won)	**2012**	**2011**
Current		
Other receivables	113,633	103,527
Accrued income	8,327	7,301
Short-term loans	62,947	106,436
Deposits	-	80,996
	184,907	298,260
Non-current		
Long-term other receivables	-	23,129
Long-term loans	11,938	1,252
Long-term accrued income	9	-
Guarantee deposits	7,538	5,105
Other deposits	580	722
	20,065	30,208
	204,972	**328,468**

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

(in millions of Korean won)	**2012**	**2011**
Trade receivables	1,625,149	1,420,119
Less : provision for impairment	(2,490)	(2,233)
Trade receivables - net	1,622,659	1,417,886
Current loans and other receivables	189,941	303,184
Less : provision for impairment	(5,034)	(4,924)
Current other receivables - net	184,907	298,260
Non-current loans and other receivables	31,273	41,500
Less : provision for impairment	(11,208)	(11,292)
Non-current other receivables - net	20,065	30,208
	1,827,631	**1,746,354**

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

(in millions of Korean won)	**2012**	**2011**
Beginning	2,233	1,615
Provision for receivables impairment	257	618
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Ending	**2,490**	**2,233**

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

(in millions of Korean won)	**2012**	**2011**
Beginning	4,924	4,787
Provision for receivables impairment	110	137
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Ending	**5,034**	**4,924**

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:

(in millions of Korean won)	**2012**	**2011**
Beginning	11,292	11,099
Provision for receivables impairment	150	249
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	(234)	(56)
Ending	**11,208**	**11,292**

11.Inventories

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

(in millions of Korean won)	**2012**	**2011**
Finished goods	516,966	331,139
Less: valuation	(72,431)	(44,913)
Finished goods - net	444,535	286,226
Work in progress	596,264	515,525
Less : valuation	(33,479)	(50,292)
Work in progress - net	562,785	465,233
Raw materials	141,266	95,291
Less : valuation	(3,704)	(620)
Raw materials - net	137,562	94,671
Supplies	17,299	15,111
Less : valuation	-	-
Supplies - net	17,299	15,111
Goods in transit	37,436	68,145
Less : valuation	(132)	(495)
Goods in transit - net	37,304	67,650
	1,199,485	**928,891**

The Company 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 ₩ 8,989,406 million (2011: ₩ 8,374,549 million) for the year ended December 31, 2012.

12. Other Current and Non-current Assets

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

(in millions of Korean won)	**2012**	**2011**
Current Assets		
Advance payments	777	3,211
Prepaid expenses	116,753	65,707
Others	7,904	14,854
	125,434	83,772
Non-current Assets		
Long-term prepaid expenses	166,349	132,890
Others	21,578	21,429
	187,927	154,319
	313,361	**238,091**

13. 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
Novelis Korea Ltd.	-	-	-	-	1,699
Anobit Technologies Ltd.	-	-	-	-	3,123
SL investment	-	-	-	-	320
Others	-		5,839	2	2
			64,366	**43,901**	**47,327**

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

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

(in millions of Korean won)	**2012**	**2011**
At January 1	47,327	50,477
Acquisitions	3,387	11,163
Disposal	(5,247)	
Changes in the unrealized gain or loss[1]	(1,566)	(748)
Impairment loss[2]	-	(13,565)
At December 31	**43,901**	**47,327**

[1] Net of income tax effect of ₩ 330 million (2011: ₩ 371 million).

[2] The Company 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.

14.Investments in Subsidiaries, Associates and Jointly Controlled Entities

Details of investments in subsidiaries as of December 31, 2012 and 2011, are as follows

Names of subsidiaries	Loca-tions	Percentage of Ownership(%)	Acquisition cost	Book Value 2012	Book Value 2011
SK Hyeng Co., Ltd.	Korea	100.00	15,154	15,154	15,074
SK Hystech Co., Ltd.	Korea	100.00	6,760	6,760	6,727
Ami Power Co., Ltd.	Korea	100.00	13,885	715	13,816
SK hynix America Inc.(SKHYA)	U.S.A	97.74	31	31	31
SK hynix Deutschland GmbH(SKHYD)	Germany	100.00	22,011	22,011	22,011
SK hynix Europe Holding Ltd.(SKHYE)	U.K.	100.00	1,811	1,811	1,811
SK hynix Asia Pte. Ltd.(SKHYS)	Singapore	100.00	52,380	52,380	52,380
SK hynix Semiconductor India Private Ltd.(SKHYIS) [1]	India	1.00	5	5	5
SK hynix Semiconductor HongKong Ltd.(SKHYH)	HongKong	100.00	32,623	32,623	32,624
SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS)	China	100.00	4,032	4,032	4,032
SK hynix Japan Inc.(SKHYJ)	Japan	100.00	42,905	42,905	42,905
SK hynix Semiconductor Taiwan Inc.(SKHYT)	Taiwan	100.00	37,562	37,562	37,562
SK hynix Semiconductor (China) Ltd.(SKHYCL)	China	90.26	2,421,631	2,421,631	2,421,631
SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC)	China	100.00	238,271	238,271	238,271
SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW)	China	100.00	237	237	237
SK hynix Italy S.r.l(SKHYIT) [3]	Italy	100.00	18	18	-
Link_A_Media Devices orporation(LAMD) [3]	U.S.A	100.00	282,293	282,293	-
Hynix Semiconductor Manufacturing America Inc. (HSMA) [2]	U.S.A	0.05	-	-	-
			3,171,609	**3,158,439**	**2,889,117**

[1] Subsidiary of SK hynix Asia Pte. Ltd.

[2] Subsidiary of SK hynix America Inc.

[3] Newly acquired subsidiaries during the year ended December 31, 2012.

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

(in millions of Korean won)		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	18,775	7,944	8,138	8,138
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH)	Certificate	45.00	80,427	95,191	92,608	92,608
				99,202	**103,135**	**100,746**	**100,746**

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

Changes in investments in subsidiaries for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	2,889,117	2,902,126
Addition	282,492	245
Liquidation	-	(13,254)
Impairment loss[1]	(13,170)	-
At December 31	**3,158,439**	**2,889,117**

[1] The Company recognized impairment loss for the difference between carrying amount and fair value of investment in Ami Power Co., Ltd. for the year ended December 31, 2012.

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

(in millions of Korean won)	**2012**	**2011**
At January 1	100,746	99,202
Addition	-	12,181
Impairment loss[1]	-	(10,637)
At December 31	**100,746**	**100,746**

[1] The Company recognized impairment loss for the difference between carrying amount and fair value of investment in Siliconfile Technologies Inc. for the year ended December 31, 2011.

15. Property, Plant and Equipment

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

	2012							
(in millions of Korean won)	**Land**	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Others**	**CIP**	**Total**
At January 1								
Acquisition Cost	441,033	1,364,443	343,542	18,540,716	1,125	520,956	434,620	21,646,435
Accumulated depreciation	-	(344,140)	(239,104)	(12,431,423)	(912)	(380,011)	-	(13,395,590)
Accumulated impairment	-	(23,877)	(19,105)	(294,597)	-	(2,337)	-	(339,916)
Government grants	-	-	-	(8,276)	-	-	-	(8,276)
Net book amount	**441,033**	**996,426**	**85,333**	**5,806,420**	**213**	**138,608**	**434,620**	**7,902,653**
Changes during 2012								
Additions	338	654	-	27,693	26	55	3,148,809	3,177,575
Disposals	-	(16)	-	(25,762)	-	(334)	(7,784)	(33,896)
Impairment loss	-	-	-	-	-	-	-	-
Depreciation charge	-	(38,991)	(12,477)	(1,996,679)	(91)	(53,610)	-	(2,101,848)
Transfers	-	121,044	10,551	2,956,192	28	83,213	(3,171,028)	-
Closing net book amount	**441,371**	**1,079,117**	**83,407**	**6,767,864**	**176**	**167,932**	**404,617**	**8,944,484**
At December 31								
Acquisition Cost	441,371	1,486,096	354,079	21,323,123	1,044	574,221	404,617	24,584,551
Accumulated depreciation	-	(383,102)	(251,567)	(14,271,441)	(868)	(403,956)	-	(15,310,934)
Accumulated impairment	-	(23,877)	(19,105)	(275,959)	-	(2,333)	-	(321,274)
Government grants	-	-	-	(7,859)	-	-	-	(7,859)
Net book amount	**441,371**	**1,079,117**	**83,407**	**6,767,864**	**176**	**167,932**	**404,617**	**8,944,484**

	2011							
(in millions of Korean won)	**Land**	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Others**	**CIP**	**Total**
At January 1								
Acquisition Cost	441,033	1,333,609	329,788	15,837,519	1,145	481,574	500,234	18,924,902
Accumulated depreciation	-	(308,232)	(223,131)	(10,449,232)	(846)	(354,353)	-	(11,335,794)
Accumulated impairment	-	(23,877)	(19,105)	(257,323)	-	(2,387)	-	(302,692)
Government grants	-	-	-	(9,019)	-	-	-	(9,019)
Net book amount	**441,033**	**1,001,500**	**87,552**	**5,121,945**	**299**	**124,834**	**500,234**	**7,277,397**
Changes during 2011								
Additions	-	71	2	23,463	9	1,731	2,619,783	2,645,059
Disposals	-	(189)	-	(3,960)	-	(64)	(7,057)	(11,270)
Impairment loss	-	-	-	(14,230)	-	-	-	(14,230)
Depreciation charge	-	(36,025)	(15,973)	(1,907,944)	(96)	(51,334)	-	(2,011,372)
Transfers	-	31,069	13,752	2,587,146	1	63,441	(2,678,340)	17,069
Closing net book amount	**441,033**	**996,426**	**85,333**	**5,806,420**	**213**	**138,608**	**434,620**	**7,902,653**
At December 31								
Acquisition Cost	441,033	1,364,443	343,542	18,540,716	1,125	520,956	434,620	21,646,435
Accumulated depreciation	-	(344,140)	(239,104)	(12,431,423)	(912)	(380,011)	-	(13,395,590)
Accumulated impairment	-	(23,877)	(19,105)	(294,597)	-	(2,337)	-	(339,916)
Government grants	-	-	-	(8,276)	-	-	-	(8,276)
Net book amount	**441,033**	**996,426**	**85,333**	**5,806,420**	**213**	**138,608**	**434,620**	**7,902,653**

Depreciation expense of ₩ 1,910,284 million (2011: ₩ 1,789,888 million) has been charged to 'cost of sales', ₩ 173,858 million (2011: ₩ 190,832 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 Company as of December 31, 2012 (Note 38).

During the year, the Company has capitalized borrowing costs amounting to ₩ 5,859 million (2011: ₩ 31,574 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 Company leases certain machinery and others from GE Capital under finance lease agreements. In addition, SK hynix Semiconductor (Wuxi) Ltd. (formerly Hynix Semiconductor (Wuxi) Ltd.) sold its machinery and equipment to HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH), a joint venture of the Company and Taiji Industry Ltd., and HITECH uses the machinery only for the purpose of providing the post-process service to the Company. The Company records those assets as finance lease.

The book value of the machinery and others subject to finance lease agreement, amounted to ₩ 408,694 million (2011: ₩ 337,535 million) as of December 31, 2012. The machinery are pledged as collateral for the finance lease liabilities.

The Company 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 as of December 31, 2012, is as follows:

(in millions of Korean won)	**Total lease payment**
No later than 1 year	28,198
Later than 1 year	1,730
	29,928

The Company provides SK Hyeng Co., Ltd. and others with certain machinery and others under operating lease agreements. The book value of the machinery and others subject to operating lease agreement amounted to ₩ 46,603 million as of December 31, 2012.

The receipt schedule of minimum lease payments under operating lease as of December 31, 2012, is as follows:

(in millions of Korean won)	**Total lease receipt**
No later than 1 year	5,475
Later than 1 year	-
	5,475

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

(in millions of Korean won)	**Insured assets**	**Insured amount**	**Insurance company**
Package insurance	Property, plant and equipment, Inventories and other	23,088,733	Hyundai Marine & Fire Insurance Co., Ltd. and other
Fire Insurance	Property, plant and equipment, investment property	2,348	
		23,091,081	

16.Investment Property

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

	2012
(in millions of Korean won)	**Buildings**
At January 1	
Acquisition Cost	48,390
Accumulated depreciation	(17,222)
Accumulated impairment	-
Net book amount	31,168
Changes during 2012	
Disposals	-
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**

	2011			
(in millions of Korean won)	**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				
Disposals	(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 for the year ended December 31, 2012, is ₩ 4,666 million (2011: ₩ 4,859 million).

17.Intangible Assets

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

	2012				
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Others**	**Total**
At January 1					
Acquisition Cost	386,450	187,565	275,095	14,124	863,234
Accumulated amortization and impairment	-	(103,165)	(53,185)	(1,077)	(157,427)
Net book amount	**386,450**	**84,400**	**221,910**	**13,047**	**705,807**
Changes during 2012					
Additions	-	28,302	130,576	-	158,878
Disposals	-	(5,680)	-	(920)	(6,600)
Impairment charge	-	-	-	(265)	(265)
Amortization charge	-	(14,834)	(129,298)	-	(144,132)
Closing net book amount	**386,450**	**92,188**	**223,188**	**11,862**	**713,688**
At December 31					
Acquisition Cost	386,450	199,766	405,671	13,204	1,005,091
Accumulated amortization and impairment	-	(107,578)	(182,483)	(1,342)	(291,403)
Net book amount	**386,450**	**92,188**	**223,188**	**11,862**	**713,688**

	2011				
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Others**	**Total**
At January 1					
Acquisition Cost	386,450	185,541	120,503	14,120	706,614
Accumulated amortization and impairment	-	(100,762)	(3,514)	(350)	(104,626)
Net book amount	**386,450**	**84,779**	**116,989**	**13,770**	**601,988**
Changes during 2011					
Additions	-	20,645	154,592	5	175,242
Disposals	-	(5,738)	-	-	(5,738)
Impairment charge	-	-	-	(728)	(728)
Amortization charge	-	(15,286)	(49,671)	-	(64,957)
Closing net book amount	**386,450**	**84,400**	**221,910**	**13,047**	**705,807**
At December 31					
Acquisition Cost	386,450	187,565	275,095	14,124	863,234
Accumulated amortization and impairment	-	(103,165)	(53,185)	(1,077)	(157,427)
Net book amount	**386,450**	**84,400**	**221,910**	**13,047**	**705,807**

Amortization of ₩ 144,132 million (2011: ₩ 64,957 million) is recorded as ‘selling and administrative expenses’ in the statement of comprehensive income for the year ended December 31, 2012.

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 ₩ 970,075 million (2011: ₩ 610,309 million) and were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2012.

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

18. 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:

(in millions of Korean won)	**2012**	**2011**
At January 1	5	24,449
Transfer[1]	-	(17,068)
Disposal	(5)	(7,376)
Impairment	-	-
At December 31	**-**	**5**

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

19. Other Non-trade Payables

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

(in millions of Korean won)	**2012**	**2011**
Current		
Accrued expense	335,020	320,395
	335,020	320,395
Non-current		
Long-term other payables	74,623	62,964
Long-term accrued expense	3,531	6,073
Rent deposit payables	1,460	1,580
	79,614	70,617
	414,634	**391,012**

20. Borrowings

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

(in millions of Korean won)	**2012**	**2011**
Current		
Short-term borrowings	869,360	1,318,410
Current maturities of debentures	299,697	299,844
Current maturities of convertible bonds	980,316	40,418
Current maturities of long-term borrowings	277,834	685,220
	2,427,207	2,343,892
Non-current		
Long-term borrowings	1,866,561	666,879
Debentures	1,450,972	1,489,999
Convertible bonds	-	973,216
	3,317,533	3,130,094
	5,744,740	**5,473,986**

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

(in millions of Korean won)	**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 Bank of Korea	-	-	23,066
Borrowings on Trade receivables collateral	Shinhan Bank and other	3M Libor + 1.2~3.3	341,434	422,213
			869,360	**1,318,410**

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

(in millions of Korean won)	**Financial Institutions**	**Annual Interest Rate(%) at 2012**	**2012**	**2011**
Local currency loans				
Borrowing for housing	Kookmin Bank	5.2	28	38
Borrowings for childcare facilities	NH Bank	2.0	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 L.L.C	5.00	266,731	140,086
Finance lease liabilities	HP Financial Services Co., Ltd.	-	-	1,390
			962,067	304,679
Foreign currency loans				
General borrowings	Export Import Korea Bank	3M Libor + 3.15	107,110	-
General borrowings	NH Bank	-	-	38,412
General borrowings[1]	SC First Bank	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	Korea Exchange Bank	3M Libor + 3.79	53,555	-
General borrowings	NH Bank	3M Libor + 3.19	214,220	-
Syndicated loans	Korea Exchange Bank and other	-	-	345,990
Mortgage loans	HITECH	7.16	127,062	193,471
Finance lease liabilities	Good memory and other	4.7~7.16	170,233	171,260
			1,192,735	1,084,744
			2,154,802	1,389,423
Less: Discount on present value			(10,407)	(37,324)
Current maturities			(277,834)	(685,220)
			1,866,561	**666,879**

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

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

(in millions of Korean won)	Maturity Date	Annual Interest Rate(%) At 2012	2012	2011
Unsecured notes in local currency:				
202nd	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]	June 27, 2017	-	-	576,650
Secured notes in foreign Currency				
Foreign 8th[2]	June 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)
Debentures			**1,450,972**	**1,489,999**

[1] The Company 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.

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

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)
Convertible bonds			**-**	**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

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:

(in millions of Korean won)	**2012**	**2011**
Total minimum lease payment		
No later than 1 year	138,339	84,726
Between 1 and 5 years	345,932	284,027
Later than 5 years	-	-
	484,271	368,753
Unearned finance income	(47,307)	(56,017)
Net minimum lease payment		
No later than 1 year	117,486	59,889
Between 1 and 5 years	319,478	252,847
Later than 5 years	-	-
	436,964	**312,736**

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

(in millions of Korean won)	**2012**		**2011**	
	Book value	**Fair value**	**Book value**	**Fair value**
Long-term borrowings	1,866,561	1,904,717	666,879	666,879
Debentures	1,450,972	1,504,532	1,489,999	1,534,502
Convertible bond	-	-	973,216	1,054,442
	3,317,533	**3,409,249**	**3,130,094**	**3,255,823**

21. Provisions

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

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

	2011			
(in millions of Korean won)	**Purchase commitments**	**Sales returns**	**Legal claims**	**Total**
At January 1	4,074	13,369	517,847	535,290
Addition	91,293	-	52,584	143,877
Reversal and utilization	-	(8,701)	(293,743)	(302,444)
Foreign exchange difference and other	-	-	72,973	72,973
At December 31	**95,367**	**4,668**	**349,661**	**449,696**

Provisions for sales returns

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

Provisions for warranty

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

Provisions for legal claims

The Company recognizes provisions for legal claims when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 38).

Accrual for loss on purchase commitment

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

22. Other Financial Liabilities

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

(in millions of Korean won)	**2012**	**2011**
Current		
Derivative liabilities (Note 39)	13,764	34,315
Non-current		
Derivative liabilities (Note 39)	1,615	7,796
	15,379	**42,111**

23. Other Current and Non-current Liabilities

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

(in millions of Korean won)	**2012**	**2011**
Current		
Unearned income	1,030	2,509
Withholdings	11,970	15,335
Deposits received	412	512
Advance receipts	1,078	499
	14,490	18,855
Non-current		
Long-term withholdings	666	4,133
Other long-term employee benefit liabilities	38,239	32,796
	38,905	36,929
	53,395	**55,784**

24.Defined Benefit Liabilities

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

(in millions of Korean won)	**2012**	**2011**
Present value of obligations	570,499	453,865
Fair value of plan assets[1]	(5,004)	(5,435)
	565,495	**448,430**

[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:

(in millions of Korean won)	**2012**	**2011**
Current service cost	77,022	61,641
Interest expenses	26,258	24,117
Expected return on plan assets	(135)	(166)
	103,145	**85,592**

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

(in millions of Korean won)	**2012**	**2011**
Cost of sales (manufacturing costs)	64,658	51,396
Selling and administrative expenses	38,487	34,196
	103,145	**85,592**

The actuarial losses recognized as other comprehensive income for the year ended December 31, 2012, amount to ₩ 80,589 million (2011: ₩ 58,160 million), and cumulative actuarial losses recognized as other comprehensive income as of December 31, 2012, amount to ₩ 194,767 million.

As of December 31, 2012, the Company funded approximately 0.53% (2011: 0.72%) of the total retirement benefit obligations through an insurance plan with Hanwha Life Insurance Co., Ltd. and Samsung Insurance Co., Ltd.

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

(in millions of Korean won)	**2012**	**2011**
At January 1	453,865	359,381
Current service cost	77,022	61,641
Interest expense	26,258	24,117
Transferred from associates	443	-
Benefits paid	(67,666)	(49,370)
Actuarial gain(loss)	80,577	58,096
At December 31	**570,499**	**453,865**

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

(in millions of Korean won)	**2012**	**2011**
At January 1	5,435	5,895
Expected return on plan assets	135	166
Benefits paid	(555)	(562)
Actuarial gains(losses)	(11)	(64)
At December 31	**5,004**	**5,435**

The actual return of plan assets for the year ended December 31, 2012, was ₩ 124 million (2011: ₩ 102 million).

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

	2012	**2011**
Future salary increase	5.50%	5.54%
Discount rate	4.89%	5.89%
Expected rate of return on plan assets[1]	4.18%	4.77%

[1]Expected 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:

(in millions of Korean won)	**2012**	**2011**
Deposits	3,052	3,284
Other	1,952	2,151
	5,004	**5,435**

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

(in millions of Korean won)	**2012**	**2011**	**2010**
Defined benefit liability adjustments	19,935	25,693	29,465
Defined benefit asset adjustments	11	64	61

25.Deferred Income Tax

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

(in millions of Korean won)	**2012**	**2011**
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	244,483	46,155
Deferred tax asset to be recovered within 12 months	187,904	355,780
	432,387	401,935
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(117,823)	(101,821)
Deferred tax liability to be recovered within 12 months	(6,646)	(78,179)
	(124,469)	(180,000)
Deferred tax assets(liabilities), net	**307,918**	**221,935**

The gross movement in the deferred income tax account for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	221,935	328,734
Income statement charge	86,313	(107,171)
Tax charge/(credit) relating to components of other comprehensive income	(330)	372
At December 31	**307,918**	**221,935**

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			
(in millions of Korean won)	**January 1, 2012**	**Income statement**	**Other comprehensive income**	**December 31, 2012**
Deferred tax liabilities				
Advanced depreciation provision	(55,666)	-	-	(55,666)
Valuation of derivatives	(15,816)	10,460	-	(5,356)
Gains on foreign currency translation	(62,363)	31,965	-	(30,398)
Conversion rights adjustment	(25,922)	10,979	-	(14,943)
Others	(20,233)	2,457	(330)	(18,106)
	(180,000)	**55,861**	**(330)**	**(124,469)**
Deferred tax assets				
Loss on valuation of inventories	39,000	(11,262)	-	27,738
Valuation of equity-method investments	346,225	(28,352)	-	317,873
Accumulated depreciation	40,627	15,580	-	56,207
Allowance for retirement liability	94,581	12,351	-	106,932
Deemed interest of suspense payment and other	162,313	194	-	162,507
Provisions and others	122,982	(18,514)	-	104,468
Impairment of available-for-sale financial assets	36,187	777	-	36,964
Losses on foreign currency translation	100,517	(70,611)	-	29,906
Property, plant and equipment	24,689	(250)	-	24,439
Losses on valuation of derivative	26,844	(17,662)	-	9,182
Tax loss carryforwards	420,179	167,111	-	587,290
Tax credit carryforwards	709,490	(53,743)	-	655,747
Others	76,607	14,295	-	90,902
	2,200,241	**9,914**	**-**	**2,210,155**
Deferred income tax assets	2,020,241	65,775	(330)	2,085,686
Deferred income tax assets not recognized	(1,798,306)	20,538	-	(1,777,768)
Deferred income tax assets recognized	**221,935**	**86,313**	**(330)**	**307,918**

	2011			
(in millions of Korean won)	**January 1, 2011**	**Income statement**	**Other comprehensive income**	**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	(18,263)	(7,659)	-	(25,922)
Others	(22,088)	1,483	372	(20,233)
	(175,996)	**(4,376)**	**372**	**(180,000)**
Deferred tax assets				
Loss on valuation of inventories	13,769	25,231	-	39,000
Valuation of equity-method investments	341,924	4,301	-	346,225
Accumulated depreciation	42,089	(1,462)	-	40,627
Allowance for retirement liability	70,095	24,486	-	94,581
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	350,866	69,313	-	420,179
Tax credit carryforwards	778,403	(68,913)	-	709,490
Others	55,149	21,458	-	76,607
	2,229,874	**(29,633)**	**-**	**2,200,241**
Deferred income tax assets	2,053,878	(34,009)	372	2,020,241
Deferred income tax assets not recognized	(1,725,144)	(73,162)	-	(1,798,306)
Deferred income tax assets recognized	**328,734**	**(107,171)**	**372**	**221,935**

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 Company did not recognize deferred income tax assets of ₩ 223,706 million (2011: ₩ 142,578 million) in respect of tax losses amounting to ₩ 924,405 million (2011: ₩ 589,165 million) that can be carried forward against future taxable income.

Also, the Company did not recognize deferred income tax assets of ₩ 899,837 million (2011: ₩ 947,159 million) in respect of deductable temporary differences amounting to ₩ 3,718,335 million (2011: ₩ 3,913,880 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 Company did not recognize deferred income tax assets of ₩ 655,747 million (2011: ₩ 709,490 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:

(in millions of Korean won)	**Tax loss carryforwards**	**Tax credit carryforwards**
2013	-	132,986
2014	-	56,489
2015	-	186,948
2016	-	137,091
2017~2019	1,353,596	140,711
Thereafter	1,073,224	-
	2,426,820	**654,225**

26. Share Capital and Capital Surplus

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

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

Authorized shares	Outstanding shares[1]	Par value per share	Paid in capital
9,000,000	697,684	₩ 5,000	₩ 3,488,419 million

[1] As 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:

			Capital Surplus			
(in millions of Korean won and in thousands of shares)	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	509,730	4,200,087
Exercise of conversion rights	1,895	9,475	39,664	(3,471)	-	45,668
At December 31, 2011	**592,172**	**2,978,498**	**685,177**	**72,350**	**509,730**	**4,245,755**
At January 1, 2012	592,172	2,978,498	685,177	72,350	509,730	4,245,755
Issuance of common stock	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	10	52	229	(19)	-	262
Exercise of stock options	124	619	4,400	-	-	5,019
Expiration of stock options	-	-	-	-	3,562	3,562
At December 31, 2012	**694,156**	**3,488,419**	**2,506,532**	**72,331**	**513,292**	**6,580,574**

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.

27.Retained Earnings

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

(in millions of Korean won)	**2012**	**2011**
Legal reserve[1]	8,854	8,854
Discretionary reserve[2]	235,506	235,506
Unappropriated retained earnings	3,126,230	3,696,809
	3,370,590	**3,941,169**

[1] The Commercial Code of the Republic of Korea requires the 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 Company's majority shareholders.

[2] Discretionary reserve is a reserve for technology development.

The appropriation of retained earnings for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	**2012 (Date of appropriation : March 22, 2013)**	**2011 (Date of appropriation : March 23, 2012)**
At January 1		
Unappropriated retained earnings		
Unappropriated retained earnings carried over from prior year	3,696,809	3,625,827
Actuarial gains and losses	(80,589)	(58,160)
Net income (loss)	(489,990)	129,142
	3,126,230	3,696,809
Appropriation of retained earnings	-	-
At December 31	**3,126,230**	**3,696,809**

28. Accumulated Other Comprehensive Income

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

(in millions of Korean won)	**2012**	**2011**
Gains on valuation of available-for-sale financial assets	8,479	10,375
	8,479	**10,375**

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

	2012			
(in millions of Korean won)	**Beginning**	**Increase (Decrease)**	**Reclassification to profit or loss**	**Ending**
Gains on valuation of available-for-sale financial assets	10,375	(1,896)	-	8,479
	10,375	**(1,896)**	**-**	**8,479**

	2011			
(in millions of Korean won)	**Beginning**	**Increase (Decrease)**	**Reclassification to profit or loss**	**Ending**
Gains on valuation of available-for-sale financial assets	2,469	(376)	8,282	10,375
	2,469	**(376)**	**8,282**	**10,375**

29.Share-based Payments

The Company grants share options to directors and selected employees with approval of the shareholders and the Board of Directors. Changes in details of share-based payments during the years ended December 31, 2012 and 2011, are as follows:

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

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

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

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.

30.Dividends

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

31. Expenses by Nature

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

(in millions of Korean won)	**2012**	**2011**
Changes in inventories	(255,861)	22,610
Raw materials and consumables used	4,334,936	4,108,252
Employee benefit expenses	1,364,402	1,117,612
Depreciation, amortization and impairment	2,238,301	2,092,599
Royalty expense	196,284	178,072
Commission expense	314,067	284,939
Utilities expense	379,958	319,354
Repair expense	674,174	607,503
Outsourcing expense	1,013,141	854,560
Other	358,666	70,638
	10,618,068	**9,656,139**

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

(in millions of Korean won)	**2012**	**2011**
Wages and salaries	1,160,312	938,101
Defined benefits	103,145	85,592
Other long-term employee benefits	9,390	754
Termination benefits	425	10,177
Social security costs and other	91,130	82,988
	1,364,402	**1,117,612**

32.Selling and Administrative Expenses

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

(in millions of Korean won)	**2012**	**2011**
Salaries	153,476	125,966
Severance benefits	15,765	13,267
Employee benefits	38,879	35,706
Commission expense	154,801	133,769
Depreciation	51,437	50,945
Amortization	144,132	64,957
Research and development	970,075	610,309
Exporting expense	20,325	21,986
Legal cost	33,356	41,537
Rental expense	6,702	6,166
Taxes and dues	6,302	8,512
Training Expenses	9,976	9,254
Sales Promotional Expenses	2,338	2,083
Utility Expenses	8,076	6,903
Storage cost	4,329	1,132
Supplies Expenses	14,863	10,497
Repairs Expenses	9,199	7,610
Other	26,242	26,159
	1,670,273	**1,176,758**

33.Other Non-operating Income and Expense

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

(in millions of Korean won)	**2012**	**2011**
Rental income	22,240	29,551
Gain on disposal of assets held-for-sale	18	6,440
Gain on disposal of investment property	-	7,447
Gain on disposal of property, plant and equipment	3,711	1,329
Gain on disposal of intangible assets	298	9,352
Other	38,379	23,468
	64,646	**77,587**

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

(in millions of Korean won)	**2012**	**2011**
Loss on disposal of assets held-for-sale	-	6,884
Loss on disposal of property, plant and equipment	1,468	3,392
Loss on disposal of intangible assets	5,672	4,984
Loss on disposal of investment property	-	2
Donation	2,595	1,287
Impairment of property, plant and equipment	-	14,230
Impairment of intangible assets	265	728
Amortization of suspended assets	8,959	15,884
Other	27,625	60,473
	46,584	**107,864**

34. Financial Income and Expenses

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

(in millions of Korean won)	**2012**	**2011**
Finance income		
Interest income	77,411	56,402
Dividend income	18,019	8,882
Gain on disposal of available for sale financial assets	5,943	-
Gain on disposal of investments in subsidiaries jointly controlled entities and associates	-	1,166
Foreign exchange differences	522,403	413,893
Gain from derivative instruments	3,572	40,852
	627,348	**521,195**
Finance expense		
Interest expenses	288,531	271,753
Foreign exchange differences	275,101	459,466
Loss from derivative instruments	18,730	22,925
Impairment of Available-for-sale financial assets	-	21,847
Impairment loss on equity investments in associates	13,170	10,637
Loss on redemption of debentures	10,470	-
	606,002	**786,628**
Net finance income (expense)	**21,346**	**(265,433)**

35.Income Tax

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

(*in millions of Korean won*)	**2012**	**2011**
Current tax:		
Current tax on profits for the year	-	-
Adjustments in respect of prior years	(574)	-
Total current tax	(574)	-
Deferred tax:		
Origination and reversal of temporary differences	(86,313)	107,171
Total deferred tax	(86,313)	107,171
Income tax expense (benefit)	**(86,887)**	**107,171**

The tax on the Company'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 Company as follows:

(*in millions of Korean won*)	**2012**	**2011**
Profit(loss) before tax	(576,877)	236,313
Tax calculated at domestic tax rates applicable to profits in the respective countries	(139,142)	57,161
Tax effects of:		
Income not subject to tax	(324)	(1)
Expenses not deductible for tax purposes	1,482	1,490
Changes in temporary differences not recognized	33,205	142,075
Re-measurement of deferred tax - change in the Korean tax rate	-	(74,498)
Others	17,892	(19,056)
Income tax expense (benefit)	**(86,887)**	**107,171**

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

	December 31, 2012			December 31, 2011		
(*in millions of Korean won*)	**Before tax**	**Tax (charge) credit**	**After tax**	**Before tax**	**Tax (charge) credit**	**After tax**
Gains 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	(194,767)	-	(194,767)	(113,130)	-	(113,130)
	(182,976)	**(3,312)**	**(186,288)**	**(99,773)**	**(2,982)**	**(102,755)**

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 have been re-measured.

36. 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**
Profit (loss) attributable to ordinary shares	(489,990)	129,142
Weighted average number of ordinary shares outstanding[1]	681,854,577	592,171,582
Basic earnings (loss) per share	**(719)**	**218**

[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 weighted average 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**
Profit (loss) attributable to ordinary shares	(489,990)	129,142
Add : Convertible bond related costs	-	
Adjusted profit attributable to ordinary shares	(489,990)	129,142
Adjusted weighted average number of ordinary shares outstanding[1]	681,854,577	592,209,226
Basic earnings (loss) per share	**(719)**	**218**

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

(in shares)	**2012**	**2011**
Weighted average number of ordinary shares outstanding	681,854,577	592,171,582
Dilutive potential ordinary shares		
Convertible bond	-	-
Share options	-	37,644
Adjusted weighted average number of ordinary shares outstanding	**681,854,577**	**592,209,226**

37.Related Party Transactions

Details of subsidiaries, jointly controlled entities and associates as of December 31, 2012, are as follows:

Type	Names of subsidiaries	Parent Company	Remark
Subsidiaries	SK Hyeng Co., Ltd.	The Company	Domestic subsidiary
	SK Hystech Co., Ltd.	The Company	Domestic subsidiary
	Ami Power Co., Ltd.	The Company	Domestic subsidiary
	SK hynix America Inc.(SKHYA)	The Company	Overseas sales entity
	Hynix Semiconductor Manufacturing America Inc.(HSMA)	SKHYA	Discontinued entity
	SK hynix Deutschland GmbH(SKHYD)	The Company	Overseas sales entity
	SK hynix Europe Holding Ltd.(SKHYE)	The Company	Holding company
	SK hynix U.K. Ltd.(SKHYU)	SKHYE	Overseas sales entity
	SK hynix Asia Pte.Ltd.(SKHYS)	The Company	Overseas sales entity
	SK hynix Semiconductor India Pvt Ltd.(SKHYIS)	SKHYS	Overseas sales entity
	SK hynix Semiconductor HongKong Ltd.(SKHYH)	The Company	Overseas sales entity
	SK hynix Semiconductor (Shanghai) Co.,Ltd.(SKHYCS)	The Company	Overseas sales entity
	SK hynix Japan Inc.(SKHYJ)	The Company	Overseas sales entity
	SK hynix Semiconductor Taiwan Inc.(SKHYT)	The Company	Overseas sales entity
	SK hynix Semiconductor (China) Ltd.(SKHYCL)	The Company	Manufacturing entity
	SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC)	The Company	Manufacturing entity
	SK hynix(Wuxi) Semiconductor Sales Ltd.(SKHYCW)	The Company	Overseas sales entity
	SK hynix Italy S.r.l(SKHYIT)	The Company	Overseas R&D entity
	LINK_A_MEDIA DEVICES CORPORATION(LAMD)	The Company	Overseas R&D entity
Associate	SiliconFile Technologies Inc.	-	-
Jointly controlled entities	HITECH Semiconductor(Wuxi) Co., Ltd.	-	-

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

	2012		2011	
(in millions of Korean won)	**Sales**	**Purchases**	**Sales**	**Purchases**
Sales entities	9,262,506	549,313	9,513,528	500,493
Manufacturing entities	4,336	2,443,386	17,750	2,226,415
R&D entities	28	13,125	-	-
Domestic subsidiaries	17,521	230,619	16,429	219,105
Associate	50,412	931	35,279	618
Jointly controlled entity	1,419	642,825	937	444,463
SK Telecom[1,3]	1,196	809	-	-
Other related parties[2,3,4]	23	82,674	-	-
	9,337,441	**3,963,682**	**9,583,923**	**3,391,094**

[1] A related party with significant influence over the Company.
[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 Company.
[4] The Company entered into a contract with SK Holdings Co., Ltd. under which the Company pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2012, royalty on use of SK brand amounted to ₩ 7,800 million.

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

	2012		2011	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
Sales entities	1,500,042	83,812	1,328,544	148,956
Manufacturing entities	39,221	252,988	37,817	294,005
R&D entities	12,595	1,275		
Domestic subsidiaries	15,369	24,784	55,874	20,619
Associate	6,612	1	6,573	-
Jointly controlled entity	202	225,873	5,924	325,934
SK Telecom[1,]	887	287		
Other related parties[2,]	1	21,862		
	1,574,929	**610,882**	**1,434,732**	**789,514**

[1] A related party with significant influence over the Company.
[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 Company 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 Company deposited ₩ 210,000 million in MMDA accounts during the period when SK Securities Co., Ltd. was still a related party of the Company. However, SK Securities Co., Ltd. was excluded from the related parties of the Company since when it ceased to be a subsidiary of SK Holdings Co., Ltd. on December 28, 2012.

As described in Note 38 to the financial statements, the Company provided related parties with payment guarantees as of December 31, 2012.

Key management compensation

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

(in millions of Korean won)	**Details**	**2012**	**2011**
Short-term employee benefits	Wages, salaries, bonus and other	16,830	15,056
Post-employment benefits	Retirement payment and other	2,700	2,225
Other long-term benefits	Long-term employment allowance	1	1
		19,531	**17,282**

38.Commitments and Contingencies

Significant pending litigations and claims of the Company 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 separate financial statements. The accompanying separate financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

(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 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 Company's separate financial statements. The accompanying separate financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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

On July 24, 1997, the Company 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 Company 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 Company, in turn, received a similar letter from HSC. Upon CIBC's exercise of its put option, HHI repurchased the shares in July 2000 and requested approximately US$ 220 million of compensation for damage which is equivalent to the repurchase price to the Company and HSC.

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

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

With respect to the revised ruling, the Company paid HHI an additional amount of ₩ 1,926 million for the estimated portion of its share of compensation, including interest. The Company 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 Company on the grounds that the Company has the expense reimbursement obligation to HHI. On August 21, 2009, the Seoul High Court rendered a ruling that the Company 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 Company. Subsequently, the Company paid ₩ 86,226 million, in addition to the payments the Company 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 Company, 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 Company, 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 Company and HHI decided not to appeal. Therefore, this lawsuit has been finalized and concluded.

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

However, the Company appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Company and HSC should only pay ₩ 48,770 million and related interest. The Company, 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.

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

On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against the Company at the Seoul Central District Court with respect to the lawsuit described above, seeking the Company to pay ₩ 99,172 million and interest to HSC on the grounds that the Company 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 Company as an agency and therefore, the Company had responsibility to repay the amounts that HSC had paid to HHI. The Company 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 Company's appeal by stating that the Company was liable to HSC as ruled by the Seoul Central District Court. The Company 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 Company 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 Company with a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that the Company 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 Company 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 Company appealed to the Seoul High Court on January 7, 2011.

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

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Company seeking the Company to pay ₩ 27,917 million and delay interest on the grounds that the Company 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 Company 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 Company.

As the result of the lawsuit, on February 17, 2012, the Seoul Central District Court ruled against the Company on the grounds that HSC's payment were on behalf of the Company as an agency and therefore, the Company 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 Company amounting to ₩ 949 million. On March 8, 2012, the Company appealed to the Seoul High Court. However, the Company withdrew the appeal on October 31, 2012. Therefore, this lawsuit has been finalized.

(e) Other litigation and patent-related claims

Apart from the above litigation, the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of December 31, 2012, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's separate financial statements. The accompanying separate financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

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

Contract for supply of industrial water

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

Post- process service contract with HITECH

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

Assets provided as collaterals

Details of assets provided as collaterals as of December 31, 2012, are as follows:

(in millions of Korean won)	**Book value**	**Pledged amount**	**Remark**
Land	25,030	938,550	Borrowings and others[1]
Buildings	80,074		
Machinery	1,049,394		
	1,154,498	**938,550**	

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

Financing agreements

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

(in millions of US dollars)

Financial Institution	**Commitment**	**Currency**	**Amount**
Korea Exchange Bank and other	Import finance like usance	USD	830
	Export finance like bills bought	USD	425
	Comprehensive limit contract for Import & Export	USD	745

Guarantees provided to others

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

(in millions of Korean won)	**Amount**	**Remark**
Employees	31	Guarantees for employees' borrowings relating to employee stock ownership
SKHYA	13,003	Guarantees for financial institution's borrowing relating to mortgage loan of SKHYA
	13,034	

Capital commitment

As of December 31, 2012, the Company has ₩ 96,965 million (2011: ₩ 49,068 million) of commitment in relation to the capital expenditures on tangible assets.

39. Derivative Financial Instruments

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

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

	2012		2011	
(in millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Current				
Interest and principal swap	-	-	-	33,696
Interest rates swap	-	-	-	619
Embedded derivatives	-	13,764	-	-
	-	13,764	-	34,315
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	**15,379**	**3,114**	**42,111**

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

	2012			
(in millions of Korean won)	**Gain on valuation**	**Loss on valuation**	**Gain on transaction**	**Loss on transaction**
Foreign currency forward contract	-	-	913	4,924
Interest and principal swap	-	-	1,450	4,030
Interest rates swap	522	613	675	1,858
Embedded derivative instruments	-	7,305	12	-
	522	**7,918**	**3,050**	**10,812**

	2011			
(in millions of Korean won)	**Gain on valuation**	**Loss on valuation**	**Gain on transaction**	**Loss on transaction**
Foreign currency forward contract	-	-	9,082	2,290
Foreign currency option contract	-	-	3,865	2,443
Interest and principal swap	-	7,834	6,295	-
Interest rates swap	781	1,325	-	1,241
Option contracts	-	-	-	3,211
Embedded derivative instruments	20,829	4,581	-	-
	21,610	**13,740**	**19,242**	**9,185**

40.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:

(in millions of Korean won)	**2012**	**2011**
Profit for the period before income tax	(576,877)	236,313
Adjustments		
Defined benefits	103,145	85,592
Interest expenses	288,531	271,753
Interest income	(77,411)	(56,402)
Depreciation	2,101,848	2,011,372
Depreciation of investment properties	1,280	1,313
Amortization	144,132	64,957
Loss on redemption of debenture	10,470	-
Loss on foreign currency translation	23,505	82,572
Gain (loss) on derivative instruments	15,158	(17,927)
Dividends income	(18,019)	(8,882)
Gain on foreign currency translation	(202,121)	(25,563)
Others	10,887	37,917
Changes in operating assets and liabilities		
Decrease(Increase) in trade receivables	(220,007)	16,540
Increase in inventories	(270,594)	(2,436)
Decrease in trade payables	(85,472)	(29,127)
Increase(Decrease) in other payables	(58,268)	(271,085)
Decrease in provision	(89,046)	(169,205)
Payment of defined benefit liability	(67,111)	(48,808)
Increase(Decrease) in other liabilities	52,452	(203,756)
Cash Generated from Operations	**1,086,482**	**1,975,138**

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

Report on Review of Internal Accounting Control System

To the President of
SK hynix Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of SK hynix Inc.(formerly Hynix Semiconductor Inc.) (the "Company") as of December 31, 2012. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2012, the Company's IACS has been designed and is operating effectively as of December 31, 2012, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2012, and we did not review management's assessment of its IACS subsequent to December 31, 2012. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
February 20, 2013

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of SK hynix Inc.(formerly Hynix Semiconductor Inc.) ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2012.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS standards.

January 21, 2013

Myung yung Lee, Internal Accounting Control Officer

Oh Chul Kwon, Chief Executive Officer